REPORT OF THE
PUBLIC ACCOUNTS COMMITTEE
ON
THE REPORTS OF THE DIRECTOR OF AUDIT
ON
THE ACCOUNTS OF THE GOVERNMENT OF
THE HONG KONG SPECIAL ADMINISTRATIVE REGION
FOR THE YEAR ENDED
31 MARCH 2010
AND THE RESULTS OF
VALUE FOR MONEY AUDITS (Report No. 55)

February 2011

P.A.C. Report No. 55
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ACRONYMS AND ABBREVIATIONS

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The Establishment of the Committee

The Public Accounts Committee is established under Rule 72 of the Rules of Procedure of the Legislative Council of the Hong Kong Special Administrative Region, a copy of which is attached in Appendix 1 to this Report.

2. Membership of the Committee

The following Members are appointed by the President under Rule 72(3) of the Rules of Procedure to serve on the Committee:

Chairman : Dr Hon Philip WONG Yu-hong, GBS

Deputy Chairman : Hon Paul CHAN Mo-po, MH, JP

Members : Hon Andrew CHENG Kar-foo  
           Hon Abraham SHEK Lai-him, SBS, JP  
           Hon Ronny TONG Ka-wah, SC  
           Hon Cyd HO Sau-lan  
           Hon Starry LEE Wai-king, JP

Clerk : Ms Miranda HON Lut-fo

Legal Adviser : Mr Arthur CHEUNG
The Committee's Procedure  The practice and procedure, as determined by the Committee in accordance with Rule 72 of the Rules of Procedure, are as follows:

(a) the public officers called before the Committee in accordance with Rule 72 of the Rules of Procedure, shall normally be the Controlling Officers of the Heads of Revenue or Expenditure to which the Director of Audit has referred in his Report except where the matter under consideration affects more than one such Head or involves a question of policy or of principle in which case the relevant Director of Bureau of the Government or other appropriate officers shall be called. Appearance before the Committee shall be a personal responsibility of the public officer called and whilst he may be accompanied by members of his staff to assist him with points of detail, the responsibility for the information or the production of records or documents required by the Committee shall rest with him alone;

(b) where any matter referred to in the Director of Audit's Report on the accounts of the Government relates to the affairs of an organisation subvented by the Government, the person normally required to appear before the Committee shall be the Controlling Officer of the vote from which the relevant subvention has been paid, but the Committee shall not preclude the calling of a representative of the subvented body concerned where it is considered that such a representative could assist the Committee in its deliberations;

(c) the Director of Audit and the Secretary for Financial Services and the Treasury shall be called upon to assist the Committee when Controlling Officers or other persons are providing information or explanations to the Committee;

(d) the Committee shall take evidence from any parties outside the civil service and the subvented sector before making reference to them in a report;

(e) the Committee shall not normally make recommendations on a case on the basis solely of the Director of Audit's presentation;

(f) the Committee shall not allow written submissions from Controlling Officers other than as an adjunct to their personal appearance before the Committee; and
(g) the Committee shall hold informal consultations with the Director of Audit from time to time, so that the Committee could suggest fruitful areas for value for money study by the Director of Audit.

2. **Confidentiality undertaking by members of the Committee** To enhance the integrity of the Committee and its work, members of the Public Accounts Committee have signed a confidentiality undertaking. Members agree that, in relation to the consideration of the Director of Audit's reports, they will not disclose any matter relating to the proceedings of the Committee that is classified as confidential, which shall include any evidence or documents presented to the Committee, and any information on discussions or deliberations at its meetings, other than at meetings held in public. Members also agree to take the necessary steps to prevent disclosure of such matter either before or after the Committee presents its report to the Council, unless the confidential classification has been removed by the Committee.

3. A copy of the Confidentiality Undertakings signed by members of the Committee has been uploaded onto the Legislative Council website.

4. **The Committee's Report** This Report by the Public Accounts Committee corresponds with the Reports of the Director of Audit on:

- the Accounts of the Government of the Hong Kong Special Administrative Region for the year ended 31 March 2010; and

- the results of value for money audits (Report No. 55),

which were tabled in the Legislative Council on 17 November 2010. Value for money audits are conducted in accordance with the guidelines and procedures set out in the Paper on Scope of Government Audit in the Hong Kong Special Administrative Region - 'Value for Money Audits' which was tabled in the Provisional Legislative Council on 11 February 1998. A copy of the Paper is attached in *Appendix 2*.

5. In addition, this Report takes stock of the progress of the action taken by the Administration on the recommendations made in the Committee's Report Nos. 52, 53 and 53A and offers the Committee's views on the action taken. These are detailed in Parts 3, 4 and 5 of this Report.
6. **The Government's Response** The Government's response to the Committee's Report is contained in the Government Minute, which comments as appropriate on the Committee's conclusions and recommendations, indicates what action the Government proposes to take to rectify any irregularities which have been brought to notice by the Committee or by the Director of Audit and, if necessary, explains why it does not intend to take action. It is the Government's stated intention that the Government Minute should be laid on the table of the Legislative Council within three months of the laying of the Report of the Committee to which it relates.
2. **The Government Minute** The Government Minute in response to the Committee's Report No. 52 was laid in the Legislative Council on 21 October 2009. A progress report on matters outstanding in the Government Minute was issued on 22 October 2010. The latest position and the Committee's further comments on these matters are set out in paragraphs 3 and 4 below.

**Equal Opportunities Commission**  
*(Chapter 1 of Part 4 of P.A.C. Report No. 52)*

3. The Committee was informed that:

**Corporate governance**

*Governance structure*

- having regard to the Audit Commission ("Audit")'s and the Committee's recommendations, the Equal Opportunities Commission ("EOC") engaged in January 2010 an external auditor to conduct a compliance and management study, and to enhance the EOC's internal financial control and management capabilities. The study was completed in May 2010 and concluded that the EOC had duly implemented all the recommendations of Audit and the Committee, and had incorporated/regularised them as part of the EOC's governance and administrative arrangements. The study made further recommendations to enhance the EOC's governance, in areas including procurement, procedures relating to duty visits, and regular review of the Memorandum of Administrative Arrangements. The EOC Board endorsed the recommendations of the study in June 2010 and actions had been taken to implement them accordingly;

- following an open recruitment exercise in late 2009 and upon the recommendation of a selection board, the Chief Executive appointed
Mr LAM Woon-kwong as the EOC Chairperson for a term of three years commencing from 1 February 2010; and

- in view of the EOC's efforts to enhance its governance, the creation of a new Chief Operations Officer ("COO") post had been deferred to allow time for evaluating the other follow-up actions arising from the above-mentioned compliance and management study. That would shed light on the delineation of the roles and responsibilities between the Chairperson and the COO, and between the COO and other functional Division Heads. The key consideration was how the addition of this post might indeed achieve the desired result of having an appropriate check and balance at the most senior echelon of the EOC without hampering management efficiency. The Administration would inform the Committee of further progress regarding the delineation of responsibilities and recruitment of the COO.

4. The Committee wishes to be kept informed of further development on this subject.
Laying of the Report  The Report of the Director of Audit on the Accounts of the Government of the Hong Kong Special Administrative Region for the year ended 31 March 2009 and his Report No. 53 on the results of value for money audits were laid in the Legislative Council on 25 November 2009. The Committee's Report (Report No. 53) was subsequently tabled on 3 February 2010, thereby meeting the requirement of Rule 72 of the Rules of Procedure of the Legislative Council that the Report be tabled within three months of the Director of Audit's Report being laid.

2. The Government Minute  The Government Minute in response to the Committee's Report No. 53 was laid in the Legislative Council on 12 May 2010. A progress report on matters outstanding in the Government Minute was issued on 22 October 2010. The latest position and the Committee's further comments on these matters are set out in paragraphs 3 to 40 below.

Commercialisation and utilisation of government properties
(Paragraphs 3 and 4 of Part 3 of P.A.C. Report No. 53)

3. The Committee was informed that:

Utilisation of entrance/exit areas that were previously reserved for the Mass Transit Railway ("MTR") in private developments

- since May 2010, the Government Property Agency ("GPA") and concerned departments had been taking active steps trying to put the three reserved areas of the MTR Corporation Limited to other gainful uses. The GPA had meetings and discussions with the concerned parties of Buildings A, B and C relating to the change of use of the reserved areas and the feasibility of making building services/facilities of the buildings concerned available for use in the reserved areas. A more definitive way forward for the three reserved areas was as follows:

(a) the MTR Corporation Limited confirmed in September 2009 and March 2010 that it had no plan to use the three reserved areas. In June 2010, the GPA obtained the approval of the Building Authority and the Fire Services Department to change the use of the three reserved areas to shops;
(b) for Building A, there was no legal hurdle for putting the reserved area into other gainful uses. With the in-principle agreement of the Incorporated Owners ("IO") given in July 2010 for using the building services and common areas of Building A, works for converting the reserved area into a two-storey shop commenced in the same month for completion in early 2011. The GPA would thereafter lease out the reserved area through open tender;

(c) for Building B, legal challenge by the developer and 620 co-owners could not be ruled out if the use of the area was changed without their consent. The GPA wrote to the developer in July 2010 to obtain an express release or a confirmation of not enforcing the covenant in the relevant legal documents on the proposed change of use. The GPA planned to write to all owners seeking their consent if the response from the developer was positive. However, the developer rejected the GPA's request in September 2010;

(d) under the circumstances, the Administration did not propose spending public money to convert the reserved area in Building B, as such expenditure could become abortive if the developer or any of the co-owners challenged the Administration for changing the use of the area without their consent. The Administration had considered the option of selling the reserved area in the market in "as is" condition, but given the difficulties surrounding the change of use the chance of a successful sale was slim. In the absence of the requisite consent to the change of use, the Administration would leave the area as it was and carry out some minor works from time to time to upkeep the appearance of the frontage of the area; and

(e) for Building C, any change of use would require the consent of the developer and all 155 co-owners. In April 2010, the IO agreed to changing the reserved area to community facilities use only. The GPA wrote to the developer and all co-owners in June 2010, seeking their consent to the proposed community facilities use. The deadline for reply was end July 2010. The response of the developer was positive, but of the 36 co-owners who responded, eight objected to the proposal. As the Administration failed to get the consent of concerned parties and the option of sale was also considered not viable because of the difficulties in changing the use, the Administration would, as in the case of Building B, leave the area as it was and carry out minimal works to maintain the appearance of the frontage area regularly;
- the above problems concerning Buildings B and C stemmed mainly from the overtly restrictive conditions in the relevant legal documents governing the use of the reserved areas. If in future there was a need to have such reserved areas, the Administration would ensure that the legal documents would be drafted in such a way so as to allow the areas to be used for other purposes more readily;

- as regards the water seepage problem, the GPA would work closely with the IO of Building A to resolve the problem in the course of carrying out conversion works for the reserved area. For Building B, the GPA was discussing with the IO on the proposal to install a sump pump in the reserved area; and

- the Administration had taken action to map out the way forward for the three reserved areas and any outstanding issues would be pursued as part of the Administration's on-going duties.

4. The Committee:

- wishes to be kept informed of further development in the case of Building A; and

- recommends that the GPA should revisit the cases of Buildings B and C periodically with a view to obtaining the consent of the parties concerned and bringing the cases to a satisfactory conclusion.

The Society for the Aid and Rehabilitation of Drug Abusers
(Paragraphs 5 and 6 of Part 3 of P.A.C. Report No. 53)

5. The Committee was informed that:

Strategic management, performance measurement and reporting

- in August 2010, the Efficiency Unit ("EU") completed a Scoping Study Report on the Review on Positioning of Society for the Aid and Rehabilitation of Drug Abusers ("SARDA") Resources for Treatment and Rehabilitation of Drug Users. The Narcotics Division ("ND") of the Security Bureau was working in collaboration with the Department of Health ("DH") and SARDA to refine the recommendations for
mapping out the strategic way forward, in order to expand SARDA's capacity to serve more psychotropic substance abusers and to enable more effective management of such resources;

- according to the review and updated statistics, three of the four residential treatment and rehabilitation centres of SARDA subvented by the DH, viz. Au Tau Youth Centre, Sister Aquinas Memorial Women's Treatment Centre and Adult Female Rehabilitation Centre, had been admitting more psychotropic substance abusers. The average percentage of psychotropic substance abusers they admitted rose from 41% in 2006 to 79% in 2009. The average occupancy rate was 96% in 2009;

- the remaining centre in Shek Kwu Chau had an established role to focus on opiate abusers. Its occupancy rate was 69% in 2009. In line with a recommendation of the EU review and following the Government's advice on the strategic direction to suitably re-engineer its services to cater for more psychotropic substance abusers, in December 2009, SARDA put forward a proposal to make use of the under-utilised facilities in Shek Kwu Chau to deliver the three-year pilot programme "Project Youth Care", dedicated to psychotropic substance abusers;

- in May 2010, the ND provided SARDA with a coordinated assessment made by relevant government departments on the proposal. In July 2010, the ND also shared with the Hong Kong Jockey Club Charities Trust ("HKJCCT") policy views on combating youth drug abuse and the Government's initial assessment of SARDA's proposal. In response to the assessment, SARDA was working to substantiate the proposal and thrash out the details for further submission to the HKJCCT. If implemented, the proposed pilot programme might help SARDA further demonstrate its capability in treating and rehabilitating young psychotropic substance abusers, and serve as a basis to work out an appropriate level of longer-term resources required by SARDA for providing new programmes for psychotropic substance abusers;

- the DH was discussing with SARDA to help it develop an accounting template recommended in the EU review to facilitate future cost reporting of SARDA's service programmes;
Corporate governance

- in accordance with the recommendations following a review on SARDA's corporate governance, the DH had nominated a staff member to join SARDA's Management Committee from May 2010 onwards. SARDA was studying the remaining recommendations, including the DH's nomination of three persons (not being government officials or SARDA members) as members of its Executive Committee. The ND was working with the DH and SARDA to expedite the matter; and

Management and control of government subvention

- the DH and SARDA had made useful exchanges and progress in finalising a Funding and Service Agreement ("FSA"). Having regard to the proposed new strategic direction of SARDA as set out above, appropriate provisions would need to be included in the FSA. The DH and SARDA would further examine the draft FSA in collaboration with the ND with a view to concluding the FSA as soon as possible.

6. The Committee:

- wishes to be kept informed of further development on the above subject; and

- notes that the Audit Commission has conducted another review of the residential treatment and rehabilitation services for drug abusers, and the results were reported in Chapter 10 of the Director of Audit's Report No. 55 of October 2010. The Committee's observations as well as conclusions and recommendations on that chapter are set out in Chapter 2 in Part 8 of this Report.

Administration of short term tenancies
(Paragraphs 3 and 4 of Part 4 of P.A.C. Report No. 53)

7. The Committee was informed that the Lands Department had informed the trade of the requirement for tenderers to submit a bank reference along with their tender. This practice would be adopted on a trial basis for six months in 2011. The sharing of tenants' information among relevant government departments had already been implemented and was now a standard practice.
8. The Committee wishes to be kept informed of the further progress made in implementing the requirement of submitting a bank reference along with tenders.

**Provision of public museum services**
*(Paragraphs 9 and 10 of Part 4 of P.A.C. Report No. 53)*

9. The Committee was informed that:

**Acquisition and management of museum collection items**

- the Leisure and Cultural Services Department ("LCSD") continued its best effort to clear the backlog of collection items pending accession in the Hong Kong Museum of History ("HKMH"), the Hong Kong Heritage Museum ("HKHM") and the Hong Kong Film Archive ("HKFA"). The HKFA had cleared all the 436,200 backlog items in end July 2010. The majority of the backlog items of the HKMH and the HKHM had also been cleared as at 30 September 2010. The HKMH had already cleared 257,078 out of the 257,780 backlog items and would complete clearing the remaining 702 items by end 2010 as scheduled. The HKHM had cleared 17,489 backlog items and was processing the remaining 1,261 backlog items with a view to completing the accession in 2010. The task force formed by the LCSD to monitor the progress of clearing backlog items for accession had conducted three site inspections to the HKMH, the HKHM and the HKFA between April and September 2010, and would continue to closely monitor progress through site inspections once every four months;

- due to the dilapidated condition of the godown at Yip Shing Street, Kwai Chung, it would require considerable cost and time to convert the godown into a temporary storage for use by the HKMH. Therefore, the LCSD was exploring other options for addressing the storage problem, including building new premises or making use of other abandoned godowns for storage of the museum collections;

**Performance of LCSD museums**

- the Jockey Club Environmental Conservation Gallery of the Hong Kong Science Museum was opened in August 2010 to promote awareness of environmental protection and green living; and
- the Hong Kong Museum of Art had continued to provide sign language services in guided tours on a trial basis until 29 December 2010 and arranged public guided tours with additional sign language interpretation for different exhibitions on a monthly basis to encourage hearing-impaired persons to come into closer contact with art. It also endeavoured to widen the range of its arts appreciation programmes, including staging free monthly concerts in the lobby for the enjoyment of the public and enriching the cultural ambiance of the museum.

10. The Committee wishes to be kept informed of further development on the subject.

**Provision of aquatic recreational and sports facilities**
* (Paragraphs 11 to 13 of Part 4 of P.A.C. Report No. 53)

11. The Committee was informed that:

**De-gazetting of the Kiu Tsui Beach on Sharp Island**

- up till July 2010, the Lands Department ("Lands D") had not received any proposal from the private developer for the development of Sharp Island into a holiday resort. The Lands D would consult all relevant government departments, including the Leisure and Cultural Services Department ("LCSD"), should they receive any such proposal; and

**Alignment of fees and charges of all swimming pool complexes and swimming training courses**

- the Working Group for fees and charges review for leisure services ("the Working Group") continued with the review to examine various aspects of the fee structures and fee levels for using different types of recreation and sports facilities (including swimming pool complexes). The key issues being examined included the utilisation rates, impact of changing the fee structures/levels on the cost recovery rates, concessionary arrangements, possible rationalisation of the current fee structures/levels, and alignment options. The review would take into consideration the policy objectives of promoting the development of sport and sport for all, cost recovery rates, and public affordability and acceptability. As part of the exercise, the Working Group would also examine all the fees for
recreation and sports programmes organised by the LCSD (including swimming training courses), and assess the financial implications of changing or aligning the fees. The LCSD would consult the public once concrete proposals were drawn up.

12. The Committee wishes to be kept informed of further development on the subject.

University Grants Committee funded institutions — General administrative services
(Paragraphs 16 and 17 of Part 4 of P.A.C. Report No. 53)

13. The Committee was informed that the Administration aimed to consult the Joint Committee on Student Finance on the initial recommendations of the consultancy study on the review of the mechanism for setting and adjusting the levels of living expenses loans for post-secondary students in early 2011.

14. The Committee wishes to be kept informed of further development on the subject.

University Grants Committee funded institutions — Staff remuneration packages and stipends
(Paragraphs 18 and 19 of Part 4 of P.A.C. Report No. 53)

Pay structure

15. The Committee was informed that The Hong Kong Polytechnic University had refined The Hong Kong Polytechnic University (Amendment) Bill 2009 in light of views received at the Legislative Council ("LegCo") Panel on Education meeting, and would submit it to the LegCo in the 2010-2011 legislative session.

16. The Committee wishes to be kept informed of further development on the subject.
Services provided by the Official Receiver's Office  
(Paragraphs 20 and 21 of Part 4 of P.A.C. Report No. 53)

17. The Committee was informed that the expanded scheme to outsource debtor-petition bankruptcy cases to private sector insolvency practitioners had been running smoothly. The Official Receiver's Office ("ORO") would continue to keep its outsourcing schemes under review. The review of the ORO's cost of operation and the impact on fees and charges had been progressed as planned, and was expected to be completed in late 2010.

18. The Committee wishes to be kept informed of further development on this subject.

Recoverability of the outstanding advances to the UNHCR  
(Paragraphs 22 and 23 of Part 4 of P.A.C. Report No. 53)

19. The Committee was informed that:

- the Administration had continued to urge the United Nations High Commissioner for Refugees ("UNHCR") to make renewed efforts to appeal to the international community for donations to enable early repayment of the outstanding advances, which remained at $1,162 million. The Security Bureau had written to the Head of Hong Kong Sub-office of the UNHCR in March and August 2010 to reiterate the Administration's stance on the matter and restate that the Hong Kong community would expect an early repayment from the UNHCR; and

- although it was not optimistic that repayment could be made very soon in view of the pressing service demands on the UNHCR worldwide, the Administration would continue to pursue early repayment of the outstanding advances from the UNHCR.

20. The Committee wishes to be kept informed of the action taken by the Administration to pursue the repayment of the outstanding advances to the Government.
Footbridge connections between five commercial buildings in the Central District
(Paragraphs 24 and 25 of Part 4 of P.A.C. Report No. 53)

21. The Committee was informed that the Lands Department was actively coordinating a joint meeting with the owners of Buildings I and II to discuss the concerns and requirements of both owners regarding the footbridge proposal. In response to the suggestion of the owner of Building I, the owner of Building II was preparing some information for discussion.

22. The Committee wishes to be kept informed of further discussions with the owners of the two concerned buildings for any feasible solution to materialise the footbridge proposal.

Small house grants in the New Territories
(Paragraphs 26 to 28 of Part 4 of P.A.C. Report No. 53)

23. The Committee was informed that:

   Implementation of small house policy

   - in taking forward the small house policy review, the Administration had identified and considered a wide range of issues; and

   - some proposals had been formulated and implemented. The remaining issues, which were complex in nature, required further and careful deliberation within the Administration.

24. The Committee wishes to be kept informed of further development on the review of the small house policy.

The acquisition and clearance of shipyard sites
(Paragraphs 29 and 30 of Part 4 of P.A.C. Report No. 53)

25. The Committee was informed that subject to the ex-lessee's request to restore a full hearing in the Lands Tribunal on its claim for compensation under the Foreshore and Sea-bed (Reclamations) Ordinance (Cap. 127), the Lands Tribunal would determine the amount of compensation in due course.
26. The Committee wishes to be kept informed of the progress of action taken by the Administration.

Grant of land at Discovery Bay and Yi Long Wan
(Paragraphs 31 and 32 of Part 4 of P.A.C. Report No. 53)

27. The Committee was informed that the Lands Department was working on the way forward in consultation with the legal advisers.

28. The Committee wishes to be kept informed of the progress of action taken by the Administration.

Development of a site at Sai Wan Ho
(Paragraphs 33 and 34 of Part 4 of P.A.C. Report No. 53)

29. The Committee was informed that the Council for Sustainable Development ("CSD") had conducted a public engagement exercise on "Building Design to Foster a Quality and Sustainable Built Environment" from June to October 2009 and had submitted its recommendations to the Government in June 2010. The Council had suggested tightening up the current practices of granting gross floor area concessions for provision of various features (such as green and amenity features, car parks, etc.) in buildings.

30. The Committee enquired about the Administration's timetable for considering the CSD's above recommendations and when the results would be known. In response, the Secretary for Development stated in her letter of 25 January 2011 (in Appendix 3) that:

- in his Policy Address 2010-2011, the Chief Executive ("CE") reaffirmed that the Government was committed to enhancing the design standard of new buildings to foster a quality and sustainable built environment for the next generation. The CE announced that the Government would introduce a series of measures formulated in light of the recommendations of the CSD, requiring the incorporation of such design elements as building separation or enhancement of building permeability, setback and greenery in new buildings. To widely promote green building in Hong Kong, the Government would raise the building
energy efficiency standards and require developers to provide environmental and energy consumption information of buildings for the reference of potential users;

- the series of measures also included the tightening up of policy on granting gross floor area concessions for private buildings. Major changes included doing away with concessions for certain features, lowering the level of concessions for car parks, balconies, utility platforms and clubhouse facilities, and imposing an overall cap of 10% for a number of features which still qualified for concession. The Government would also reduce the maximum permissible projection of bay windows;

- the details of the proposal and implementation plan had been set out in the Legislative Council brief on "Measures to Foster a Quality and Sustainable Built Environment" issued on 13 October 2010. The revised practice notes stipulating the details of the proposals would come into effect on 1 April 2011; and

- the Development Bureau believed that the new package of measures would strike a proper balance between fulfilling environment performance and comfort requirements of buildings on the one hand, and minimising the impact on the surrounding environment as far as possible on the other. It would also ensure room for creativity in Hong Kong's building designs.

31. The Committee wishes to be kept informed of further development on the subject.

Emergency ambulance service
(Paragraphs 3 and 4 of Part 5 of P.A.C. Report No. 53)

32. The Committee was informed that:

Measures taken to facilitate and ensure optimal deployment of emergency ambulance resources

- the Administration reported the results of the public consultation on the proposed introduction of the Medical Priority Dispatch System ("MPDS")
to the Legislative Council Panel on Security ("Security Panel") in April 2010. The Administration was formulating the way forward taking into careful consideration the views and comments of the members of the Security Panel;

Timetable and result of the review of the 12-minute target response time for emergency ambulance service ("EAS")

- if the proposed MPDS was accepted for implementation, it would lead to fundamental changes to the mode of ambulance dispatch and operations, and the response time targets would be adjusted accordingly. The Administration would revisit the target response time for EAS after the way forward for the proposed MPDS was clear;

Progress made in identifying suitable sites in the New Territories Region for constructing additional ambulance depots

- the Fire Services Department ("FSD") had already set up an extra temporary ambulance stand-by point at Ta Kwu Ling Rural Centre Government Building. While the previous plan of converting the Lady Ho Tung Dispensary in Kwu Tung into an additional temporary stand-by point was found infeasible, the FSD had successfully secured a suitable alternative location in the nearby Dills Corner Garden for use from end 2010 to 2014. In the long term, the Administration was exploring the feasibility of constructing a new ambulance depot in Sheung Shui;

Keeping and making use of management information on the breakdown and maintenance history of individual ambulances, and maintaining the availability of the ambulance fleet at a level that could meet public expectation

- the FSD had already secured funding for the establishment of the Ambulance Management Information System ("AMIS") to provide more timely and detailed information on the breakdown and maintenance history of each ambulance. Tendering was in progress, and the AMIS was expected to commence operation by the end of 2012; and
Review of the ambulance turnout time

- the Administration would revisit the ambulance turnout time after the way forward for the proposed MPDS was clear.

33. The Committee wishes to be kept informed of further development on the subject.

Administration of the Sports Subvention Scheme
(Chapter 1 of Part 8 of P.A.C. Report No. 53)

34. The Committee was informed that:

Comprehensive review of the Sports Subvention Scheme

- in June 2010, the Steering Committee, chaired by the Director of Leisure and Cultural Services, to conduct a comprehensive review of the Sports Subvention Scheme ("the Scheme") endorsed a number of preliminary recommendations to improve the administration of the Scheme. The key preliminary recommendations were elaborated below. The Leisure and Cultural Services Department ("LCSD") would consult the Sports Federation & Olympic Committee of Hong Kong, China ("SF&OC") and National Sports Associations ("NSAs") before finalising the recommendations, and implement the improvements in 2011-2012 where practicable;

Performance targets and allocation of subvention

- to address the Committee's concern about the criteria for determining the eligibility of sports organisations for receiving subvention under the Scheme, the Steering Committee recommended that any new applicant for subvention under the Scheme should satisfy a set of criteria, including the applicant's membership/affiliation with SF&OC and the international federations of the respective sports, as well as whether the sport was or would likely become one of the sports of major international games (e.g. the Olympic or Asian Games). In order to facilitate potential applicants in the preparation of applications, the LCSD should publish these criteria on its website together with the notice inviting applications for subvention;
- regarding the Audit Commission ("Audit")'s recommendation of setting more quantitative performance targets for NSAs, the Steering Committee had identified a number of key performance areas (e.g. organisation of programmes and development of sport) for which more objective and quantitative performance targets had to be set by NSAs for inclusion in their annual plans. The LCSD would devise guidelines to assist NSAs in setting these targets. As proposed by the Committee, the LCSD would adopt a performance-based approach in determining the subvention for NSAs. The LCSD would link achievements in the major key performance areas to the amount of subvention to be granted to NSAs in the following year;

- the Steering Committee had reviewed the two different approaches (one taking income into consideration and the other not) adopted by the LCSD in determining the subvention for different categories of sports programmes and recommended that they should be standardised. In determining the amount of subvention to be granted to an NSA for all categories of programmes, the LCSD should take into account the estimated income that could be derived from the programmes as well as the maximum subvention level for the eligible expenditure of that category;

**Monitoring of NSAs' performance**

- to address the concern of Audit and the Committee on NSAs' late submission of reports and financial statements, and non-compliance with reporting requirements, the LCSD had put in place a number of measures to enhance the monitoring of NSAs' performance. These included regular reminders and briefings for NSAs to remind them of the importance of strict compliance with the subvention agreement and relevant guidelines. Moreover, a new provision had been included in the subvention agreement for 2010-2011 allowing the LCSD to take retrospective sanction against NSAs which failed to fulfil the obligations stipulated in the agreement;

- the LCSD was developing a computerised system to strengthen the administration of the Scheme and monitoring of NSAs' compliance/performance, and to facilitate timely submission of reports by NSAs. The project would be implemented in two phases. Phase I, which would be implemented in 2011-2012, would enhance the LCSD's monitoring capability while Phase II, to be completed in 2012-2013,
would help improve NSAs' communication, operational efficiency and online reporting capability. The service contract was awarded by tender in August 2010. The successful contractor was developing the system which would generate reminders to LCSD staff and NSAs at the same time, so that appropriate follow-up actions could be taken by both parties in a timely manner. The system would also help detect errors and non-compliance in the reports submitted by NSAs, as well as ensure accuracy in the calculation of allocation and reserve funds for individual NSAs;

- the Steering Committee also recommended that the reporting requirements and system be streamlined and simplified. NSAs should only be required to submit one programme report (instead of three reports as in the past) for each of their programmes on a quarterly basis, and the auditor's report on the entire subvention on an annual basis. NSAs should, however, still be required to report on major issues including the achievement or otherwise of performance targets and any significant variance between the estimated and actual expenditure/income through the new programme report. LCSD staff would be required to sign off the programme report after verification. Any cancellation of programmes (with reasons given), or staff changes should be reported separately to the LCSD within one month;

- to help its staff monitor NSAs, the LCSD would prepare a set of "Best Practices for Internal Processing of Reports and Follow-up Work" that would include checklists on verification of programme/audit's reports, necessary follow-up work, calculation of NSAs' reserve funds and prompt recovery of unspent subvention from NSAs;

- having examined the question raised by Audit about the lump-sum subvention approach for certain categories of programme, the Steering Committee considered that NSAs should have the flexibility to decide how best to deploy their subvention for five categories of programmes, namely (a) international competitions held outside Hong Kong; (b) national and junior squad training; (c) regional squad training; (d) training of officials; and (e) meetings and conferences. The Steering Committee recommended that these programmes be processed in the form of "wish lists" whereby NSAs should set out their proposals in order of priority and the LCSD should decide on the amount of subvention to be allocated for these programmes having regard to funding availability. NSAs should be allowed to retain savings in their
reserve fund account only if they had already organised and participated in all the programmes on their respective "wish lists" for the year concerned. Otherwise, the unspent subvention should be netted off or used for other programmes of the same NSA within the same financial year, subject to the LCSD's prior approval;

- the Steering Committee also recommended the introduction of a new "risk-based" approach for conducting on-site inspections of subvented programmes. The "risk-based" approach would help determine the frequency of on-site inspections to be undertaken by LCSD staff, taking into account the nature and complexity of the programmes as well as the risk level of NSAs. For new or pilot programmes, NSAs should be required to conduct an opinion survey to gauge the feedback of users or participants for the LCSD's reference. The LCSD staff concerned should draw up an inspection plan for each NSA for the following year for endorsement by supervisors. They should complete and submit an inspection report after each inspection to their supervisor for information and follow-up action if required;

Internal controls of NSAs

- to help NSAs improve their internal controls and meet compliance requirements on accounting and audit, the LCSD would continue to organise periodic workshops and seminars. The LCSD had reviewed the existing guidelines and was finalising a checklist of best practices of internal control to assist NSAs and their staff;

- to address Audit's concern on auditing arrangements, the LCSD had revised the provision in the subvention agreement for 2010-2011 so as to require NSAs to submit written proof of the engagement of auditors for the auditor's report. The Steering Committee recommended that the standard of the auditor's report should be upgraded to provide reasonable assurance on NSAs' compliance with the relevant guidelines and requirements. The LCSD would prepare sample auditor's engagement letter and auditor's report for the reference of NSAs' auditors;

- to ensure that recommendations made by the LCSD's Quality Assurance Section were properly followed up, the LCSD would promulgate guidelines for compliance both by its staff and by staff of NSAs. Specifically, NSAs should be required to provide progress reports on the follow-up action taken within one month upon receipt of the Quality
Assurance Section's reports. The senior management of the LCSD would be kept informed at regular intervals of the progress of the Quality Assurance Section's work and the follow-up action taken by LCSD and NSA staff; and

- in response to the Committee's recommendation, the LCSD had surveyed the accounting software currently in use by NSAs and provided them with a list of suitable accounting software for reference and adoption in September 2010. The accounting software would help NSAs, in particular those which were still using a manual accounting system, enhance the management of their accounts and expedite the preparation of financial statements for timely submission to the LCSD.

35. The Committee was also informed that the Steering Committee had started to consult the sports sector in September 2010 on the recommended improvement measures concerned and would take into account the views received before finalising its recommendations. The LCSD would continue to keep the Committee informed of the progress.

36. The Committee wishes to be kept informed of further development on the subject.

**Hong Kong Productivity Council: Corporate governance and administrative issues**  
*(Chapter 3 of Part 8 of P.A.C. Report No. 53)*

37. The Committee was informed that:

Corporate governance, culture of compliance and prudent use of public funds

- senior staff of the Hong Kong Productivity Council ("HKPC") attended the Seminar on Corporate Governance for Subvented Organisations organised by the Efficiency Unit ("EU") in May 2010. The HKPC would make reference to the EU's "Guide to Corporate Governance for Subvented Organisations" when updating its Corporate Governance Manual in future;
- after revising the terms of reference of the HKPC's Finance Committee as proposed by the Committee, the Council of the HKPC had further reviewed and updated as necessary the terms of reference of the other three standing committees to reflect recent changes in the HKPC's work practices so as to improve its governance framework. Among others, the authority for appointment of Branch Directors had been transferred from the Staffing Committee to the Council of the HKPC, and in respect of strategic planning, the full Council of the HKPC would review and discuss the three-year strategic plans before endorsing the annual programme and estimates;

Building management services provided by BMM Limited

- in August 2010, the Council of the HKPC reviewed the current operation of BMM Limited and decided that BMM Limited should relinquish some of the administrative tasks not directly related to the management of the HKPC Building. As a result of this rationalisation exercise, a number of BMM Limited staff had been transferred to the HKPC with additional responsibilities. The Council of the HKPC planned to conduct another benchmarking exercise in early 2011 to review the cost-effectiveness of BMM Limited; and

Proposed comprehensive review of the HKPC Ordinance

- the Administration would consider the practical need for undertaking a review of the HKPC Ordinance (Cap. 1116) in due course, and, if found necessary, the scope and timing of the review. Given the complexity of the issue and having regard to the HKPC's plans for expansion of its services, it would take time for the relevant parties to deliberate and map out the way forward. The Administration would consult the relevant stakeholders and the Legislative Council Panel on Commerce and Industry on the proposals as appropriate.

38. The Committee wishes to be kept informed of further development on the subject.
39. The Committee was informed that:

Corporate governance

- pursuant to the Audit Commission ("Audit")'s and Committee's recommendations, the Office of the Privacy Commissioner for Personal Data ("PCPD") had continued to work on a number of improvement measures to enhance its corporate governance. On the plan to recruit an Internal Controller to strengthen its internal control and compliance, since no suitable candidate could be identified in the recruitment exercise for the post, the PCPD had decided to recruit a supernumerary Chief Corporate Services Manager ("CCSM") to oversee the Administration, Finance and Corporate Communications Divisions. The job holder would focus on strengthening the internal systems of financial and management control and compliance. Pending the outcome of CCSM recruitment, the PCPD would examine the need of engaging a professional consultancy to review the internal procedural matters for recommending measures to enhance compliance and internal control;

- the Constitutional and Mainland Affairs Bureau ("CMAB") would, in accordance with the Memorandum of Administrative Arrangements, continue to monitor the PCPD's overall performance by holding regular progress review meetings and other meetings at working level, as well as examining the quarterly progress review reports prepared by the PCPD;

Complaint management

- in response to the Committee's recommendations, the PCPD had made efforts to improve its complaints handling procedures and clear long outstanding cases. With the provision of additional resources in 2010-2011, the PCPD had recruited one Chief Personal Data Officer and one Personal Data Officer to handle the increased number of complaint cases, and a Legal Counsel to provide necessary legal support. The PCPD was also recruiting a Senior Personal Data Officer to enhance complaints handling. The PCPD also redeployed one more Chief Personal Data Officer to the Operations Division in May 2010 to
supervise the handling of complaint cases and to cope with the increased workload. The PCPD would continue to closely monitor the position and effectively deploy resources to deal with complaints so as to minimise the number and age of outstanding cases;

- as regards compliance with the 45-day requirement of serving the refusal notice, the PCPD, in addition to making on-going efforts to assess and formulate management measures to address the risks arising from non-compliance, had reviewed the workflow of the Operations Division of the PCPD. The work of screening complaint cases had been delegated to a Chief Personal Data Officer who led and supervised a team of officers. With the change in workflow, statistics of July 2010 showed that 73% of the completed complaint cases met the 45-day requirement, as compared to the annual average of 49% in 2009; and

- on the Committee's concern on the proper construction of the 45-day requirement, the CMAB proposed in the public consultation document on the review of the Personal Data (Privacy) Ordinance (Cap. 486) published in 2009 to remove the requirement with regard to a decision to discontinue an investigation. The CMAB was analysing and consolidating the views received during the public consultation and would consult the public on the proposed legislative amendments in autumn of 2010.

40. The Committee wishes to be kept informed of further development on this subject.
Laying of the Report  Report No. 53 of the Director of Audit on the results of value for money audits was laid in the Legislative Council on 25 November 2009. The Committee's supplemental report (Report No. 53A) on Chapter 5 of the Director of Audit's Report was tabled on 2 June 2010.

2. The Government Minute  The Government Minute in response to the Committee's Report No. 53A was laid in the Legislative Council on 20 October 2010. The latest position and the Committee's further comments on these matters are set out in paragraphs 3 and 4 below.

Control of western medicines  
(\textit{Part 4 of P.A.C. Report No. 53A})

3. The Committee was informed that:

Review of existing regulatory control of medicines

- the Secretary for Food and Health and the Director of Health had accorded priority to ensuring the safety, efficacy and quality of medicines in Hong Kong. In formulating the Government's strategy and preparing legislative amendments to tighten up control, the Food and Health Bureau ("FHB") would take into serious consideration the observations and recommendations of the Audit Commission ("Audit") and the Committee. The FHB also attached great importance to enhancing the regime for the regulation and control of medicines in Hong Kong. The Administration was preparing legislative amendments and finalising the implementation details for improving the regime;

Importation of unregistered medicines

- in order to work closely with other relevant bureaux and departments to tighten up the import and export control of pharmaceutical products, the Department of Health ("DH") had convened a Task Force on Import and Export Control of Pharmaceutical Products with representatives from the FHB, the Commerce and Economic Development Bureau, the Efficiency Unit ("EU"), the Customs and Excise Department ("C&ED"), and the Trade and Industry Department ("TID") to formulate strategies on the control of medicines imported for re-export based on risk assessment and implementation of the recommendations of Audit and
the Review Committee on Regulation of Pharmaceutical Products in Hong Kong. The Task Force was exploring the feasibility of developing a computer system to track the import and re-export of unregistered medicines and the sharing of information among the DH, the C&ED and the TID. The Administration would keep the Legislative Council ("LegCo") Panel on Health Services informed of developments;

Inspection of dealers' activities and other enforcement actions

- in response to the Committee's concern, the DH had taken steps to improve its inspection of dealers' activities and enforcement actions, as well as explore other measures to improve the frequency, quality and effectiveness of inspection and enforcement actions. The DH made unannounced inspections to manufacturers and would uphold the practice as suggested by Audit. The DH planned to enhance the standard of local drug manufacturing in phases and adopt the latest international Good Manufacturing Practices standards, including inspections and reporting. Adopting a risk-based approach, the DH regularly reviewed the frequency and extent of inspection of wholesalers, importers/exporters and authorised and listed sellers of poisons. The DH had also increased the number of test purchases and started to conduct test purchases during weekends and night time. The DH would explore further regulatory measures in collaboration with the Pharmacy and Poisons Board ("PPB") such as requiring authorised and listed sellers of poisons to display their licences at their retail shop entrances and publishing the removal of listed sellers of poisons on the DH's website. The Administration would inform the Committee and the LegCo Panel on Health Services of the progress;

Medicine testing, recalls and public alerts

- the DH accorded a high priority to medicine testing, monitoring of medicine recalls and issuing of public alerts. The DH had enhanced the monitoring system on recalls in response to the recommendations of Audit. It worked closely with the Government Laboratory and had initiated an annual review of the number of test samples and set performance targets for the turnaround time of sample testing based on the risk assessment of medicines selected from the market surveillance system. Outsourcing of certain testing work was being explored;
Licence-refusal criteria, prosecutions and disciplinary actions

- the DH and the PPB had considered the recommendations of Audit on the improvement of the prosecutions and disciplinary actions as well as penalty system, with a view to achieving a greater deterrent effect and protecting the public interest. The DH would actively consider and pursue measures suggested by Audit. The PPB had set up a working group to review and strengthen the licensing criteria. It had revised the registration protocol to include the checking of conviction record of the related authorised sellers of poisons when considering applications for registration. In response to the concern of Audit and the Committee, the PPB had also cleared the backlog of disciplinary cases and imposed heavier penalty for achieving a greater deterrent effect;

Public information and internal support

- the DH was working closely with different stakeholders to enrich information on its website on medicines and dealers, and would ensure that the information was up-to-date. The DH was also conducting a review of the existing information technology systems of its Pharmaceutical Service unit to enhance its regulatory work. Support and assistance from the EU would be sought. The Administration would inform the Committee and the LegCo Panel on Health Services of the progress; and

Progress made in implementing Audit's recommendations

- a summary of progress on implementing Audit's recommendations was set out at in Appendix 4.

4. The Committee wishes to be kept informed of further development on the subject.
Consideration of the Director of Audit's Report tabled in the Legislative Council on 17 November 2010  As in previous years, the Committee did not consider it necessary to investigate in detail every observation contained in the Director of Audit's Report. The Committee has therefore only selected those chapters in the Director of Audit's Report No. 55 which, in its view, referred to more serious irregularities or shortcomings. It is the investigation of those chapters which constitutes the bulk of this Report.

2. Meetings  The Committee held a total of 15 meetings and six public hearings in respect of the subjects covered in this Report. During the public hearings, the Committee heard evidence from a total of 19 witnesses, including three Directors of Bureau and two Heads of Department. The names of the witnesses are listed in Appendix 5 to this Report. A copy of the Chairman's introductory remarks at the first public hearing in respect of the Director of Audit's Report No. 55 on 29 November 2010 is in Appendix 6.

3. Arrangement of the Report  The evidence of the witnesses who appeared before the Committee, and the Committee's specific conclusions and recommendations, based on the evidence and on its deliberations on the relevant chapters of the Director of Audit's Report, are set out in Chapters 1 to 3 of Part 8 below.

4. The audio record of the proceedings of the Committee's public hearing is available on the Legislative Council website for the public to listen to.

5. Acknowledgements  The Committee wishes to record its appreciation of the cooperative approach adopted by all the persons who were invited to give evidence. In addition, the Committee is grateful for the assistance and constructive advice given by the Secretary for Financial Services and the Treasury, the Legal Adviser and the Clerk. The Committee also wishes to thank the Director of Audit for the objective and professional manner in which he completed his Reports, and for the many services which he and his staff have rendered to the Committee throughout its deliberations.
The Committee noted the Report of the Director of Audit on the Accounts of the Government of the Hong Kong Special Administrative Region for the year ended 31 March 2010 ("the Government Accounts").

2. The Committee had sought additional information from the Director of Audit and the Secretary for Financial Services and the Treasury in relation to the above Report. The Committee's enquiries as well as the information provided by the Director of Audit vide his letter of 10 January 2011 (in Appendix 7) and by the Secretary for Financial Services and the Treasury vide his letter of 24 January 2011 (in Appendix 8) are set out in the ensuing paragraphs.

Management reports/letters

3. The Committee asked the Director of Audit whether, after auditing the Government Accounts, the Audit Commission would issue management reports/letters to the Administration on weaknesses that existed in systems of financial control or accounting, significant irregularities, inconsistency of application of regulations, or fraud and corrupt practices.

4. The Director of Audit advised that consistent with the practice in the private sector, the Audit Commission had issued management letters (in the form of memorandum) to the Administration on the audit of the Government Accounts. As requested by the Committee, the Director of Audit provided a specimen of a management letter issued in 2009-2010 for the Committee's reference.

Other revenue in the Capital Works Reserve Fund

5. The Committee enquired about the nature of the recovery from the MTR Corporation Limited in the amount of $131 million, which was shown as original estimated revenue in the 2010 account of the Capital Works Reserve Fund (in page 27 of the Report of the Director of Audit on the Government Accounts).

6. The Director of Audit replied that the amount of $131 million was the estimated amount receivable from the MTR Corporation Limited in respect of construction works carried out by the Government on its behalf. Up to 2009-2010, no payments had been received from the MTR Corporation because the
Administration and the Corporation had not yet agreed on the outstanding amount payable by the Corporation. According to the Administration, $131 million represented the Government's best estimation of the amount that could be received from the Corporation.

Inclusion of variance analyses in the Government Accounts

7. The Committee noted that the Government Accounts included a variance analysis for General Revenue Account ("GRA") revenue/expenditure heads with actual revenue/expenditure different from the original estimates by more than 10%. However, similar revenue/expenditure analyses were not provided for the nine government funds established (or deemed to have been established) under section 29 of the Public Finance Ordinance (Cap. 2). The Committee asked about the reason for the different treatment.

8. The Secretary for Financial Services and the Treasury replied that the Government Accounts provided variance analyses for the GRA as GRA expenditure was subject to statutory control on an annual basis. Besides, the bulk of the Government's expenditure was met directly from the GRA.

9. As requested by the Committee, the Secretary for Financial Services and the Treasury provided the variance analyses for individual funds for 2009-2010 in his letter of 24 January 2011.

Preparation of the Consolidated Account of the Government

10. The Committee noted that the Director of Accounting Services prepared the Consolidated Account of the Government (i.e. the consolidated financial statements of the GRA and the funds established or deemed to have been established under section 29 of the Public Finance Ordinance) on both a cash basis and an accrual basis. However, there were no statutory provisions governing the preparation, audit and tabling of the cash-based and accrual-based Consolidated Accounts. The Committee enquired whether the Administration would consider amending the relevant legislation (e.g. the Audit Ordinance (Cap. 122)) so as to empower the Director of Audit to audit the Consolidated Accounts.
11. The Secretary for Financial Services and the Treasury replied that:

- the cash-based financial statements for the GRA and the individual funds were audited by the Director of Audit pursuant to the Audit Ordinance (except the Lotteries Fund which was governed by the Government Lotteries Ordinance (Cap. 334)). In addition to the statutory accounts, for the purpose of giving an overview of the financial position and cash resources of the Government, the GRA and the individual funds, excluding the Bond Fund, were aggregated, with adjustments for inter-fund transfers, to form the cash-based Consolidated Account. As the consolidation process was relatively straightforward, the Administration did not see the need for the cash-based Consolidated Account to be audited by the Director of Audit; and

- in addition to the cash-based Consolidated Account, the Administration started to prepare accrual-based financial statements from 2002-2003 to provide additional information. Since then, the Administration had been making improvements to its accrual accounting policies as well as the relevant computer systems to enable better compliance with generally accepted accounting principles and to streamline the compilation work. The Administration would continue to review and introduce improvements to the accrual-based accounts, and would examine the need for statutory audit in due course.
A. Introduction

The Committee's Report

The Audit Commission ("Audit") conducted a value for money audit on the Direct Subsidy Scheme ("DSS") covering the administration and supervision of the scheme and the governance and administrative matters of DSS schools. The Committee noted that Audit had selected four DSS schools for field audits in order to obtain a better understanding of the operation of schools under the DSS. Apart from visiting four schools, Audit had also reviewed all the records of the Education Bureau ("EDB") on DSS schools. Such records included the register of school managers, school annual plans, development plans, audited financial statements, service agreements and tenancy agreements, etc. The review carried out by Audit at the EDB covered all DSS schools.

2. Audit's findings were contained in two separate chapters of the Director of Audit's Report No. 55 ("Audit Report"), i.e. "Administration of the Direct Subsidy Scheme" (Chapter 1) and "Governance and administration of Direct Subsidy Scheme schools" (Chapter 2).

3. The Committee held four public hearings on 29 November 2010 and 2, 13 and 20 December 2010 respectively to receive evidence on the findings and observations in the above two chapters of the Audit Report.

4. The Committee's Report sets out the evidence gathered by the Committee which is relevant to the issues identified in the above two chapters of the Audit Report and further revealed at the public hearings, as well as the Committee's conclusions and recommendations on those issues. The Report is divided into the following parts:

A. Introduction;

B. Service agreement with school sponsoring body;

C. Service agreement with incorporated school governing body;

D. School fee remission/scholarship schemes;
E. Revision of school fees;
F. Financial management;
G. Admission process;
H. Monitoring school performance;
I. Direct subsidy scheme subsidy;
J. International schools in the direct subsidy scheme;
K. Human resource management;
L. General administration and other governance issues; and
M. Conclusions and recommendations.

Disclosure of the identity of and information on the DSS schools studied in the Audit Report

5. Since the publication of the Audit Report, the issues relating to DSS schools as identified by the Director of Audit had aroused wide public concern and there had been public speculation about the identity of the schools examined by Audit. To prepare for the public hearings, the Committee requested the EDB to provide it with the names of the four DSS schools which had been visited by Audit and their irregularities. In view of the public concern over the matter, the Committee also made clear to the EDB that it did not have any objection to the bureau's making public the information sought by the Committee.

6. In his letter of 23 November 2010 in Appendix 9, Mr Michael SUEN, Secretary for Education, informed the Committee that:

- the EDB was mindful of the agreement between the Committee and the Administration with respect to the disclosure of information, as set out in the Financial Circular No. 2/2010 that "during the period between the tabling of the report in the Legislative Council ("LegCo") and the public hearings, any public debate on the issues to be further investigated should be avoided by both sides as far as possible so as to ensure that the
Public Accounts Committee can carry out public hearings smoothly and in a fair manner and that we should refrain from initiating any publicity to counter the Audit findings.”;

- with the above understanding, the EDB set out in Annex A of his letter the information sought by the Committee, on the basis of the information provided by Audit, for the Committee's internal reference before the public hearings commenced on 29 November 2010;

- the Audit Report involved not only the four schools visited by Audit but also all DSS schools in general. The EDB considered it more appropriate to provide information relating to all DSS schools covered in the Report, rather than singling out the four schools concerned. The EDB believed that the availability of such information would facilitate a comprehensive and fair discussion of the issues involved. The information covering all DSS schools studied in the Audit Report, on the basis of the details provided by Audit, was in Annex B of his letter; and

- as the EDB was the subject of the audit, it would respond to issues relating to the findings of the Audit Report at the Committee's public hearings. It was therefore of the view that the disclosure of the sought information on individual DSS schools to the public at that juncture might undermine the previous agreement between the Committee and the Administration (as set out in the Financial Circular No. 2/2010) and inevitably encourage public debate on issues relating to the four schools highlighted in the Audit Report. This would also not be just and fair to the schools concerned. However, if the Committee was of the view that the sought information could be disclosed to the public, it was prepared to do so accordingly.

7. After considering the Secretary for Education's response, the Committee wrote to him on 24 November 2010 stating that:

- the Committee had carefully reviewed the agreement between it and the Administration, which was reflected in the Financial Circular No. 2/2010, and the issues raised in the Audit Report. The Committee considered that the identity of the schools *per se*, although closely related to those issues, was not an issue relevant to the audit findings. A proper disclosure of the names of the schools concerned by the
Administration should not undermine the agreement between the Committee and the Administration; and

- having considered all relevant circumstances, the Committee was of the view that the Secretary ought to make public the information provided in his letter of 23 November 2010.

8. The Secretary for Education released to the public the information on all DSS schools reported to have irregularities, as set out in Annex B of his letter of 23 November 2010, in the evening of 24 November 2010.

Declaration of interests and opening remarks

9. At the Committee's first public hearing on the Audit Report held on 29 November 2010, Hon Cyd HO Sau-lan declared that Ms Ada WONG, who was the School Supervisor of a DSS school named the HKICC Lee Shau Kee School of Creativity, was her friend and had sponsored her in the LegCo elections held in 2008.

10. Hon Paul CHAN Mo-po declared that his daughter was studying in an international school. In addition, he was currently a Council Member of Caritas-Hong Kong ("Caritas") and had been the Chairman of Friends of Caritas. Caritas operated DSS schools but he was not involved in those schools.

11. Hon Ronny TONG Ka-wah declared that his son had studied in the Diocesan Boys' School.

12. Mr Benjamin TANG, Director of Audit, and the Secretary for Education made opening remarks at the public hearing on 29 November 2010. The full texts of their remarks are in Appendices 10 and 11 respectively.
B. Service agreement with school sponsoring body ("SSB")

Requirement to enter into service agreement

13. The Committee referred to the Secretary for Education's opening remarks in which he said that the EDB was of the view that the current DSS school system and its monitoring mechanism were working well, and the majority of the issues raised in the Audit Report were operational and technical in nature. The Secretary also said that the EDB would take timely and proper follow-up measures with individual schools found to have irregularities. The Committee, however, pointed out that the Audit Report had revealed a lot of cases of non-compliance with the EDB's guiding principles or requirements, some of which were serious, and that the EDB had failed to ensure timely rectification of those problems.

14. The Committee cited as an example the problems relating to the service agreements between the EDB and the SSBs of DSS schools ("SSB Service Agreements"). According to paragraphs 3.2 to 3.4 of Chapter 1 of the Audit Report, from the 2000-2001 school year onwards, the SSB of a school joining the DSS is required to enter into an SSB Service Agreement with the EDB upon admission to the DSS. In addition, the SSBs of schools are required to enter into an SSB Service Agreement upon being allocated with school premises, or receiving capital subvention exceeding $21 million. Of the 72 DSS schools, 57 are required to enter into an SSB Service Agreement with the EDB.

15. Paragraph 3.5 of Chapter 1 reported that up to 30 June 2010, five (9%) of the 57 schools still had not entered into an SSB Service Agreement with the EDB, and the signing of the agreement had been overdue for about 18 months to eight years. Paragraph 3.11 further revealed that of the 52 schools which had entered into the agreements, there were delays ranging from less than one year to exceeding seven years in respect of 26 (50%) schools.

16. Against the above background, the Committee queried whether the EDB:

- had not performed its monitoring role over DSS schools effectively to ensure that their governance, accountability and transparency were up to the required standard and public expectation; and

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1 Unless otherwise specified, all years mentioned hereinafter refer to school years which start on 1 September of a year and end on 31 August of the following year.
had not attached sufficient importance to the gravity of the problems in the administration of DSS school.

17. The Secretary for Education responded that:

- a lot of the problems identified by Audit had arisen due to historical reasons. When the DSS was first introduced, in order to encourage more schools to join the scheme, the Administration had adopted a more lenient and flexible approach by allowing some schools which had initially met the admission criteria to join the DSS first and then fulfill the relevant requirements gradually. At that time, it was thought that the schools would be able to complete the admission requirements within a short time. However, it turned out that things were not as easy as previously believed;

- regarding the signing of SSB Service Agreement, it was originally anticipated that the EDB would be able to settle the matter in one or two years’ time, but as it turned out, the matter had dragged on for eight years. This was mainly because the schools had a long history and had their own incorporation ordinances. The schools argued that some of the terms and conditions of the SSB Service Agreement were not consistent with the provisions in their incorporation ordinances and would infringe their rights;

- some schools also encountered legal problems with the requirement to acquire non-profit-making status and it took a long time to resolve the conflicts with them;

- to prevent the occurrence of similar situation, all schools joining the DSS from 2007 onwards must have met all the criteria before they were formally admitted; and

- the EDB attached importance to the monitoring of DSS schools and accepted the criticism and recommendations in the Audit Report. In fact, some of the problems mentioned in the report had been discovered by the EDB before the audit review. For example, it was the EDB which had found out that a school had purchased properties improperly and it had demanded the school to rectify the problem over the years. But the school repeatedly ignored the requests. The EDB had been
ineffective in following up the cases of non-compliance identified. The EDB was toothless towards non-compliant schools.

18. Given that the problem relating to the signing of SSB Service Agreements by the five schools had dragged on for a long time, the Committee enquired about the actions that the EDB had taken during the period to resolve the matter, and whether it had contemplated taking punitive measures, such as issuing advisory or warning letters, against the schools concerned.

19. The Secretary for Education and Mr Raymond WONG, Permanent Secretary for Education, responded that:

- of the five schools, currently only three schools, i.e. Schools C, D and E, had not yet entered into SSB Service Agreements with the EDB, while the other two had already done so;

- the EDB's discussion with the three schools about the terms and conditions of the SSB Service Agreements began after they had been admitted to the DSS. As they had disagreements with the EDB over some of the terms and conditions of the agreements due to their unique historical circumstances, the EDB endeavoured to find solutions that were acceptable to both parties. Progress had been made over the years. The schools were indeed very cooperative and had reached consensus with the EDB over many issues. It was therefore not appropriate to issue advisory or warning letters to the schools or take other punitive actions against them; and

- following the EDB's requirement that all schools joining the DSS from 2007-2008 must sign the SSB Service Agreements before they were admitted to the scheme, there would be no question of DSS schools negotiating the terms and conditions of the service agreements with the EDB after admission.

20. The Committee further asked:

- about the details of the terms and conditions which had been disagreed by Schools C, D and E and the main point of contention; and
- the actions that had been taken by the EDB to expedite the signing of the SSB Service Agreements, as well as the latest position of the matter.

21. In Annex L of his letter of 17 December 2010 (in Appendix 12), the Secretary for Education stated that:

- Schools C, D and E were aided schools with their own incorporation ordinances before joining the DSS. The three schools did not accept the terms in the draft SSB Service Agreement relating to the school governance structure. The draft agreement stipulated that the School Management Committee ("SMC") should comprise the principal, representatives from the SSB, parents and teachers, other community members or professionals and, where appropriate, alumni. The schools did not agree that they should modify their governance structure, which was already stipulated in their respective ordinances, following their admission to the DSS. They considered that they should be allowed to follow their proposed governance composition at the time of their application and approval for joining the DSS. Having regard to the unique circumstances, the EDB had, having sought the advice of the Department of Justice ("DoJ"), agreed to revise the draft agreement allowing them to be managed and operated under their original governing framework;

- two of the above three schools (i.e. Schools C and E) were also concerned about a clause in the SMC Service Agreement that they were required to transfer to the Government at the SMC's own cost and expense all assets and inventories purchased with government subsidies or funds generated by the school upon termination of the service agreement. They disagreed with the clause because owing to their long history, they had many assets and inventories acquired prior to their joining the DSS which, in their view, should not be transferred to the Government upon termination of the SMC Service Agreement. The EDB had been liaising with and reminding the schools to expedite the signing of the agreements by sending reminders and holding meetings. In September 2010, the EDB agreed to take into account their unique historical circumstances and intended to refine the related clause on the transfer of assets to the Government upon the termination of the SMC Service Agreement. Advice from the DoJ was being sought. Once

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2 From the 2000-2001 school year onwards, each school joining the DSS is required to sign both the SSB Service Agreement and the School Management Committee Service Agreement.
the relevant revision of the SMC Service Agreement was agreed by both parties, the SSB Service Agreements would be signed; and

- as for the remaining school (i.e. School D), its SSB agreed in August 2010 to sign the SSB Service Agreement subject to some minor amendments to a few clauses. Advice from the DoJ on the SSB's proposed revisions was being sought and the service agreement would be signed as soon as practicable.

22. Regarding the Secretary for Education's statement that the EDB was toothless towards non-compliant schools, the Committee referred to paragraph 1.18(c) and (d) of the Chapter 1 of the Audit Report which outlined a range of administrative and punitive measures that could be taken by the EDB against such schools, including issuing advisory or warning letters, appointing school managers to the SMC/Incorporated Management Committee ("IMC"), and withdrawing the subsidy payable to the school with a resultant loss of DSS status. The EDB might even terminate the SMC/IMC Service Agreement at any time before the expiry of the agreement.

23. To ascertain whether the EDB had made effective use of the existing administrative and punitive measures in dealing with non-compliant schools, the Committee asked whether the EDB had issued any advisory or warning letters to DSS schools in relation to the malpractices and irregularities highlighted in the Audit Report.

24. The Secretary for Education and Mrs Michelle WONG, Deputy Secretary for Education, responded that:

- the EDB had all along adopted a lenient and tolerant attitude towards non-compliant schools and allowed them more time for rectification of identified problems because it did not want to affect the schools' teaching and learning, particularly the interest of students;

- very often the EDB could bring about improvement through various means, such as giving verbal advice, and did not need to issue warning letters. When the EDB discovered problems through checking of the schools' audited accounts or through the EDB's audit inspections, it would issue management letters to the schools concerned to demand
The EDB would take into consideration different factors, such as the explanation provided by the schools, the gravity of the irregularities and the schools' willingness to rectify the mistakes, and exercise professional judgement in deciding the appropriate follow-up actions; and

- so far the EDB had issued warning letters in respect of two DSS schools mainly due to administrative malpractices of the schools. Regarding those malpractices and irregularities relating to the governance and administrative matters of DSS schools which were covered in Chapter 2 of the Audit Report, the EDB had issued a number of advisory letters.

25. In Annex D of his letter of 10 December 2010 (in Appendix 13), the Secretary for Education informed the Committee of the number of advisory letters that had been issued to DSS schools by the EDB in the past three years from 2007-2008 to 2009-2010 and the main content of the letters. Regarding the mechanism on the issuance of advisory and warning letters, the Secretary for Education explained that:

- on detecting any irregularities or non-compliances committed by schools through EDB's audit inspections or examination of the audited accounts submitted by schools annually, EDB would issue advisory letters to the schools concerned and demand rectification;

- advisory letters would also be issued to the schools which failed to follow other requirements of the EDB, such as those concerning the submission of audited accounts and signing of the SSB/SMC/IMC Service Agreements, etc; and

- for schools with serious management problems and which failed to rectify the non-compliance and irregularities despite repeated advice or reminders, a warning letter would be issued demanding the schools to rectify the non-compliance and irregularities. The warning letter would state clearly the relevant consequences as prescribed in the Education Ordinance (Cap. 279) (e.g. appointing school managers to the SMC by the EDB) in the event that the school failed to rectify the situation within the specified period.
Compliance with service agreement

Incorporation of school governing body

26. Paragraphs 3.16 and 3.17 of Chapter 1 of the Audit Report revealed that although under the SSB Service Agreement, a DSS school should form an SMC before it commenced operation, 18 DSS schools formed their SMCs only after they had commenced operation. The delays ranged from two days to about nine years, with an average of three years. Moreover, up to June 2010, three DSS schools, which commenced operation in 2004-2005 to 2008-2009, had not incorporated their school governing bodies. The Committee queried why the EDB had not enforced the requirements of the SSB Service Agreement.

27. The Secretary for Education said that experience showed that some new schools could not follow the required timeframe stipulated in the SSB Service Agreements to form their SMCs or incorporate their school governing bodies, etc. Hence, the EDB had allowed them a longer period of time, i.e. one year, to complete the relevant procedures to meet the requirements.

Tax exemption status of SMC/IMC

28. According to the SSB Service Agreement, the SSB should ensure that the SMC/IMC will acquire a tax exemption status under the Inland Revenue Ordinance (Cap. 112) ("IRO"). As stated in paragraph 3.19 of Chapter 1 of the Audit Report, up to 30 June 2010, the SMCs/IMCs of three DSS schools that commenced operation in 2004-2005 to 2008-2009 had not yet acquired the tax exemption status under the IRO. The Committee asked:

- why the SMCs/IMCs of the three schools had not yet acquired tax exemption status; and

- when the EDB became aware that the SMCs/IMCs had not acquired tax exemption status and the actions that had been taken to ensure that they would acquire the status without delay.
29. In Annex B of his letter of 8 December 2010 (in Appendix 14), the Secretary for Education explained the reasons for the long time taken by the SMCs/IMCs of the three schools to acquire tax exemption status. The updated position of the matter, as provided by the Director of Audit (in his letter of 27 January 2011 in Appendix 15), the Secretary for Education (in his letter of 28 January 2011 in Appendix 16), and the EDB at the end of January 2011, were also set out below:

First school

- the school turned into a DSS school in September 2008. The person who assisted in drafting the Memorandum and Articles of Association ("M&AA") of the SMC worked on a voluntary basis and thus spent a long time studying and revising the related documents. Also, the SMC had spent much time on discussing and amending the M&AA at its meetings. The EDB had all along maintained dialogue with the school, reiterating the requirement for the SMC to conclude the SMC Service Agreement by 31 August 2009;

- the EDB had also been communicating with the school with regard to its establishment of an incorporated SMC and acquisition of the tax exemption status. According to the information provided by the school on 9 August 2010, the SMC of the school had acquired the tax exemption status with retrospective effect from 7 June 2010. The SMC subsequently signed the SMC Service Agreement with the EDB on 10 September 2010;

Second school

- the school (a primary school) turned from an aided school to a DSS school on 1 September 2008. The EDB had all along maintained close contact with the school with regard to the establishment of an IMC, signing of the service agreement and application for the tax exemption status;

- regarding the SMC Service Agreement, the SSB requested that the alumni manager(s) of the (primary) school be nominated by the Alumni Association of the secondary section of the school, instead of by the Alumni Association of the (primary) school. The EDB and the SSB had quite a number of discussions on the issue, and hence the progress
of completing the drafting of the M&AA and acquiring tax exemption status by its SMC was delayed;

- the SSB finally accepted the EDB's suggestion that the alumni manager must be an alumnus of the school. The school completed further amendments to the M&AA of the SMC in November 2010, and filed an application to the Inland Revenue Department for tax exemption status of the SMC in early January 2011;

Third school

- the school commenced operation on 1 September 2004. Consensus could not be reached on the draft SSB Service Agreement since the SSB had reservation about the conditions related to the SMC therein. After a series of communication and negotiation, the SSB executed the SSB Service Agreement with the Government on 15 July 2009;

- in the course of the negotiation on the SSB Service Agreement, the EDB had maintained contact with the SSB for the signing of the SMC Service Agreement. The EDB had also urged it to complete the preparation of the M&AA for incorporation and application for tax exemption status; and

- after the conclusion of the SSB Service Agreement, the school indicated that it was drafting the M&AA and was committed to completing the task within 2009-2010. The EDB had liaised with the school many times and urged it to expedite. Finally, the SMC was incorporated under the Companies Ordinance (Cap. 32) on 9 November 2010. The school informed the EDB on 9 December 2010 that tax exemption status had been granted by the Inland Revenue Department with retrospective effect from 9 November 2010.

Director of Audit's access right to records and accounts

30. According to paragraph 3.32 of Chapter 1 of the Audit Report, the current standard SSB Service Agreement included a clause to provide the Director of Audit with the right of access to the records and accounts of the DSS schools. However, of the 52 SSB Service Agreements signed, only 34 included such a clause. The Committee asked why the EDB had not enforced the requirement in respect of the
other 18 schools and about the action that the EDB would take to address the situation.

31. The Permanent Secretary for Education replied that:

- the SSB Service Agreements of the 18 schools concerned were signed at an earlier date and did not contain the clause allowing the Director of Audit the access right to the schools' records and accounts; and

- the problem had already been rectified. In the EDB Circular No. 12/2010 issued in November 2010, the EDB had required all DSS schools to keep proper administrative and financial records and provide them for examination by the Director of Audit when required. The requirements in the circular were also applicable to the 18 schools.

32. As requested by the Committee, the Secretary for Education provided a copy of the EDB Circular No. 12/2010 in Annex C of his letter of 8 December 2010 (in Appendix 14).

Measures to enhance the monitoring and supervision of DSS schools

33. In view of the widespread compliance problems in DSS schools, the Committee asked about the measures that the EDB would take to enhance its monitoring and supervision of DSS schools.

34. The Secretary for Education informed the Committee, in Annex E of his letter of 10 December 2010 (in Appendix 13), that:

- the EDB had conducted briefing sessions for DSS schools in June 2010 with a view to enhancing the daily operation and management of the schools;

- the EDB recapitulated in the EDB Circular No. 12/2010 on "Use of Non-government Funds in Direct Subsidy Scheme Schools", issued on 5 November 2010, the prevailing rules and regulations as well as guidelines on the proper use of non-government funds for compliance or reference by DSS schools as appropriate;
- the EDB had strengthened the communication with the Hong Kong DSS Schools Council ("DSS Schools Council") and provided support for its working group on enhancement of internal control in DSS schools, which was newly established in August 2010;

- more extensive checking would be conducted through the audits of selected schools by the School Audit Section; and

- noting the observations and recommendations of the Public Accounts Committee and Audit, the EDB would step up efforts to improve the governance of DSS schools. To this end, the Secretary for Education had tasked the Permanent Secretary for Education to consider a review of the governance framework, internal control and enforcement mechanism and financial management of DSS schools. A Working Group would be set up in early January 2011 under the EDB with inputs from the DSS and academic sector, as well as from relevant professionals experienced in governance, financial management and related areas to take forward the review and address the issues raised by the Public Accounts Committee and Audit.

35. According to the information provided by the EDB at the end of January 2011, the Working Group had already been set up. Background briefing sessions would be organised for members in February 2011 to enhance their understanding of the origin and development of the DSS policy, the current regulatory regime, wide diversity in the background of DSS schools, and the observations made by Audit and during the public hearings of the Public Accounts Committee.

36. Noting that the EDB had issued a large number of circulars to DSS schools, the Committee asked how the EDB could ensure that the schools would comply with the guidelines/requirements therein.

37. The **Permanent Secretary for Education** replied that before issuing a new circular, the EDB would review and consolidate the existing ones. It would also consult the DSS Schools Council on the contents of the circulars. In fact, the EDB had maintained good communication with the DSS Schools Council through regular meetings. The EDB also expected the schools to fulfil their responsibility to comply with the requirements and guidelines set out in the circulars.
C. Service agreement with incorporated school governing body

38. Under the DSS, the SMC/IMC of a DSS school should enter into an SMC/IMC Service Agreement with the EDB within one year after the school has commenced operation. Paragraphs 4.4 and 4.5 of Chapter 1 of the Audit Report revealed that 53 DSS schools were required to enter into SMC/IMC Service Agreements by June 2010. However, as at 30 June 2010, 13 of them had not signed the agreements, including three which subsequently signed the agreements in July and August 2010.

39. According to the SMC Service Agreement, the composition of the SMC shall comprise the principal, representatives from the SSB, parents, teachers, other community members/professionals and, where appropriate, alumni. The Education Ordinance prescribes that an IMC should compose of SSB managers, the principal, teacher managers, parent managers, alumni managers and independent managers. Yet, paragraphs 4.12 and 4.13 of Chapter 1 of the Audit Report revealed that the composition of some IMCs and SMCs did not comply with the requirements stipulated in the Education Ordinance and the SMC Service Agreements respectively.

40. In view of the widespread compliance problems, the Committee doubted the effectiveness of the EDB's supervision of DSS schools to ensure that they would put in place a proper governance structure.

41. The Secretary for Education and the Permanent Secretary for Education responded that some of the problems were in fact discovered by the EDB and the schools had subsequently provided explanations for the non-compliance. For instance, for the two IMCs that did not have the principal, the principals of the schools were appointed on an acting basis pending completion of their Certification for Principalship. However, the EDB admitted that there was room for improvement in its supervision of DSS schools. On the other hand, the EDB considered that it was the schools' responsibility to ensure that the composition of their SMCs/IMCs was in compliance with the requirements of the SMC Service Agreements and the Education Ordinance.
D. School fee remission/scholarship schemes

School fee income set aside for fee remission/scholarship schemes

42. According to paragraph 3.2 of Chapter 2 of the Audit Report, DSS schools are required to administer a fee remission/scholarship scheme in order that students will not be deprived of the chance to study at DSS schools solely because of their inability to pay school fees. The Committee noted with concern the following audit findings:

- 22 DSS schools had not set aside the required amounts of school fee income for the purpose of their fee remission/scholarship schemes;

- contrary to the EDB’s requirement, two of the four DSS schools visited by Audit had not mentioned their fee remission/scholarship schemes in their prospectuses. The other two DSS schools had not provided full details of their schemes (e.g. the eligibility criteria and the maximum percentage of fee remission) in their prospectuses;

- only 47 (65%) DSS schools had mentioned on their websites that fee remission/scholarship schemes were available to students, and only 23 of these 47 schools had provided details of the schemes;

- the eligibility criteria of the fee remission schemes offered by two DSS schools were less favourable than the government financial assistance schemes to students; and

- in 14 DSS schools, the utilisation of their fee remission/scholarship schemes was 50% or less.

43. The Committee pointed out that the fee remission/scholarship schemes administered by DSS schools served the important function of ensuring that not only students from well-off families would have the choice of studying in DSS schools, but students from grass-roots families would also have a fair chance of being admitted. In the light of the above audit findings, the Committee questioned whether:

- the low utilisation rate of the fee remission/scholarship schemes in some schools was attributable to parents not being informed of the availability of the schemes;
- needy parents had been discouraged from applying for their children's admission to DSS schools due to lack of information on the schemes; and

- the EDB was aware of some schools' non-compliance with its requirements on the schemes, and how the EDB could ensure that DSS schools would not become "noble schools" which only served the rich.

44. The Secretary for Education responded that:

- the EDB's major concern in monitoring DSS schools was the quality of education provided by the schools. Although the EDB should monitor the schools' compliance with its requirements, this was not, and should not, be the focus of the EDB's supervision;

- the EDB did not perceive any serious problem with the fee remission/scholarship schemes administered by DSS schools. There were channels for needy DSS school students to apply for fee remission/scholarship. The utilisation rate of the schemes in different schools varied with individual schools' circumstances. For some schools, the utilisation rate was low because their students were rich and did not need financial assistance, while the utilisation rates for some other schools were high;

- it was not true that all DSS schools charged high school fees. Some schools charged very low fees. It was also a misconception that DSS schools were the best schools in Hong Kong and students who could not study in such schools could only attend inferior ones. In fact, a lot of good schools had not joined the DSS; and

- the fundamental principle of establishing the DSS was to inject diversity into Hong Kong's education system and increase parental choice. DSS schools provided parents with a viable alternative to government and aided schools. To meet their operational and developmental needs, DSS schools were allowed greater flexibility in various areas, including school management, resources deployment, staff appointment, curriculum design, student admission and fees collection, etc. so that they could cater for the diverse needs of their students in a more speedy and responsive manner.
45. The **Permanent Secretary for Education** supplemented that:

- the EDB considered the fee remission/scholarship schemes administered by DSS schools an important element of the DSS. The EDB had not taken the problem lightly and had strictly enforced the relevant requirements; and

- when the EDB discovered that a school had not set aside sufficient amount of school fee income for fee remission/scholarship scheme purpose, the EDB would follow up with the school and request it to make good the shortfall. When a DSS school's reserve for the fee remission/scholarship scheme accumulated to an amount that exceeded half of its annual school fee income, the EDB would require the school to submit a deployment plan on how the reserve could be more effectively deployed, such as reducing the school fee and subsidising students' expenses on books, stationery or extra-curricular activities. If the situation warranted, the EDB would also discuss with the school the feasibility of relaxing the eligibility criteria for the scheme.

46. The Committee queried whether the widespread non-compliance problems of DSS schools were attributable to systemic loopholes or human errors. According to the EDB's organisation chart provided in Annex C of the Secretary for Education's letter of 25 November 2010 (in **Appendix 17**), the responsibility for monitoring DSS schools were shouldered by different subject divisions of the EDB headed by the relevant Principal Assistant Secretaries. It appeared to the Committee that there was no dedicated high-level body in the EDB to oversee the administration of the DSS and the schools' compliance with the DSS requirements. To ascertain if this was the case, the Committee asked:

- whether there was a dedicated body in the EDB to take charge of the implementation of the DSS and if there was, who headed such body;

- how the EDB's subject divisions would deal with the malpractices and irregularities identified from the annual audited accounts submitted by DSS schools, and whether they would report serious cases, such as when a school committed the same malpractice in successive years, to higher level staff; and

- whether the problem of under-provision of some DSS schools' fee remission/scholarship schemes had been reported to high-level staff in
the EDB, including the Permanent Secretary for Education and the Secretary for Education.

47. The **Deputy Secretary for Education** responded that:

- the Task Force on DSS, set up in 2000, was responsible for overseeing the DSS. It met quarterly to review the policies and practices of the DSS, proposed criteria for DSS applications, and recommended DSS applications for approval. The Task Force was under her chairmanship, and its members included the representatives of relevant subject divisions of the EDB; and

- where necessary, the decisions made by the Task Force would be brought up to higher level staff such as the Permanent Secretary for Education, or other meetings of the EDB which were attended by more senior staff, for consideration, but those staff would not be invited to attend the Task Force's meetings.

48. The **Permanent Secretary for Education** said that:

- the annual audited accounts submitted by DSS schools each year would first be examined by the EDB's Finance Division, and the malpractices and irregularities identified would be referred to appropriate subject divisions for follow-up. The Finance Division would also report to him the overall results of its checking of the audited accounts every year, highlighting those matters which were considered more important. Such reports were not discussed by the Task Force on DSS, but at the directorate meetings of the EDB chaired by him. Staff of the Finance Division would make suggestions for improvement and take follow-up actions. Although the Secretary for Education was not a member of the directorate meeting, he would consult the Secretary when policy issues were involved; and

- as far as he could remember, the under-provision of fee remission/scholarship schemes was not considered a very serious problem in the past few years and had not been included in the Finance Division's reports to him. He was only aware of the matter after it had been raised by Audit.
49. Mrs Lily TSANG, Principal Assistant Secretary for Education (Finance), said that:

- in the course of examining the DSS schools' annual audited accounts each year, the Finance Division would check whether all schools had set aside in the year adequate provision for their fee remission/scholarship schemes, and hence the Finance Division would be able to identify schools which had not complied with the requirement. Such cases would be referred to the EDB's regional education offices ("REOs") for follow-up. If the problem still existed in the following year, the Finance Division would again inform the REOs for them to take action; and

- the EDB noted Audit's observations that the fee remission/scholarship schemes of five schools were not funded from school fee income, and 22 schools had not set aside the required amounts of school fee income for the purpose of their fee remission/scholarship schemes. In practice, the EDB allowed the schools to fund the schemes from sources other than school fees. Moreover, the EDB and Audit adopted different approaches to determining whether a school had set aside sufficient amount for the schemes. According to the EDB's assessment, less than 22 schools had under-provided for their fee remission/scholarship schemes.

50. Mr Steve LEE, Principal Assistant Secretary for Education (School Development), added that upon receipt of referrals from the Finance Division, the REO staff would issue letters to the schools requiring them to make good the shortfall. Many schools would comply with the EDB's advice and rectify the mistake. However, there was a school which was found to have set aside inadequate provision for fee remission/scholarship scheme purpose in several years. The EDB had followed up by issuing a number of advisory letters, and recently a warning letter had also been issued.

51. To ascertain the Secretary for Education's involvement in the EDB's monitoring and supervision of DSS schools, the Committee asked the Secretary for Education:

- whether he was aware of the schools' non-compliance with the EDB's requirements on the fee remission/scholarship schemes before the matter was revealed by Audit;
- whether the EDB staff would report to him serious cases of non-compliance and malpractices, such as a school's repeated disregard of the EDB's requests to set aside sufficient amount for its fee remission/scholarship scheme; and

- about the occasions on which he had been informed of the irregularities of DSS schools.

52. The Secretary for Education replied that:

- he did not have knowledge of the cases of non-compliance regarding DSS schools' fee remission/scholarship schemes as reported by Audit. The EDB staff would deal with different issues by different ways depending on their gravity and nature. For technical and operational issues, staff of the subject divisions could handle them without escalating to a higher level. But he would be involved when the situation warranted a review of the EDB's policy or system; and

- most of the DSS schools complied with the EDB's requirement and set aside sufficient amount for fee remission/scholarship scheme purpose. Some had even provided more money for the schemes than required. While some schools had under-provision, the interest of their students would not be affected as long as the amount reserved by the schools for fee remission/scholarship scheme purpose was sufficient to meet the need of all their students. This could be reflected by the low utilisation rate of some schools' fee remission/scholarship scheme.

53. Regarding the occasions on which he had been informed of the irregularities of DSS schools, the Secretary for Education informed the Committee at the public hearings and in his letter of 1 December 2010 (in Appendix 18) that the irregularities identified of DSS schools were normally dealt with at the appropriate level without bringing to him personally. However, he would be informed and would give steer in those cases with policy implications and public concern. According to the EDB's records available for the past three years, the Secretary for Education had been personally involved in the following two cases:

- the case in which an SSB subsequently gave up the operation of the Pegasus Philip Wong Kin School was brought to the Secretary's attention in May 2008. The SSB indicated its wish of giving up the
operation of the school. There were then several discussions held at the Senior Directorate Meetings of the EDB from May to November 2009 focusing on the related follow-up actions; and

- the other case that had been brought to the Secretary for Education's attention was the one concerning the Hong Kong Chinese Union ("HKCCCU") Logos Academy, which was covered in the Audit Report. From 10 November to 1 December 2010, the case had been covered, among others, in a total of six working meetings with the Secretary over the Audit Report. The Secretary was informed that a warning letter was issued to the school on 12 November 2010 and that the EDB was contemplating the appointment of members to the SMC of the school having regard to its irregularities and malpractices.

54. The Committee noted that the school which had repeatedly failed to set aside adequate provision for fee remission/scholarship scheme purpose in several years was the HKCCCU Logos Academy. As reported in paragraph 3.4 of Chapter 2 of the Audit Report, although the school had been reminded time and again by the EDB since September 2005 to set aside the required amount of school fee income for its fee remission/scholarship scheme, no action had been taken by the school up to June 2010. The Committee also noted that the underprovided amount of this school in 2008-2009 was as high as $3 million. Given that the EDB had the power to withdraw the subsidy payable to a school with a resultant loss of DSS status, the Committee asked:

- why the EDB had not taken more rigorous actions to demand the school's early rectification of the irregularity; and

- about the actions that had been taken by the EDB since September 2005 to ensure that the school would comply with its advice to make good the shortfall, and the school's response.

55. In Annex A of his letter of 11 December 2010 (in Appendix 19), the Secretary for Education stated that:

- the school was operated in a DSS through-train mode. Its primary and secondary sections started operation in September 2002 and September 2003 respectively;
through checking the school's 2002-2003 audited accounts in the 2004-2005 school year, the EDB started to find out that the school did not set aside the required amount of school fee income for its fee remission/scholarship scheme. The EDB advised the school for rectification on 8 September 2005. However, the EDB found the same malpractice through checking the school's audited accounts in the subsequent four years. Hence, the EDB wrote to the school a number of times in February 2007, October 2007, November 2008, September 2009 and August 2010 to request necessary rectification; and

the school finally replied in September 2010 saying that it had set aside the required amount of fee remission. Although the school had committed to setting aside the required amount of fee remission, it had not rectified other malpractices identified. Hence, the EDB issued a warning letter to the school on 12 November 2010. In response, the school gave a reply to the EDB dated 23 November 2010. The EDB would continue to liaise closely with the school to follow up the issues.

56. Referring to the remarks of the Principal Assistant Secretary for Education (Finance) that different approaches were adopted by the EDB and Audit for determining whether a school had provided sufficient amount for fee remission/scholarship scheme purpose, the Committee queried:

- why there was such difference and why the EDB had not amended its criteria concerned if it considered that schools should be given flexibility in funding their fee remission/scholarship schemes; and

- about the difference in the criteria adopted by the EDB and Audit.

57. In Annex A of his letter of 11 December 2010 (in Appendix 19), the Secretary for Education stated that:

- for the purpose of running a fee remission/scholarship scheme, DSS schools are required to set aside:

  (a) 10% of the school fee income; or
(b) 50% of the amount of school fee which exceeds two-thirds of the DSS subsidy rate, if the school fee is between the range of two-thirds, and two and one-third of the DSS subsidy rate, whichever is the higher; and

- in the course of examining the annual audited accounts of DSS schools each year, the EDB would check whether all schools had set aside in the year concerned a provision for fee remission/scholarship scheme not less than the minimum 10% of the school fee income. For those provisions above 10%, the EDB counted on DSS schools' external auditor to check if schools complied with the requirements. If there was any shortfall, the REOs would follow up with the schools concerned and request them to rectify and make good the shortfall. In fact, the EDB had recently conducted a detailed check on the internal records of the 10 schools which satisfied the criteria under item (b) above and were among the 22 schools as identified by Audit to have made inadequate provision for fee remission/scholarship scheme. Out of the 10 schools, only one had not complied with the requirement due to misinterpretation.

58. The Secretary for Education further explained in the same letter that:

- the EDB noted that in applying the criteria under item (b) in paragraph 57 above in its calculations, Audit had used the 2008-2009 "projected" DSS subsidy rate and the "snapshot of enrolment figures" as of 30 September 2008 as the basis, whereas the EDB's assessments were made with reference to the 2008-2009 "finalised" DSS subsidy rate and actual enrolment figures adopted by most schools;

- noting that different schools might have adopted different accounting practices having regard to their unique circumstances, the EDB adopted a practical approach to assessing whether the requirement of setting aside sufficient financial provision for the purpose of fee remission/scholarship scheme had been met;

- in so doing, the EDB bore in mind the objective of ensuring adequate provision for needy students. Hence, while ensuring compliance with the requirement, the EDB allowed some reasonable variation in respect of the account to which fee remission/scholarship scheme was charged.
Specifically, apart from direct deduction of the required provision from the school fee income, it would also allow schools to make alternative arrangements to set aside the required amount from other funding sources, including but not limited to accumulated reserve balance, bursaries as well as scholarship/fee remission expenses paid during the year from the Income and Expenditure Account. In addition, it also accepted schools using actual school fees paid by students (i.e. after fee remission) for setting aside sufficient amount as required under the criteria under item (a) or (b) in paragraph 57 above; and

- the EDB also allowed under-provision of an insignificant amount, say 0.01% (in one case the difference was only $10 and in another it was around $1,000 in 2008-2009).

59. Regarding the findings based on the EDB's and Audit's assessments, the Secretary for Education stated that:

- according to Audit's findings set out in Table 1 in paragraph 3.3(b) of Chapter 2 of the Audit Report, 22 DSS schools had under-provision for fee remission/scholarship scheme purpose in their 2008-2009 accounts in varying degrees ranging from $1 to above $1 million. Upon cross-checking with Audit's findings, the EDB found that 16 out of the said 22 DSS schools were considered to have made adequate provisions for fee remission/scholarship scheme purpose in their 2008-2009 accounts. This difference in assessment was all but one due to the reasons listed in paragraph 58 above;

- for the remaining six schools with under-provision of fee remission/scholarship scheme according to both the EDB's assessment and Audit's observation in its report, the EDB had already informed them and they had all agreed to top up funding in their 2009-2010 accounts to make good the shortfall. Of these six schools, three had not set aside the required amount for fee remission/scholarship scheme in 2006-2007, 2007-2008 and 2008-2009; and

- to avoid misunderstanding arising from different interpretations of the requirements on fee remission/scholarship scheme, the EDB undertook to refine the guidelines with a view to clarifying and standardising the practice.
60. In respect of the three schools which had not set aside the required amount for fee remission/scholarship scheme in 2006-2007, 2007-2008 and 2008-2009, the Secretary for Education provided, in Annex A of his letter of 17 December 2010 (in Appendix 12), the actual amounts set aside by the schools and the amounts of under-provision in each of the three years, as well as the latest compliance situation.

61. The Committee also noted the following information, which was provided by the Secretary for Education in Annex A-1 of his letter of 11 December 2010 (in Appendix 19), on the 22 schools mentioned in Table 1 in Chapter 2 of the Audit Report:

(a) the criteria for setting aside amount for fee remission/scholarship scheme purpose;

(b) the annual school fee income in 2008-2009;

(c) the actual amount of under-provision in 2008-2009 as per Audit's calculations;

(d) the actual amount of under-provision in 2008-2009 as per the EDB's calculations;

(e) the utilisation rate in 2008-2009 as per the EDB's calculations; and

(f) the reasons for the discrepancies between (c) and (d).

Handling of the draft Audit Report

62. Noting the discrepancies between the findings of Audit and the EDB, the Committee pointed out that the EDB's approach might not be unreasonable. The Committee, however, queried why the EDB had not informed Audit of its usual approach for assessing DSS schools' provision for fee remission/scholarship scheme or its analyses of the problem of under-provision. It appeared to the Committee that if the EDB had clarified the matter and informed Audit of the actual situation when responding to the draft Audit Report, the panic among members of the public which was caused by DSS schools' alleged widespread non-compliance of the requirements on fee remission/scholarship scheme, might have been avoided and the schools would not have been subject to undue pressure. The Committee asked whether the EDB had communicated with Audit over the matter.
63. The Director of Audit and Mr POON Sui-cheung, Assistant Director of Audit, responded that:

- Audit had not been informed of the EDB's approach for determining whether a school had met the requirements on fee remission/scholarship scheme. Audit's methodology was based on an EDB circular issued earlier. Audit considered that for budgeting purpose, it would be more appropriate to set aside the required amount based on the "projected" DSS subsidy rate and the enrolment figures at the beginning of a school year; and

- the draft Audit Report was sent to the EDB at the end of August 2010. A meeting was held with the EDB on 6 September 2010 to discuss the draft report. After modifying the draft report in the light of the discussion, the final draft report was sent to the EDB on 13 September 2010 for response by the end of September 2010. The EDB provided its comments to Audit on 12 October 2010.

64. The Permanent Secretary for Education, Deputy Secretary for Education and the Principal Assistant Secretary for Education (Finance) responded that:

- the EDB understood that Audit had assessed the matter based on its professional knowledge while the EDB had adopted a practical approach, and hence there was inconsistency in the findings. This was not a question of whether Audit and the EDB were right or wrong. The EDB's concern was to ensure that the amount of fee remission/scholarship set aside by the schools for needy students had not been affected;

- the EDB had communicated with Audit over its practice of allowing schools to charge fee remission/scholarship scheme to accounts other than that for school fee income. But there was no specific discussion on the use of "snapshot" figures in calculation because the EDB did not have detailed information at that time. After noting the Audit Report's query about the propriety of the EDB's practice, the EDB requested the schools concerned to provide detailed information. It was only after further checking the information that the EDB identified the reasons for discrepancy; and
the EDB was only given a short time for considering the draft Audit Report. As a large number of schools were covered and the draft Audit Report had to be kept confidential, it was impossible for the EDB to verify with individual schools the issues raised. As a matter of fact, the EDB had questions about some of the information contained in the draft Audit Report, and obtained a list of the relevant schools from Audit in September 2010 with a view to conducting analyses of the overall situation. But this was difficult because the issues were reported in different sections in the two chapters of the Audit Report, and time was short. In the end, the EDB focused on the feasibility of Audit's recommendations and the accuracy of Audit's description of the EDB's policies and measures, and provided response to Audit where necessary. Audit had made revisions to its report after considering the EDB's comments. When handling similar reports in future, the EDB would be more alert. However, the principle of confidentiality would still have to be observed.

Regarding the explanation that due to the shortage of time, the EDB could not verify the issues with individual schools, the Committee pointed out that the EDB could at least focus its efforts on the four schools visited by Audit and verify if the facts relevant to them were correct. The Committee doubted the propriety of the EDB's way of handling the draft Audit Report.

The Committee also asked, as a matter of principle, if the EDB contacted a school which was criticised in the draft Audit Report to verify the relevant facts, such as the composition of the IMC/SMC and the basis for calculating the provision for fee remission/scholarship scheme, whether this would be in breach of the requirement on confidentiality of the draft Audit Report.

The Director of Audit said that:

- he did not consider it a problem if the EDB verified the facts with the schools concerned. For instance, it was stated in paragraph 4.14(c) of Chapter 1 of the Audit Report that "for the 14 IMCs that did not have alumni manager, the history of the schools was relatively short and hence either their alumni associations had not been formed or their graduates were too young to serve as managers." This piece of
information was provided by the EDB to Audit after making enquiry with the schools concerned; and

- Audit's observations in respect of DSS schools, other than the four which it had visited, were derived from its examination of the EDB's records. Audit was not in a position to comment whether the EDB should verify the facts with individual schools.

68. The Secretary for Education responded that:

- it was unfortunate that the EDB had not set out in writing its basis for assessing whether a school had met the requirements on fee remission/scholarship scheme. He agreed that in future the EDB should provide clearer response to draft Audit Reports;

- the auditee in the current audit was the EDB, not individual schools. The aim of the audit review was to identify room for improvement in the EDB's monitoring of DSS schools, and the draft Audit Report commented that there were inadequacies in the EDB's monitoring. Under the circumstances, it would not be appropriate for the EDB to make enquiries with each school to ascertain if the inadequacies identified in the report really existed; and

- while only 22 schools were involved in Audit's observations on fee remission/scholarship scheme, a large number of other issues had also been raised in the Audit Report. As Audit had obtained information on the schools through scrutinising the relevant files and records kept by the EDB and integrating it with the school information gathered from other sources, the EDB was not sure whether Audit had a comprehensive understanding of the actual situation. Due to lack of time and information, it was impossible for the EDB to verify all the relevant facts with the schools and respond to Audit's observations in the draft Audit Report.
Publicity of fee remission/scholarship schemes

69. As revealed in paragraph 3.14 of Chapter 2 of the Audit Report, although under the DSS, schools were required to provide full details of the fee remission/scholarship schemes in their prospectuses, only two of the four schools visited by Audit had mentioned the schemes in their prospectuses. However, full details of the schemes (e.g. the eligibility criteria and the maximum percentage of fee remission) were not provided. Given that 50% of the schools visited by Audit did not comply with the EDB's requirement, the Committee queried whether the EDB had put in place any mechanism for checking the schools' compliance with its guidelines and requirements.

70. The Permanent Secretary for Education and Miss WU Po-ling, Principal Assistant Secretary for Education (School Administration and Support), said that the administration of a fee remission/scholarship scheme was an important condition for admission to the DSS. The EDB considered that it was the schools' responsibility to provide full details of the fee remission/scholarship schemes in their prospectuses and they had the ability to do so. The EDB would not require the schools to submit their prospectuses for its checking.

71. The Committee pointed out that it was very important for DSS schools to make public the full details of their fee remission/scholarship schemes so that parents who wished to choose such schools for their children could take the schemes into consideration when assessing their ability to pay the school fees. If such information was not provided to the public, some needy parents might be discouraged from applying for their children's admission to DSS schools. The Committee asked how the EDB would improve the situation and enhance the transparency of the fee remission/scholarship schemes run by DSS schools, so as to safeguard the interest of parents and students in need.

72. The Permanent Secretary for Education said at the public hearings and the Secretary for Education in Annex B of his letter of 17 December 2010 (in Appendix 20) that:

- in the EDB Circular No. 12/2010 issued on 5 November 2010, the EDB had set out more clearly the requirement for DSS schools as regards the provision of fee remission/scholarship schemes. The schools were required, among other things, to draw up clear and transparent criteria
for awarding needy students fee remission and sufficient financial assistance (e.g. the eligibility criteria and the maximum percentage of fee remission);

- it had all along been the EDB's requirement that DSS schools should provide full details of the fee remission/scholarship schemes in their prospectuses, which would be given out to any person upon request. The EDB would follow up with those schools which had not complied with such requirement. The EDB also agreed that it was desirable for schools to upload details of the schemes onto their websites, so as to facilitate parents in assessing the amount of fee remission that would be granted to them before applying for their children's admission to DSS schools. The EDB had requested schools to do so in the EDB Circular No. 12/2010; and

- in the Working Group set up to address the issues raised by the Committee and Audit, the EDB would further study possible measures to enhance the transparency (including ensuring that parents could have sufficient information on the fee remission/scholarship schemes and how schools might make effective use of any accumulated surplus of the schemes) and efficacy of the fee remission/scholarship schemes in DSS schools, in order to help ensure that students from low-income families would not be deprived of access to DSS schools due to inadequate means.

73. The Committee further asked whether the EDB had issued any guidelines on how a DSS school with excessive reserve for the purpose of fee remission/scholarship scheme should deploy the reserve and on the proper use of the reserve. The Secretary for Education replied in the same letter that:

- the EDB had set out the guidelines on the arrangements for DSS schools to handle reserve for the fee remission/scholarship schemes in the EDB Circular No. 12/2010; and

- the acceptable uses of the reserve included: extending the scholarships/fee assistance schemes by relaxing the awarding criteria; reducing the school fees; subsidising eligible students in their purchase of textbooks/reference books/stationery; and funding students' extra-curricular activities, including the expenses for their joining overseas educational visits and exchange study programmes, etc.
Eligibility criteria of fee remission/scholarship schemes

74. The Committee noted from paragraph 3.16 of Chapter 2 of the Audit Report that of the 23 DSS schools which had provided details of their fee remission schemes on the schools' websites, the eligibility criteria adopted by two of them were less favourable than the government financial assistance schemes to students.

75. The Committee also referred to the eligibility criteria of the fee remission scheme of Good Hope School ("GHS") for 2010-2011 (provided in Annex A-8 in the Secretary for Education's letter of 11 December 2010 in Appendix 19). The Committee noted that in assessing the eligibility of students, the school adopted a point system under which points would be awarded on two aspects, i.e. family income and dependants. It was stated in the relevant Guidelines that "Dependents in receipt of Comprehensive Social Security Assistance ('CSSA') (excluding Old Age Allowance and Disability Allowance) are not eligible for any point score". The Committee further noted that apart from granting scholarships to students in need of financial assistance, GHS also set aside a number of scholarships to students who had outstanding performance in different aspects.

76. Against the above background, the Committee queried whether:

- GHS had discriminated against students from families in receipt of CSSA ("CSSA students") in administering its fee remission scheme; and
- the EDB had issued any guidelines to schools requiring them to set aside a larger proportion of their scholarships to assist students in need of financial assistance, instead of rewarding outstanding students.

77. The Permanent Secretary for Education and the Principal Assistant Secretary for Education (School Administration and Support) replied that:

- under the DSS, the eligibility criteria of the fee remission/scholarship schemes offered by DSS schools should not be less favourable than the government financial assistance schemes to students. As the fee remission reckoner adopted by GHS in assessing the eligibility of its students was very different from the basis of assessment for government schemes, it was difficult to make a direct comparison of the two. The EDB considered it very important that the fee remission scheme
adopted by a DSS school should be clear and comprehensible. Hence, the EDB would discuss with GHS to see how it could improve and simplify its scheme so that parents would easily understand the scheme and the eligibility criteria; and

- as long as the schools fulfilled the EDB's requirements on the minimum amount of school fee income to be set aside for fee remission/scholarship scheme purpose and their eligibility criteria were not less favourable than government schemes, the EDB allowed the schools great flexibility in designing their fee remission/scholarship schemes having regard to the schools' history and the background of their students.

78. In response to the Committee's further questions about the fee remission scheme administered by GHS, the Secretary for Education informed the Committee in Annex G of his letter of 17 December 2010 (in Appendix 20) that:

- GHS explained that under the current system, students receiving CSSA payments that already included school fees would not be eligible for receiving school fee remission. However, if the CSSA payments did not cover school fees, the students could always apply for fee remission administered by the school and fee remission would always be granted. The school also clarified that the reference to CSSA recipients in the Guidelines for applying for school fee remission was included to avoid a situation where students would receive double subsidies from the CSSA and the school fee remission scheme. GHS indicated that it would revise the Guidelines as soon as possible to make the eligibility criteria clearer;

- two CSSA students from Secondary 2 and Secondary 4 respectively had been granted full fee remission in 2010-2011 school year; and

- GHS advised that it had never turned down the application for fee remission from CSSA students. Also, it had not provided assistance to students in applying for school fee remission from the Social Welfare Department ("SWD") as the school was always ready to grant full fee remission to CSSA students if schools fees were not covered under their CSSA payments.
79. To ascertain whether CSSA students were discriminated by DSS schools, the Committee asked about the schools' policy towards the admission of and granting of fee remission to CSSA students. According to the information provided by the Secretary for Education in Annex E of the same letter and by the EDB at the end of January 2011:

- GHS adopted the same admission policy in respect of CSSA students and non-CSSA students. The school would not require applicants to state if they were CSSA recipients. All students were eligible for its fee remission/scholarship scheme; and

- in the remaining 71 DSS schools, all CSSA students were eligible for the schools' fee remission/scholarship schemes. Besides, all the schools adopted the same admission policy in respect of CSSA students and non-CSSA students.

80. Regarding the government policy towards remission of school fees in respect of CSSA students in DSS schools, the Secretary for Education advised in Annex F of the same letter that, according to the information provided by the SWD:

- the CSSA Scheme was a safety net of last resort for those who could not support themselves financially to meet their basic needs;

- under the existing CSSA policy, a student under the age of 22 and receiving education up to secondary level in a grammar school, vocational or technical training school could be assisted with a special grant to cover the school fees and other educational expenses. As free education was provided by the Government for students receiving primary and secondary education in government or aided schools, normally, no special grant for school fees would be given under the CSSA Scheme to students who choose to attend DSS schools; and

- where the students had been attending DSS schools before resorting to CSSA, the SWD would give them sufficient time to make suitable arrangements. Normally, they would be given a special grant for school fees up to the current school year, and in the interim, they could apply for fee remission from school or apply to change to a government or aided school. A special grant for school fees could be given to students attending Primary 5 and 6 to complete the Primary course; and also to those attending Secondary 5 and 6 to complete the Secondary course.
E. Revision of school fees

Approval for revision of school fees and consultation with parents

81. According to paragraphs 4.4 to 4.6 of Chapter 2 of the Audit Report, in 2009-2010, a DSS school intending to apply for school fee increase was required to obtain consent from the majority of the parents if: (a) it applied for a fee increase exceeding 7%; or (b) its accumulated operating reserve exceeded its annual operating expenses. Audit's examination of the records of the 18 approved school fee increase applications for 2009-2010 revealed that, in one of the six applications that required consent from the majority of the parents, supporting documents were not provided to the EDB. In the remaining five applications, relevant financial information of the schools was not provided to the parents.

82. The Committee asked whether the EDB had imposed any requirements on the type of financial information (e.g. the schools' financial status) that should be provided by DSS schools when they consulted parents on the proposals to apply for school fee increase.

83. The Permanent Secretary for Education and the Principal Assistant Secretary for Education (School Development) replied that:

- the EDB required schools applying for fee increase to obtain consent from the majority of the parents, and the school supervisors would sign off the application documents declaring that this had been done. However, currently the schools were not required to furnish the supporting documents to the EDB to prove that they had obtained the required consent; and

- while the EDB agreed that schools should provide sufficient information to parents during the consultation process for school fee increase, it had not specified the type of financial information that should be provided. The EDB would further consider the type of financial information that should be provided by schools during their consultation with parents.
84. The Committee noted from paragraph 4.3 of Chapter 2 of the Audit Report that for 2008-2009 and 2009-2010, the EDB approved 30 and 18 applications respectively for school fee increases. For these two years, the approved school fee increases ranged from $500 to $17,500 and from $100 to $12,000 respectively. In response to the Committee's enquiry, the Director of Audit advised that for the two schools with the highest levels of fee increases, the increases were from $4,500 to $22,000 and from $48,000 to $60,000 respectively. The Committee asked whether the EDB had taken into consideration parents' affordability in approving such high levels of school fee increases.

85. The Secretary for Education and the Permanent Secretary for Education said that:

- in approving an application for school fee increase, the EDB would take into account the circumstances of the school concerned. For example, a school might change to small-class teaching and need to employ more teachers, or might need to expand the school premises; and

- the EDB would also require the school to seek the consent of the majority of parents if it applied for a fee increase exceeding 7%, which meant that parents' affordability would be taken into consideration in the proposed fee increase. The EDB would also assess if the school had properly addressed the concerns raised by the parents.

86. As requested by the Committee, the Secretary for Education provided a copy of the letters issued by the two schools with the highest levels of fee increases to obtain consent from parents for increasing the school fees (in Annex B of the Secretary's letter of 11 December 2010 in Appendix 19). The Committee noted that in Document 2 issued by the school with an increase from $48,000 to $60,000, it was stated that "Our financial projections indicate that the School will be operating at a deficit from 2009/10 onwards if the school fees are maintained at the current level." The Committee asked whether the financial projections had been provided to the parents, and whether the two schools had consulted parents by holding parents' meetings.
87. The Permanent Secretary for Education and the Principal Assistant Secretary for Education (School Development) replied that:

- the EDB did not have records showing if the school had provided information about the operating deficit to parents because currently the EDB did not require the school to provide the EDB with such record. The EDB would request DSS schools to improve the transparency of their financial status when consulting parents on proposed school fee increases in future; and

- both of the two schools had discussed the fee increase proposals at the meetings of their parent-teacher associations, but they had not held meetings to consult all parents of the schools.

88. On the reasons for allowing the school to increase its fees from $48,000 to $60,000 from 2009-2010, the Principal Assistant Secretary for Education (School Development) explained that the EDB had considered the following factors in deciding to approve the fee increase:

- the school had not increased its fees in the past seven years since its conversion to a DSS school;

- the school had recently moved to a new campus, which was four times bigger than the old one, and hence there would be a significant increase in the maintenance cost; and

- if the school fees were not adjusted, the school's operating reserves would not be sufficient to meet at least two months' operating expenses of the school, which was a requirement of the EDB.

89. In order to understand the EDB's work in assessing DSS schools' applications for revision of school fees, the Committee enquired about:

- the criteria for approving or rejecting DSS schools' applications for increasing school fees; and

- the mechanism in place to ensure that the financial projections made by DSS schools in their fee increase applications were fair and reasonable.
90. The Principal Assistant Secretary for Education (School Development) said at the public hearings and the Secretary for Education stated in Annex B of his letter of 11 December 2010 (in Appendix 19) that:

- apart from parents' consent, the EDB would also take into account other factors when considering schools' applications for increasing school fees. The major considerations for assessing the fee revision applications were:

  (a) the financial situation of the school (e.g. the amount of operating reserve available and the budget for the coming year);

  (b) the reasons and justifications for the fee revision; and

  (c) the due process with regard to the consultation with parents;

- to ensure consistency in vetting applications for fee revision, a set of internal guidelines with criteria for vetting fee revision applications had been devised, details of which were summarised in the letter; and

- after the REO's initial vetting, all the fee applications were passed to the EDB's Finance Division for its professional comments. Based on the REO's initial vetting and the scrutiny of the schools' audited accounts, the Finance Division would spot out irregular items such as high bonus payments for follow-up by the REO.

91. As requested by the Committee, the Secretary for Education provided in the same letter the respective numbers of DSS schools with fee increase applications wholly/partially rejected and those for which approval was granted subject to a reduced level of increase, during the 2008-2009 to 2010-2011 school years. He also set out the main reasons for rejection, as follows:

- the school failed to provide the relevant audited account for the EDB to review its financial situation;

- the school possessed sufficient accumulated surplus and failed to provide strong justifications for fee increase; and

- the school failed to provide concrete evidence showing that parents had full understanding of the reasons for fee increase.
92. The Secretary for Education also set out the main reasons for requiring schools to reduce the level of fee increase, as follows:

- taking into account the school's accumulated surplus and justifications, reduction of fee increase was necessary; and

- the school was requested to take into consideration parent's affordability for the proposed increase of fees.

Financial projections in applications

93. The Committee noted that financial viability was one of the justifications that would be accepted by the EDB for approving an application for school fee increase. Paragraphs 4.10 and 4.11 of Chapter 2 of the Audit Report revealed that underestimation of accumulated operating reserves was found in 26 of the 30 approved school fee increase applications in 2008-2009. As reported in Table 4 in paragraph 4.10(a), in eight schools, the actual accumulated operating reserves turned out to have exceeded their projected reserves by more than 100%. The Committee asked about the reasons for the significant variances between the projected and actual operating reserves of the eight schools.

94. The Secretary for Education said that:

- the EDB required schools to maintain operating reserves sufficient to meet at least two months' operating expenses all the time, which was about $10 million for a secondary school. The EDB also considered that an operating reserve between two and 12 months of a school's operating expenses was reasonable; and

- as reported in Table 4, there was a school with a projected reserve of $0.3 million and its actual reserve turned out to be $1.8 million, meaning that there was a variance of $1.5 million (500%). Although it appeared that a variance of 500% was substantial, the actual sum was not huge and was less than two months' operating expenses of the school as required by the EDB. Given the difficulties in making accurate projections and that the amounts of difference, which were in the region of three to four months of the schools' operating expenses, were relatively not substantial, he considered the variances acceptable.
95. As requested by the Committee, the **Secretary for Education** provided an analysis of the reasons for the variances between the projected and actual operating reserves of the eight schools, in Annex B of his letter of 11 December 2010 (in *Appendix 19*). In gist, he stated that:

- for a school which applied for fee increase in 2008-2009, it had to submit, among other information, the following financial information around May 2008:
  
  (a) the audited accounts of 2006-2007;
  
  (b) the revised estimate of 2007-2008; and
  
  (c) the budget for 2008-2009 taking into account the impact of the proposed fee increase;

- the 2008-2009 projected reserve of a school would be made in May 2008, about 16 months before the actual operating reserve of 2008-2009 was concluded as at 31 August 2009 for most schools. In other words, there was a time gap of about 16 months between the projected and actual result in income and expenditure items. Difference between the projected income or expenditure and the actual income or expenditure would result in variance between the projected reserve and the actual reserve as highlighted by Audit; and

- when the school prepared the budget for 2008-2009 in May 2008, it had to make reference to the 2007-2008 projected DSS unit subsidy rates which were the latest data available at that juncture (the 2007-2008 and 2008-2009 finalised rates would only be available in October of 2008 and 2009 respectively). The 2008-2009 finalised rates were higher than the 2007-2008 projected rates by 6% to 16%, resulting in higher DSS subsidy income and hence a higher actual operating reserve than estimated.

96. The **Secretary for Education** also stated in the same letter that two of the eight schools had substantial under-spending in various areas, as follows:

- one school had incurred less expenditure than estimated by 22% for several reasons (including the delay of a school self-financed extension
construction project, lower-than-expected expenses on major repairs and teachers' salary, etc); and

- the other school had included a provision in the 2008-2009 budget for large-scale repair works/self-financed construction works. However, about $1.4 million was not used in that school year.

97. The Committee further referred to paragraph 4.12 of Chapter 2 of the Audit Report which revealed that a DSS school, in its fee increase application, grossly overestimated its operating deficit by adopting a policy to depreciate its new school building over just five years, resulting in a depreciation expense of 22% of the estimated cost of the new school building. Such practice was not in line with the normal practice of providing for the depreciation over a longer period of say, 50 years, and the consequent depreciation expenses of only 2% of the estimated cost of the new building. The Committee questioned whether the EDB was aware that the school had adopted such an uncommon depreciation policy when approving its fee increase application.

98. The Principal Assistant Secretary for Education (Finance) said that the problem was identified by the Finance Division and referred to the REO for follow-up.

99. The Principal Assistant Secretary for Education (School Development) said that the REO did not accept a depreciation rate of 22%. Following the REO staff's discussion with the SSB of the school, it had changed its depreciation policy in the following year and depreciated the school building over 40 years, thereby significantly reducing the depreciation expense. In assessing the school's fee increase application, the EDB had not considered the depreciation expenses. Approval was given for the school to increase the fees of its junior secondary classes only, having regard to the rise of teachers' salary and the expenses arising from the commissioning of the new school building.
Using operating reserves to finance capital works

100. The Committee noted from the Secretary for Education's reply that some schools had included provisions for large-scale repair works or construction works in their operating reserves accumulated from school fee income. It appeared to the Committee that if a school charged expenditure on major capital works, such as construction of a new school building, to its operating reserves, the school could have a strong justification for applying for substantial school fee increase, which would in turn create heavy financial burden on the parents. This was particularly so if the school intended to raise funds for the capital works over a short period of time, say five years. The Committee asked about the EDB's policy in this regard and how it safeguarded the interest of parents.

101. The Secretary for Education said that the EDB required DSS schools to submit development plans when their accumulated operating reserves exceeded an amount equivalent to a full year's operating expenses. The plans should set out how their accumulated operating reserves would be used, such as construction of new school premises. If a school applied for school fee increase to finance major capital works, it had to explain its plan to parents during the consultation process and obtain the parents' consent. The EDB would also ensure that the financial projections made by schools in the applications for school fee increases were properly justified and reasonable. For those schools with large amounts of accumulated operating reserves at the time of application for fee increases, the EDB would take into consideration the intended use of their reserves.

102. The Committee further asked, in respect of the eight schools mentioned in Table 4 in paragraph 4.10(a) of Chapter 2, the percentage of their operating reserves which had been used to fund the expenses of non-recurrent capital works.

103. The Secretary for Education replied in Annex I of his letter of 17 December 2010 (in Appendix 12) that based on the 2008-2009 audited accounts and information provided by the schools concerned, six out of the eight schools did not have non-recurrent capital works expenses charged to their income and expenditure accounts or accumulated operating reserves in the year. The remaining two schools had charged non-recurrent capital works expenses to the accounts which amounted to 2.4% and 15.1% of their operating reserves respectively.
104. In Annex H of his letter of 17 December 2010 (in Appendix 12), the Secretary for Education stated that:

- DSS schools were given flexibility in using their operating reserves of non-government funds to finance capital works and maintenance works of above-standard facilities, such as construction of additional floors and swimming pools, which would benefit the students. Apart from the operating reserves accumulated from fee incomes, some DSS schools raised funds separately for large-scale capital projects;

- to facilitate future monitoring of the operating reserves, the EDB would discuss with DSS schools the need for setting aside separate reserves with designated account for large-scale capital works and their related maintenance, as well as the rules of setting aside separate reserves. Moreover, the EDB would make it more explicit that DSS schools should consider the following factors when planning large-scale capital works:

  (a) the capital works should meet educational and school needs, and were in the interests of students; and

  (b) there should be due regard to parents' affordability and appropriate measures should be adopted to ease out the increase, which might include spreading out the expenses of the works over a longer period of time; and

- the EDB would also request that DSS schools, when planning to carry out large-scale capital works, should consult parents, and that during the process, they should provide parents with sufficient information, including the possible impact of the capital works on school fees and the schools' financial information.
F. Financial management

Audited accounts

105. According to paragraph 5.27 of Chapter 2 of the Audit Report, under the DSS, a school is required to ensure that its external auditor's report on the school's accounts will include a statement that the school has used the government subsidies in accordance with the rules promulgated by the EDB for the DSS. However, Audit noted that for the 2008-2009 audited accounts submitted by 67 DSS schools, the external auditors of 18 schools did not comply with the requirement on the auditor's reports.

106. The Committee asked whether the EDB:

- would check if the external auditor's reports submitted by the schools were in compliance with its requirements and what actions it would take in case of non-compliance;

- had provided any standard audit engagement letter and standard format of the auditor's report for DSS schools to follow so as to help ensure compliance; and

- would consider devising a self-assessment system for DSS schools to declare if they had complied with the EDB's various requirements and requesting the schools to document the justifications in case of non-compliance.

107. The Permanent Secretary for Education and the Principal Assistant Secretary for Education (Finance) responded at the public hearings, and the Secretary for Education in Annex J of his letter of 17 December 2010 (in Appendix 20) that:

- upon receipt of the external auditor's report on the school's accounts submitted by DSS schools, the EDB normally would not check its contents and hence was not aware of the non-compliance highlighted by Audit. At present, if the EDB spotted that the external auditors had not stated in their reports that the schools had used government subsidies in accordance with the rules promulgated by the EDB for the DSS schools, the EDB would not return the report to the school for submission of
another external auditor's report that complied with the bureau's requirement. Nevertheless, since the matter had been raised by Audit, the EDB agreed that it should step up the relevant requirement and request a school to submit another external auditor's report in similar situation;

- it was individual DSS schools that appointed their own auditors. The EDB had provided the schools with an outline of an audit engagement letter in the EDB Circular No. 17/2008 for their reference. As regards external auditors' report, the EDB had set out its requirements in the "Reference Notes for Auditors of Schools which received subsidies under the Direct Subsidy Scheme" sent to all DSS schools. The EDB would consider requiring all DSS schools to adopt the same audit engagement letter; and

- the EDB was considering devising a list of important issues and requiring schools to declare their compliance with those issues. The suggestion of putting in place a self-assessment mechanism for DSS schools was in line with the EDB's thinking and it would carefully study the idea.

Interest income from government funds

108. The Committee noted from paragraph 5.31 of Chapter 2 of the Audit Report that a school had understated its interest income from government funds for three years by about $448,000. Responding to the Committee's enquiries, Mr Tony NG, Senior Auditor, Audit, said that the school had explained that the mistake was caused by its misunderstanding of the accounting arrangements of DSS schools. The Principal Assistant Secretary for Education (Finance) said that after the irregularity was spotted by Audit, the EDB had taken follow-up action.

109. In Annex K of his letter of 17 December 2010 (in Appendix 20), the Secretary for Education added that the school confirmed on 14 December 2010 that the $447,726.35, being the interest income from government funds for the 2006-2007 to 2008-2009 school years, would be transferred from the non-government fund accounts back to the government fund accounts within December 2010.
Use of government funds

110. The Committee referred to paragraph 5.35 of the Chapter 2 of the Audit Report which revealed that some DSS schools had charged non-approved expenditure items to their government fund accounts for 2008-2009 and 2009-2010. Such expenditure items included: (a) travelling expenses of $8,400 incurred by three teachers in an exchange visit; (b) an expenditure of about $29,000 incurred for holding an annual dinner for staff; (c) an expenditure of $42,000 for renting a piece of land for a kennel to keep dogs to guard against illegal immigrants entering the school premises; and (d) a tax payment of $4.1 million and a donation payment of $5.1 million.

111. It appeared to the Committee that except for the tax and donation payments mentioned in (d) above, there were well-justified reasons for incurring the expenses mentioned in (a), (b) and (c) above, and the sums involved were reasonable. The Committee therefore asked why Audit and the EDB considered the expenditure items improper.

112. The Director of Audit and the Senior Auditor explained that the EDB had issued a circular informing DSS schools that only approved expenditure items of educational nature could be charged to the schools' government fund accounts. Although the amounts of the expenses mentioned in paragraph 5.35 of Chapter 2 of the Audit Report might not be unreasonable, they were not approved items specified in the circular and should be charged to the schools' non-government fund accounts.

113. The Permanent Secretary for Education and the Principal Assistant Secretary for Education (School Administration and Support) responded that:

- the EDB agreed with Audit that the above expenditure items should not be charged to the government fund accounts. According to the EDB's policy, government funds could only be used for educational purpose and for the benefits of students. Other expenditures, like entertainment expenses for staff, should be charged to the schools' non-government fund accounts;

- in deciding whether an expenditure item should be charged to the government fund accounts, the EDB would consider the schools'
circumstances and the nature of the relevant functions. For instance, if a school had established a proper procedure or mechanism for holding staff exchange programme or staff entertainment functions, the EDB might allow the school to charge the costs so incurred to its government fund accounts. In the present cases, the schools concerned did not have such procedure or mechanism; and

- when the EDB followed up with the DSS Schools Council on the recommendations of Audit and the Committee in future, it would discuss with the Council to see how improvements could be made to the EDB's guidelines.

Use of non-government funds

Purchase of properties

114. The Committee noted from paragraph 5.41 of Chapter 2 of the Audit Report that the HKCCCU Logos Academy had used non-government funds to purchase three properties during the period from 2006 to 2009. The properties were held under a purported trust arrangement, which was considered improper by the EDB. The Committee also noted that the EDB only discovered the problem through the school audit carried out in March 2009. The Committee asked:

- about the details of the malpractice;

- why the EDB had not been able to detect the purchase of properties by the HKCCCU Logos Academy from the school's financial statements submitted to the bureau before 2009, but could only identify the malpractice after carrying out the school audit in March 2009; and whether and how the purchase had been reported in the school's audited accounts in the relevant years; and

- about the follow-up actions taken by the EDB.

115. The Secretary for Education provided the information in Annex C of his letter of 11 December 2010 (in Appendix 19) and in Annex A of his letter of 30 December 2010 (in Appendix 21). In gist, he stated that:
the EDB scrutinised the audited accounts of schools every year and wrote to request schools to rectify the malpractices and irregularities identified. The purchase of a property in August 2006 was recorded by the HKCCCU Logos Academy as "Additions" under "School Premises" in the 2005-2006 audited accounts. No other details were provided in the audited accounts, including any indication that those additions were for the purchase of properties. As it was not uncommon for schools to have additions to school premises such as minor construction work and renovation work, the EDB did not categorically follow the matter up with the school;

the purchase of properties and trust arrangement were first identified by the EDB in the school audit inspection in March 2009, and since then the EDB had followed up with the school. The EDB issued a management letter to the school in February 2010 requesting, among other things, justification/rectification of the arrangement and other financial irregularities. In the absence of any response from the school, written reminders were issued in March and August 2010 respectively. As there was still no response, a warning letter was issued to the school in November 2010 requiring it to provide, among other irregularities detected, detailed information and concrete actions to be taken in respect of the trust arrangement, including proper documentation of and justifications for the purchase of the properties, as well as the approval of the SMC for the purchase and making of the trust arrangement. A reply dated 23 November 2010 was finally received from the school, in which it undertook to take rectification actions promptly; and

the EDB would request DSS schools to provide detailed disclosure on purchase of properties in their accounts from 2009-2010 onwards.

116. The Committee further asked about the latest progress made by the school in transferring the three properties back to the SMC. The Permanent Secretary for Education said at the public hearings and the Secretary for Education stated, in Annex B of his letter of 30 December 2010 (in Appendix 21) and his letter of 24 January 2011 (in Appendix 22), that:

- the school had appointed a solicitor firm to follow up the matter. According to the Supervisor of the HKCCCU Logos Academy, the Declaration of Trust of the three properties stated that the trustees would hold the properties for the IMC of the HKCCCU Logos Academy.
Since the School had no IMC and the school sponsor had no plan to establish one in the near future, legal advice was that it would be necessary to seek a vesting order from the court to vest the three properties to the SMC, i.e. the HKCCCU Logos Academy Management Committee Limited. The SMC had accepted the legal advice to apply to court for a vesting order. To this end, the solicitor retained by the school had in turn instructed a barrister to apply for the requisite vesting order; and

- the EDB would monitor the development closely with a view to ensuring that the vesting process was not unduly delayed.

Training programme for principals from the Mainland

117. The Committee noted from paragraph 5.42 of Chapter 2 of the Audit Report that the HKCCCU Logos Academy had organised a training programme for school principals from the Mainland. Up to May 2010, expenses of about $151,000 had been incurred for the programme and charged to the school's non-government funds. The Committee asked whether the EDB considered the arrangement appropriate.

118. The Permanent Secretary for Education said that it was the EDB's requirement that the expenses incurred by DSS schools should benefit the students of the schools. The EDB did not consider the arrangement appropriate as the training programme benefited Mainland school principals instead of the school's students directly. Hence, in the warning letter issued by the EDB, the school was also required to provide justifications for organising the training programme.

Investment of surplus funds

119. According to EDB Circular No. 2/2003, surplus funds which are not immediately required for use by schools (including DSS schools) may be placed in time deposits or savings accounts with banks licensed under the Banking Ordinance (Cap. 155). Any other forms of speculative investment (e.g. in local equities) are not recommended because of the risk of financial loss. Paragraph 5.47 of Chapter 2, however, revealed that contrary to the EDB's guidelines, one of the four schools visited by Audit, i.e. GHS, invested part of its surplus funds in financial instruments (e.g. local equities and investment funds) instead of placing them in time deposits or savings accounts.
120. The Committee asked about the details of the malpractice and the EDB's follow-up actions, as well as the EDB's guidelines in this regard. The Permanent Secretary for Education and the Principal Assistant Secretary for Education (Finance) replied that:

- the investment was discovered by the EDB during the school audit inspection in December 2007, before Audit's review. The EDB found that the school had obtained approval from its SMC before making the investment. The EDB had issued a management letter to the school reminding it that such speculative investment was not recommended. The school had also been informed that the liability for any financial loss arising from the investment would strictly fall on the school management and that it would not be allowed to charge any financial loss to any of the school's accounts;

- in response to the management letter, GHS had committed to placing its surplus funds in low-risk investment and disposing of the local equities and investment funds gradually;

- as reported by the press, there was discrepancy between the English and Chinese versions of EDB Circular No. 2/2003. In the English version, it was stated that speculative investment was "not recommended". But in the Chinese version, this was phrased as schools "cannot" make speculative investment. The EDB had recently revised the Chinese version so that it would be consistent with the English version. In fact, it had all along been the EDB's stance that speculative investment was "not recommended"; and

- in the EDB Circular No. 12/2010 issued in November 2010, the EDB had provided guidelines to DSS schools on devising a school-based mechanism on investment by using non-government funds. Schools were required, among other things, to consult their key stakeholders and seek prior approval of their SSBs as well as their SMC/IMC if they had compelling and well-justified reasons to invest by using non-government funds.
121. In response to the Committee's other enquiries, the Secretary for Education stated in Annex C of his letter of 30 December 2010 (in Appendix 21) that according to the information provided by GHS, the school was the registered owner of all the investments reported in the audited accounts, and all dividend income/additional units of funds generated from the investments were reported as interest income/profit on disposal of investment in the school's audited accounts.

Fund raising activities

122. The Committee referred to the fund raising activity undertaken by a school as mentioned in paragraph 5.56 of Chapter 2 of the Audit Report, and asked:

- why the EDB was not able to detect the irregularities until they were identified by Audit;

- how the funds raised had been disclosed in the school's audited accounts since the launching of the activity by the school in June 2008; and

- about the follow-up actions taken by the EDB.

123. In Annex D of his letter of 30 December 2010 (in Appendix 21), the Secretary for Education stated that:

- according to the 2007-2008 audited accounts of the school concerned, a receipt and an expenditure entry of the same amount of $508,408 with the description of “膠椅捐贈四川地震災區” were recorded in the notes to the accounts under Other Operating Expenses;

- as regards Audit's findings in paragraph 5.56(c) of Chapter 2 that there was a sum of about $160,000 from the fund raising activity recorded as retained surplus in the school's accounts, EDB had checked the 2007-2008 and 2008-2009 audited accounts again and found that the said sum of surplus had not been separately disclosed in the accounts;

- subsequently, the EDB noted from the 2008-2009 audited account that the above-mentioned fund raising activity had been completed but the EDB had not yet received the school's application for approval of the activity. The EDB therefore wrote to the school on 31 August 2010 requesting it to seek covering approval from the bureau. In its reply of
14 September 2010, the school informed the EDB that the activity was organised solely by the Parents Association ("PA") with parents as the target donors, and hence the school did not consider the EDB's approval necessary;

- in response to the EDB's further enquiries, the SMC of the school wrote to the EDB on 23 December 2010, confirming that the fund raising activity was organised by the PA and assisted by the school. As the EDB's prior approval was still required for any fund raising activity organised by other organisations in schools, the SMC had also committed to seeking covering approval from the EDB; and

- in order to avoid the misunderstanding that the school could use the surplus for other purposes, the school had further committed to transferring the surplus back to the PA. The PA had already made known to the parents the relevant financial statement of the fund raising activity on 22 November 2010.

124. The Permanent Secretary for Education added that it was the school's responsibility to follow the EDB's guidelines to prepare a separate financial statement for each fund raising activity, instead of reporting the activity in the school's other accounts. The school was also required to display such statement for a reasonable period of time for the information of the stakeholders, including teachers, parents and students.

G. Admission process

Assessment of track record

125. According to paragraphs 2.2 to 2.5 of Chapter 1 of the Audit Report, in processing applications from aided schools for admission to the DSS, the Task Force on DSS assesses an applicant school's track record of performance. Audit's examination of the records of 10 applications for admission to the DSS in 2008-2009 and 2009-2010, however, revealed that in one case, the score awarded by the Quality Assurance Division ("QAD") was based on an inspection carried out a decade ago; and in four other cases, the applicant schools had not been subject to any External School Review ("ESR") or quality assurance inspection, and therefore no score was awarded by the QAD.
126. The Committee asked why the EDB had not assessed the applicant schools' track records of performance based on up-to-date and relevant information, and in the absence of such information, what the basis of the EDB's decision was.

127. The Deputy Secretary for Education responded that:

- the Task Force on DSS schools would take into consideration a basket of factors when processing a school's application for admission to the DSS, and the school's performance in previous ESR was one of the factors. For those applicant schools which had not been subject to any previous ESR or quality assurance inspection, if there was sufficient information about the track record of the school to enable the Task Force to make a professional judgement, the Task Force might not find it necessary to carry out a school inspection; and

- the EDB agreed with Audit's recommendation and when assessing applicant schools' track record of performance in future, a new school inspection would be carried out by the QAD for assessment purpose where necessary.

128. In response to the Committee's enquiry, the Assistant Director of Audit, said that the application mentioned in paragraph 2.5(a) of Chapter 1 of the Audit Report had been rejected by the EDB. The four cases mentioned in paragraph 2.5(b) had been approved by the EDB after considering other relevant factors, which were documented.

Compliance with admission conditions

Non-profit-making status

129. According to paragraphs 2.9 to 2.12 of Chapter 1 of the Audit Report, starting from 1999-2000, profit-making schools are no longer eligible to join the DSS. Five profit-making schools (four admitted to the DSS in 1999-2000 and one in 2000-2001) were required to complete the procedures for acquiring a non-profit-making status within one year after admission. However, up to June 2010, their profit-making status remained unchanged. Noting the EDB's response in paragraph 2.12 that efforts were made during the period from January 2006 to
June 2010 to sort out the proper procedures to take forward the proposal, the Committee questioned:

- how the five schools had used their operating surpluses in the past five years; and

- the reasons for the long time taken since January 2006 to sort out the issues and procedures relating to the schools' change to a non-profit-making status.

130. In Annex A of his letter of 25 November 2010 (in Appendix 17), the Secretary for Education advised that although the SSBs of the five schools had not acquired a non-profit-making status legally, they had been operating on a non-profit-making basis. All the surpluses accumulated would be retained in the school for use relating to the benefit of students, such as major repair and upgrading of school facilities, purchase of furniture and equipment, and hiring additional teachers, etc. In fact, the schools seldom applied for fee increase, and their school fees, which were uniform among the five schools within the group, were comparatively low.

131. Regarding the reasons for taking a long period of time to sort out the procedural matters, the Deputy Secretary for Education said at the public hearings and the Secretary for Education stated in Annex A of his letter of 8 December 2010 (in Appendix 14) that:

- the five schools were ex-Bought Place Scheme ("BPS") schools operated by two profit-making companies limited respectively. The two school operators borrowed BPS loan from the Government at a total amount of HK$247 million for purchasing the five school premises in the 1990s, and in this connection five Loan Agreements and Legal Charges were signed and registered with the Lands Department. As the two school operators were registered under Company Limited by Shares, they set up five companies with non-profit-making status to serve as the SSBs of the schools and suggested to process the change of operation right from the existing school operators to the new SSBs by way of signing a "novation agreement";
due to the uniqueness and complexity of the case, which involved not only the transfer of school operation right, but also the transfer of property ownership (Legal Charge) and the liability under the Loan Agreement, the EDB had adopted a prudent approach. It had sought legal advice from the DoJ and the Legal Advisory and Conveyancing Office ("LACO") from time to time, so as to ensure that the interest of the Government was properly protected;

in early 2007, the EDB started a review of the standard clauses and articles of the M&AA for the SSBs under the Company Registration. At the same time, the EDB was preparing a Procedural Guide on Transfer of SSB of Aided Schools ("Procedural Guide") for internal reference. It was considered that in handling the five cases in question, the EDB should take the former into consideration and make reference to the latter to ensure consistency. Relevant Standard Clauses and Articles of M&AA were updated and made available for school use in 2007. The compilation of the Procedural Guide was completed in 2008;

in 2009, the EDB devised a workflow for processing the transfer of operation right between the old and new SSBs of the five schools with reference to the Procedural Guide. At the same time, the EDB requested the new SSBs to provide their existing M&AA for its checking. The EDB received the M&AA in January 2010. The new SSBs were requested in June 2010 to revise their M&AA in order to meet the latest requirements. The schools submitted the revised M&AA to the EDB for comment in September 2010. Subject to further amendments by the SSBs, they would submit the amended M&AA to the Companies Registry and the Inland Revenue Department for endorsement; and

this case, which involved complex legal issues, was unprecedented. As the DSS was a comparatively new system and some of the implementation details had to be fine tuned in the process to cater for different scenarios in practice, the EDB had taken much time to resolve the matter. The EDB admitted that the progress had not been satisfactory. Once the Deed of Novation and Assignment were agreed by the schools, the DoJ, the LACO and the EDB, the EDB would proceed with the task according to the relevant procedure.
Self-owned school premises

132. As reported in paragraphs 2.13 and 2.14 of Chapter 1 of the Audit Report, one of the conditions for admission to the DSS is that the schools must have their self-owned school premises. Schools operating in leased premises are required to secure their own premises within 10 years after admission, or any other period as specified by the EDB. Two schools conditionally admitted to the DSS in 1999-2000 were required to secure their own school premises by the end of 2004-2005. However, up to June 2010, they were still operating in leased premises.

133. In response to the Committee's question, the Secretary for Education replied in Annex A of his letter of 25 November 2010 (in Appendix 17) that according to the Rating and Valuation Department, the two schools, which were operating in leased premises, were paying rents at the market level.

H. Monitoring school performance

Issuance of school audit reports and follow-up audits

134. The Committee noted that the EDB carried out audits of DSS schools to ascertain whether their financial and accounting operations complied with the relevant requirements. As reported in paragraphs 5.9 and 5.12 of Chapter 1 of the Audit Report, Audit's examination of the records of 20 DSS school audits found that there were delays in issuing audit reports to 11 (55%) schools, ranging from 6 to 240 days. Moreover, no follow-up school audit had been carried out by the EDB even though glaring malpractices had been identified during school audits. In three of the four schools visited by Audit, some issues identified as glaring malpractices by the EDB had not yet been rectified.

135. The Committee queried whether the above audit findings reflected that the EDB's supervision of DSS schools had been lax.

136. The Secretary for Education admitted that there had been negligence on the part of the EDB in issuing audit reports to schools, and improvement would be made to ensure timely issuance of such reports. He also said that the glaring malpractices were committed by a few individual schools only and serious non-compliance was not a general phenomenon among all DSS schools.
137. In response to the Committee's questions, the Secretary for Education informed the Committee vide Annex C of his letter of 11 December 2010 (in Appendix 19) that the three schools which were found to have glaring malpractices, as set out in Table 4 in paragraph 5.12 of Chapter 1 of the Audit Report, were Tak Sun Secondary School, HKCCCU Logos Academy and GHS. In the same letter, he set out the reason why the glaring malpractices of the three schools had not been rectified after a long time, the actions that had been taken by the EDB and the present position of the malpractices.

School audits on DSS schools

138. The Committee further referred to paragraph 5.6 of Chapter 1 which reported that up to 30 June 2010, the EDB had only completed school audits on 28 (39%) of the 72 DSS schools. Given that school audits served the important function of ascertaining whether the schools' financial and accounting operations complied with the relevant requirements, the Committee was concerned about the small number of audits carried out on DSS schools. The Committee therefore enquired:

- about the manpower deployed for conducting audits on DSS schools and following up the issues identified in the audits, and whether the EDB considered the manpower sufficient; and

- whether there had been any changes in the manpower in the past five years from 2005 to 2010.

139. The Permanent Secretary for Education, the Principal Assistant Secretary for Education (School Administration and Support) and the Principal Assistant Secretary for Education (Finance) said that:

- the EDB understood that as DSS schools were relatively a new feature and were given a lot of flexibility in their financial management, there was a need to deploy more resources to conduct school audits on them. In fact, the EDB had allocated more resources for such work and had progressively conducted more audits on DSS schools, from two in 2006 to eight in 2009. At its own initiative, the EDB also planned to increase the number of school audits to 12 in 2010-2011; and
- the EDB would review if the current manpower was sufficient for school audits and the follow-up work. The EDB also agreed with Audit's recommendation that it should establish a systematic risk analysis mechanism for the selection of schools for audits.

140. Regarding the manpower deployed for carrying out audits on DSS schools, the Secretary for Education advised in Annex C of his letter of 11 December 2010 (in Appendix 19) that:

- the Finance Division and the REOs of the EDB took up a range of duties in respect of school education services. Currently, there were around 4,000 schools including aided, government, DSS, caput and private schools as well as kindergartens in Hong Kong. The 15 District School Development Sections under four REOs were responsible for providing support to the administration and development of schools. There was no designated post specifically created for school audits of DSS schools and the follow-up work required;

- the School Audit Section of the Finance Division would conduct audit of DSS schools. After conducting field audit inspections, the School Audit Section would continue to follow up with the schools in respect of any outstanding documents/information/clarifications which could not be provided by the schools on-site. Management letters would be issued to the schools concerned after seeking comments from the policy division. In addition, the Finance Division also deployed staff to examine the audited accounts and fee revision application of DSS schools; and

- schools were required to respond to the management letters and the REOs would take appropriate follow-up actions where necessary. Other than follow-up on audit inspections, with regard to DSS schools, the REOs were also responsible for handling major repairs exceeding $2 million, fee revision, complaints handling, renewal of service agreement, enhancement of school facilities and other school administrative work (e.g. crisis management, appointment of school head, and trading operation). For optimisation of resources, there was no post in the REOs designated solely for handling DSS schools.
141. On the question of manpower changes in the past five years, the Secretary for Education provided the following two tables in the same letter. He also stated that the manpower as indicated in the tables below referred to: (a) the number of School Audit Section's staff deployed for undertaking duties relating to audits of DSS schools and the related follow-up work; and (b) the apportionment of staff resources devoted to the overall administration and support of DSS schools and was worked out based on the relative workload of DSS schools as compared to other types of schools.

<table>
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<td>No. of School Audit Section's staff involved in audit inspections on DSS schools</td>
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I. Direct subsidy scheme subsidy

142. According to paragraphs 6.13 and 6.14 of Chapter 1 of the Audit Report, the then Education and Manpower Bureau did not inform the Finance Committee ("FC") of the LegCo that exception had been given to a school to ensure that it would continue to receive the old DSS subsidy rate after the two-tier system was introduced. The Committee asked why the bureau had not informed the FC.
143. The **Permanent Secretary for Education** said that both the then Education and Manpower Bureau and the then Finance Bureau were of the view that the FC's approval was not required for the change in the calculation of subsidy rate under the two-tier system because the two-tier system did not deviate from the funding principle approved by the FC. The FC's approval was therefore not sought for the introduction of the two-tier system. The special approval given to a school to continue to receive the DSS subsidy at the old rate when the two-tier system was introduced, was in fact not relevant to the justification for the new measure. Hence, the FC was not informed.

144. The Committee further asked whether the EDB agreed that transparency would have been enhanced if the FC had been informed of the special approval granted to the school.

145. The **Permanent Secretary for Education** said that he had no reason to query the judgement of the then Education and Manpower Bureau and the then Finance Bureau, which had been made after thorough consideration. However, as a general principle, he agreed that complete information should always be provided to the LegCo.

146. **Ms Alice LAU, Deputy Secretary for Financial Services and the Treasury (Treasury)**, said that the Financial Services and the Treasury Bureau also agreed with the general principle that complete and accurate information should always be provided to the FC.

J. International schools in the direct subsidy scheme

147. According to paragraph 7.2 of Chapter 1 of the Audit Report, when the DSS was introduced in 1991-1992, international schools were eligible to join the scheme. In October 1995, the Government decided to gradually phase out international schools from the DSS. Up to 2009-2010, one international school (School I — Li Po Chun United World College) remained in the DSS.

148. Paragraphs 7.9 and 7.10 revealed that when the Executive Council ("ExCo")'s decision was sought in October 1995 to phase out international schools from the DSS, there were five international DSS schools. However, in the
Memorandum submitted to the ExCo by the Administration, the then Education and Manpower Branch\(^3\) did not include School I in the list of international schools to be phased out. The Committee asked whether the EDB agreed that School I had been treated more favourably than the other international schools which were phased out, and about the reasons for allowing School I to remain in the DSS.

149. The **Secretary for Education** responded that:

- the decision to allow School I to remain in the DSS was made in 1999 by staff of the then Education and Manpower Bureau. As stated in the Audit Report, the decision had been reviewed several times by the relevant bureau and department over the years. The justifications recorded by the then Education Department in 2002 were that School I was offering the International Baccalaureate Diploma Programme which was recognised by universities both in Hong Kong and overseas for admission purpose, and about 40% of School I's enrolment were local students; and

- after reviewing the reasons recorded by his predecessors for allowing School I to remain in the DSS, he thought that probably his decision might be the same if he were to make the decision at that time.

150. The **Permanent Secretary for Education** said that the EDB agreed with Audit's recommendation that it should critically review the justifications for continuing to allow School I to remain in the DSS. In Annex E of his letter of 30 December 2010 (in *Appendix 21*), the **Secretary for Education** supplemented that the Working Group set up by the EDB would revisit the justifications based on which a decision was made for continuing to allow School I to remain in the DSS. It would take into account the then and current prevailing circumstances, including the operating mode, quality of education provided by School I and legal advice, etc.

151. In response to the Committee's question, the **Secretary for Education** stated in Annex D of his letter of 8 December 2010 (in *Appendix 14*) that the Secretary for Education and Manpower who was involved in dealing with the matter of allowing School I to remain in the DSS in 1999 was Mr WONG Wing-ping.

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\(^3\) In July 1997, the Education and Manpower Branch was renamed the Education and Manpower Bureau.
152. According to paragraphs 7.3 to 7.7 of Chapter 1, in June 1991, in seeking funding approval from the FC for building and equipping the new school premises for School I, the FC was informed that no recurrent subsidy would be provided to the School. Yet, the then Education and Manpower Branch did not inform the FC that School I would be given recurrent subsidy upon its admission to the DSS in 1994. The Committee also noted that there had been discussions between the then Education and Manpower Branch and the then Finance Branch on the need to inform the FC of the change. The Committee asked why the FC was not informed in the end.

153. The Deputy Secretary for Financial Services and the Treasury (Treasury) said that both the Education and Manpower Branch and the Finance Branch agreed that there was no need to seek the FC's approval for admitting School I to the DSS and for it to receive recurrent DSS subsidy. The Finance Branch only considered that it would be desirable to submit an information note to the FC to inform Members of the change. After discussion, the Education and Manpower Branch did not submit an information note to the FC.

K. Human resource management

154. The Committee noted from paragraphs 6.7 to 6.9 of Chapter 2 of the Audit Report that of the four DSS schools visited by Audit, three did not carry out open recruitment for some staff recruited in 2007-2008 to 2009-2010. The staff recruited included a senior post that was equivalent to the rank of vice-principal, a principal, and 36 other staff, etc. The Committee asked whether the EDB was aware of the situation before it was raised by Audit.

155. The Permanent Secretary for Education and the Principal Assistant Secretary for Education (School Development) responded that:

- there was an established procedure for the appointment of a school principal and the EDB's approval was also required. As the school concerned had not complied with the procedure, the EDB did not approve the appointment of the new principal. The EDB's approval was not required for the appointment of the other staff and hence it was not aware that open recruitment had not been conducted for their appointment. The appointment of staff was basically a school-based decision;
DSS schools were given great freedom in different areas, including human resource management. A school could appoint suitable teachers and give them appropriate salaries in the light of its development and curriculum. The EDB had issued a number of guidelines to advise DSS schools of the best practices in human resource management. The basic principles were that recruitment should be carried out in a fair and open manner, proper mechanisms should be put in place to ensure that the remuneration packages for individual staff were fair and justifiable, and performance management should be handled properly, etc. The EDB also required the schools to follow the guidelines issued by the Independent Commission Against Corruption ("ICAC") in devising their human resource systems;

notwithstanding the guidelines, the EDB would not specify the details of the mechanisms to be established for compliance by the schools. This was the responsibility of the SMCs/IMCs of the schools; and

the Working Group set up by the EDB would consider how to assist DSS schools in improving their human resource management practices.

L. General administration and other governance issues

According to paragraph 7.22 of Chapter 2 of the Audit Report, two of the four DSS schools visited by Audit had accepted donations from trading operators without any documented compelling reasons, and no disclosure was made in the school reports. The Committee asked whether the schools concerned had obtained approval from the school governing bodies for accepting donations and about the EDB’s requirements in this respect.

The Permanent Secretary for Education and the Principal Assistant Secretary for Education (Finance) said that:

- the schools concerned had obtained approval from their school governing bodies for accepting donations from the lunch box suppliers. However, it was not sufficient to have the approval. According to the EDB’s requirement, the schools should only consider accepting donations or advantages from the trading operators/suppliers in very exceptional circumstances with justification of compelling reasons as well as approval from the school governing body; and
- schools had to comply with some guiding principles in accepting donations or advantages, including that all donations to the school should be expended on the school and for educational purposes only, the school's reputation and students' benefits must not be affected, and in no circumstances might a school suggest to the suppliers and contractors that the school would provide an advantage in return for their donations, etc. Schools were also required to establish a mechanism to handle donations with reference to the ICAC's guidelines on corruption prevention and the EDB's guidelines.

158. The Committee noted from paragraph 7.18 of Chapter 2 that the profit of some of the items sold by three of the four schools visited by Audit had exceeded the 15% profit ceiling set by the EDB. The profit rates ranged from 20% to 150%. The Committee asked what the items were.

159. The Director of Audit replied that the item with the highest profit was school pins. The cost of a school pin was $4 and the selling price was $10, giving a profit rate of 150%.

M. Conclusions and recommendations

160. The Committee:

- notes that:

  (a) the Audit Commission ("Audit")'s value for money audit is on the Direct Subsidy Scheme ("DSS") administered by the Education Bureau ("EDB") and not on individual DSS schools per se;

  (b) the audit is confined to the EDB's administration and supervision of the DSS and the governance and administrative matters of DSS schools, which do not include the quality of education provided by DSS schools; and

  (c) in the early stage of the DSS, in order to encourage more schools to join the scheme, the Administration allowed some schools to join the DSS before they had been able to complete all the admission requirements, making it difficult for the EDB to deal with the
problems that surfaced subsequently in requiring the schools to comply with certain admission conditions;

- considers that although the objective of the DSS is to inject diversity to Hong Kong's school system through the growth of a strong subsidised private school sector so that parents would have more choices, and DSS schools are allowed to have greater flexibility in various areas, the EDB has to perform a monitoring role to ensure that the schools comply with its requirements, and that their governance, accountability and transparency are up to the required standard and public expectation;

- expresses grave dismay and finds it unacceptable that the Secretary for Education has not been made aware of the widespread compliance problems in DSS schools and there is no dedicated high-level body in the EDB to oversee the administration of the DSS and the schools' compliance with the DSS requirements;

- expresses disappointment that:

  (a) the EDB has failed to discharge its monitoring role over DSS schools effectively, as reflected by some serious cases of non-compliance with the EDB's guiding principles or requirements and its failure to take effective actions to ensure timely rectification of those problems. Details of the non-compliance are set out in the ensuing parts;

  (b) the EDB has failed to attach sufficient importance to the gravity of the problems in the administration of DSS schools in that they were simply dealt with as operational issues without adequate appreciation of the need to bring them to the attention of the Secretary for Education for policy review; and

  (c) before allowing some schools to join the DSS prior to completing all the admission requirements, the Administration had failed to consider the circumstances of individual schools which would make compliance with all the admission conditions difficult to achieve within a reasonable time;

- is surprised at and does not accept the Secretary for Education's statement that the EDB was toothless towards non-compliant DSS
schools, given the administrative and punitive measures that EDB may take against them;

- expresses dismay that some DSS schools have not:
  
  (a) set aside the required amounts of school fee income for the purpose of their fee remission/scholarship schemes; and

  (b) clearly set out the eligibility criteria or adequately publicised the schemes, which might have discouraged needy parents from applying for their children's admission to DSS schools due to lack of information;

- acknowledges that for the purpose of enhancing and stepping up efforts to improve the governance of DSS schools, the Secretary for Education has tasked the Permanent Secretary for Education to consider a review of the governance framework, internal control and enforcement mechanism and financial management of DSS schools. A Working Group has been set up under the EDB with inputs from DSS schools and the academic sector as well as from relevant professionals experienced in governance, financial management and related areas to take forward the review and address the issues raised by the Committee and the Director of Audit;

- strongly urges the Secretary for Education to:

  (a) enhance his supervision of the DSS and ensure that the EDB will perform its monitoring role over DSS schools more effectively;

  (b) establish a dedicated high-level body in the EDB to oversee the administration of the DSS as well as its control and monitoring of DSS schools. Its duties should include conducting regular reviews of the EDB's control and monitoring mechanism, so as to enhance the governance and administration of DSS schools;

  (c) put in place a system that requires the EDB staff to report, in appropriate cases, DSS schools' non-compliance and malpractices to sufficiently high-level staff, including the Permanent Secretary for Education and the Secretary for Education, for follow-up actions;
(d) require the Working Group to accord top priority to reviewing the EDB's control and monitoring mechanism instituted for DSS schools to ensure that it is sound and effective, so that non-compliance with the EDB's requirements and malpractices will be detected in a timely manner, rigorous actions will be taken to enforce compliance and rectification, and appropriate punitive measures commensurate with the gravity of the problems will be taken against the schools concerned. The Working Group should consult various stakeholders and the Panel on Education in the review; and

(e) apart from requiring DSS schools to improve their fee remission/scholarship schemes, conduct a comprehensive review to explore effective measures to ensure that students from grassroots families will have a fair chance of studying in DSS schools, such as providing sufficient financial subsidy to needy students for meeting the necessary expenses of studying in such schools other than school fees, and consult the Panel on Education in the review;

Service agreement with school sponsoring body ("SSB")

- notes that up to mid-December 2010, the SSBs of Schools C, D and E that were required to enter into SSB Service Agreements with the EDB have still not entered into such agreements because they consider the school governance structure required under the draft SSB Service Agreement not consistent with that in their incorporation ordinances, and Schools C and E are also concerned about the clause in the School Management Committee ("SMC") Service Agreement that requires the transfer of government-funded assets to the Government upon termination of the SMC Service Agreement;

- expresses concern that some DSS schools which have entered into SSB Service Agreements have not complied with the terms of the agreements, as follows:

(a) although a DSS school should form an SMC before it commences operation, 18 DSS schools formed their SMCs after commencing operation. The delays ranged from two days to about nine years, with an average of three years;
(b) up to early June 2010, three DSS schools, which commenced operation in 2004-2005 to 2008-2009, had not incorporated their school governing bodies, and the requirement to acquire tax exemption status under the Inland Revenue Ordinance (Cap. 112) had also not been complied with;

(c) in three of the four DSS schools visited by Audit, no service agreement between the SSBs and the SMCs/Incorporated Management Committees ("IMCs") was signed, contrary to the requirement of the SSB Service Agreements;

(d) up to June 2010, one of the 15 schools examined by Audit, which commenced operation under the DSS in 2003-2004, had not submitted its school development plan to the EDB as required under the SSB Service Agreement signed;

(e) school development plans submitted by some DSS schools did not contain all the required information (e.g. school budget, academic goals for students, and criteria for student admission);

(f) two DSS schools had not obtained the EDB's prior approval for the improvement works carried out at their school premises, as required by the SSB Service Agreements; and

(g) of the 52 SSB Service Agreements signed, only 34 included a clause to provide the Director of Audit with the right of access to the records and accounts of the DSS schools;

- expresses concern that no record was kept by the EDB on the signing of service agreements between the SSBs and the SMCs/IMCs. Hence, the EDB was not able to ascertain if this requirement has been complied with;

- acknowledges that:

(a) the Secretary for Education has agreed with the audit recommendations in paragraphs 3.13, 3.29 and 3.33 of Chapter 1 of the Director of Audit's Report ("Audit Report");
(b) the EDB has agreed to revise the draft SSB Service Agreement for Schools C, D and E to allow them to be managed and operated under their original governing framework. The EDB also intends to refine the clause in the SMC Service Agreement for Schools C and E on the transfer of assets to the Government upon the termination of the SMC Service Agreement;

(c) as at the end of November 2010, of the three school governing bodies that had not yet acquired tax exemption status, two had acquired the status with effect from 7 June 2010 and 9 November 2010 respectively, and the remaining one was in the process of acquiring the status; and

(d) in the EDB Circular No. 12/2010 issued in November 2010, the EDB has required all DSS schools to keep proper administrative and financial records and provide them for examination by the Director of Audit when required;

- urges the Secretary for Education to:

(a) resolve the conflicts with Schools C, D and E over the terms and conditions of the draft SSB Service Agreement and the SMC Service Agreement as soon as possible to ensure that they will duly enter into the SSB Service Agreements; and

(b) take effective measures to ensure early rectification of the non-compliance with the terms of the SSB Service Agreements identified by Audit;

Service agreement with incorporated school governing body

- expresses concern that:

(a) although 53 DSS schools were required to enter into SMC/IMC Service Agreements with the EDB by June 2010, as at 30 June 2010, 13 of them had not signed the agreements (with three signed in July and August 2010);

(b) the composition of some IMCs and SMCs do not comply with the requirements stipulated in the Education Ordinance (Cap. 279) and the SMC Service Agreements respectively; and
(c) as at 30 June 2010, eight DSS schools had not signed tenancy agreements with the EDB, although they had been outstanding for about four to 10 years (with one signed in July 2010);

- notes that for the 14 IMCs that do not have an alumni manager (referred to in paragraph 4.13(a)(v) of Chapter 1 of the Audit Report), the history of the schools is relatively short and hence either their alumni associations have not been formed or their graduates are too young to serve as managers;

- acknowledges that the Secretary for Education has agreed with the audit recommendations in paragraphs 4.7, 4.15 and 4.22 of Chapter 1 of the Audit Report;

- urges the Secretary for Education to accord a high priority to implementing the above audit recommendations, taking into consideration the special circumstances of the schools concerned;

School fee remission/scholarship schemes

- notes that DSS schools are required to adopt a fee remission/scholarship scheme in order that students will not be deprived of the chance to study at DSS schools solely because of their inability to pay school fees;

- finds it totally unacceptable that the EDB has failed to discharge its duty to monitor DSS schools' compliance with its requirements on the amounts of school fee income that should be set aside for the purpose of their fee remission/scholarship schemes, as well as those on the publicity, implementation and eligibility criteria of the schemes, and that the Secretary for Education and the Permanent Secretary for Education are not aware of the non-compliance, as set out below:

(a) contrary to the EDB's requirement, the fee remission/scholarship schemes of five DSS schools were not funded from school fee income. According to Audit's assessment, the amounts of school fees set aside by 22 DSS schools for the purpose of their fee remission/scholarship schemes were less than the levels required;

(b) even by applying the EDB's practical approach, six schools are still found to have under-provision under the fee remission/scholarship schemes. Of these six schools, three did not set aside the required
amounts for three consecutive years in 2006-2007, 2007-2008 and 2008-2009, and one of them has not heeded the EDB's repeated advice since September 2005 for rectification;

c) according to the EDB's practice, the above cases of non-compliance, which were discovered by the EDB's Finance Division through checking of the schools' audited accounts, were only referred to the EDB's regional education offices for follow-up without bringing up to attention of the Permanent Secretary for Education and the Secretary for Education;

d) contrary to the EDB's requirement, two of the four DSS schools visited by Audit have not mentioned their fee remission/scholarship schemes in their prospectuses. Two other DSS schools have not provided full details of their schemes (e.g. the eligibility criteria and the maximum percentage of fee remission) in their prospectuses. As such, some parents may be unaware of the schools' fee remission/scholarship schemes; and

e) only 23 DSS schools have provided details of their fee remission schemes on their school websites. The eligibility criteria adopted by two of these 23 DSS schools for their fee remission schemes are less favourable than the government financial assistance schemes to students;

- expresses dismay that in 14 DSS schools, the utilisation of their fee remission/scholarship schemes was 50% or less;

- expresses dismay that under the existing policy of the Comprehensive Social Security Assistance ("CSSA") Scheme, no special grant for school fees would normally be given under the CSSA Scheme to students who choose to attend DSS schools, and this may deprive students from families in receipt of CSSA ("CSSA students") of the chance to study at DSS schools;

- acknowledges that:

  (a) the Secretary for Education has agreed with the audit recommendations in paragraphs 3.9 and 3.17 of Chapter 2 of the Audit Report;
(b) to avoid misunderstanding arising from different interpretations of the requirements for fee remission/scholarship scheme, the EDB has undertaken to refine the guidelines with a view to clarifying and standardising the practice;

(c) the Working Group set up by the EDB will also study possible measures to enhance the transparency and efficacy of the fee remission/scholarship schemes in DSS schools in order to help ensure that students from low-income families will not be deprived of access to DSS schools due to inadequate means; and

(d) in all DSS schools, CSSA students are eligible for the schools' fee remission/scholarship schemes, and all the schools adopt the same admission policy in respect of CSSA students and non-CSSA students;

- strongly urges the Secretary for Education to:

  (a) step up the EDB's monitoring of DSS schools' compliance with its requirements on fee remission/scholarship schemes and to enhance public awareness of the schemes, so that parents can take them into account when considering whether to apply for their children's admission to DSS schools; and

  (b) take measures to ensure that DSS schools will not discriminate against CSSA students in administering their fee remission/scholarship schemes;

- strongly urges the Secretary for Labour and Welfare to revise the existing CSSA policy so that special grant for school fees will be given under the CSSA Scheme to students who choose to attend DSS schools;

Revision of school fees

- is surprised and expresses serious concern that:

  (a) in one of the six approved applications for school fee increase in 2009-2010, supporting documents were not provided by the school to show that it had obtained the required consent from the majority of the parents;
(b) of the 30 approved applications for fee increases in 2008-2009, 26 DSS schools had underestimated their projected accumulated operating reserves by the end of 2008-2009; and

(c) DSS schools are given flexibility in using their operating reserves of non-government funds to finance large-scale capital works and maintenance works of above-standard facilities, such as construction of additional floors and swimming pools. The charging of such expenditure to the schools' operating reserves may be a justification for applying for substantial school fee increase, which in turn may create additional financial burden on parents;

- acknowledges that:

  (a) the Secretary for Education has agreed with the audit recommendations in paragraphs 4.7 and 4.14 of Chapter 2 of the Audit Report; and

  (b) the EDB will discuss with DSS schools the need for setting aside separate reserves with designated account for large-scale capital works and their related maintenance, and set out the factors that the schools should consider when planning large-scale capital works, including parents' affordability;

- urges the Secretary for Education to:

  (a) require DSS schools to provide all parents with information on the schools' financial status when they consult parents on their proposal to apply for school fee increase;

  (b) take effective measures to ensure that the financial projections made by DSS schools in their applications for increasing school fees are fair and reasonable; and

(c) accord a high priority to exploring measures to ensure that the planning and undertaking of large-scale capital works by DSS schools will not cause undue impact on their level of school fee and parents' affordability;
Financial management

- expresses astonishment that, of the four DSS schools visited by Audit:

  (a) one school used non-government funds to purchase three properties. The properties were held under a purported trust arrangement which was considered improper by the EDB; and

  (b) contrary to the EDB's guidelines, another school invested part of its surplus funds in financial instruments (e.g. local equities and investment funds) instead of placing them in time deposits and savings accounts;

- expresses serious concern over the following cases of non-compliance with the EDB's rules on the financial management of DSS schools, and that the EDB has failed to detect the non-compliance and, in some cases, to take effective actions to ensure rectification of the non-compliance:

  (a) the EDB has not set a reserve ceiling for DSS schools, contrary to the requirement stipulated in Financial Circular No. 9/2004;

  (b) as at 31 August 2008, the accumulated operating reserves of 13 DSS schools exceeded the level equivalent to a full year's operating expenses. However, one of them has refused to submit a development plan, setting out how its accumulated operating reserve would be used for school development, to the EDB as required;

  (c) the 2007-2008 audited accounts of DSS schools indicated that six schools had not followed the EDB's requirement on maintaining accumulated operating reserves sufficient to meet at least two months' operating expenses. As at 31 August 2009, the accumulated operating reserves of two of the schools were still below the required level;

  (d) as at 30 September 2008, 162 non-local students were admitted by 17 DSS schools. Given that local and non-local students at these schools paid the same level of school fees, and the schools maintained no separate accounts for the non-local students, it is possible that their non-local students had been cross-subsidised by the DSS subsidy for the local students; and
(e) the external auditors of 18 DSS schools did not state in their reports on the schools' accounts that the schools had used government subsidies in accordance with the rules promulgated by the EDB for the DSS;

- acknowledges that:

(a) the Secretary for Education has agreed with the audit recommendations in paragraphs 5.8, 5.13, 5.17, 5.22, 5.28, 5.32, 5.36, 5.44, 5.48, 5.52 and 5.60 of Chapter 2 of the Audit Report;

(b) the Secretary for Financial Services and the Treasury has agreed with the audit recommendations in paragraphs 5.8, 5.17 and 5.22 of Chapter 2 of the Audit Report;

(c) the Supervisor of the school which had used non-government funds to purchase three properties has informed the EDB that the SMC had accepted the legal advice to apply to court for a vesting order to transfer the three properties to the SMC;

(d) the EDB will request DSS schools to make detailed disclosure on purchase of properties in their accounts from 2009-2010 onwards;

and

(e) in the EDB Circular No. 12/2010 issued in November 2010, the EDB has provided guidelines to DSS schools on devising a school-based mechanism on investment by using non-government funds;

- urges the Secretary for Education to:

(a) closely monitor the progress made by the school concerned in transferring the three properties to the SMC to ensure that the transfer would be completed without delay;

(b) put in place measures to enhance the internal control of DSS schools and take effective intervention measures to ensure timely rectification of identified cases of non-compliance;

(c) consider devising a self-assessment system for DSS schools to declare if they have complied with the various financial
management requirements of the EDB and request the schools to document the justifications for not complying with the requirements; and

(d) provide more training for staff of DSS schools to familiarise them with the EDB’s various requirements in financial management to help ensure compliance;

Admission process

- expresses serious concern that:

(a) in five admission cases, the assessment on the applicant schools' track records of performance was not based on up-to-date and relevant information;

(b) as at June 2010, the profit-making status of five DSS schools (four admitted to the DSS in 1999-2000 and one in 2000-2001) still remained unchanged, although they were required to complete the procedures in acquiring a non-profit-making status within one year after admission; and

(c) as at June 2010, two schools (conditionally admitted to the DSS in 1999-2000) that were required to secure their own school premises by the end of 2004-2005 were still operating in leased premises;

- acknowledges that:

(a) the Secretary for Education has agreed with the audit recommendations in paragraphs 2.6 and 2.15 of Chapter 1 of the Audit Report; and

(b) all schools joining the DSS from 2007 onwards are required to meet all the DSS admission conditions upon admission to the DSS;

- urges the Secretary for Education to:

(a) sort out immediately the remaining issues concerning the Deed of Novation and Assignment with the five DSS schools to facilitate their completion of the procedures for acquiring non-profit-making status; and
(b) strictly enforce the rule to require all schools joining the DSS to meet all the relevant requirements immediately upon their admission to the DSS;

Monitoring school performance

- expresses concern at the following:

(a) the paucity of audits carried out on DSS schools each year, which ranged from two to eight during 2005 to 2009, and of the School Audit Section's staff deployed for undertaking duties relating to audits of DSS schools and follow-up work, which ranged from 0.4 to 1.7 in the same period;

(b) the EDB's selection of schools for audit has not been based on a systematic risk analysis mechanism;

(c) there has been delay in issuing school audit reports to 11 schools, with two schools over 200 days;

(d) no follow-up school audit has been carried out even though glaring malpractices have been identified during school audits;

(e) only five (25%) of the 20 DSS schools examined by Audit have uploaded their school plans and reports to their websites as required by the EDB;

(f) some school reports uploaded by DSS schools to their websites do not provide the required information (such as financial summary, student performance and feedback on future planning); and

(g) two DSS schools have been excluded from the External School Review simply because they were either offering a non-local curriculum or only sixth form classes;

- acknowledges that:

(a) the Secretary for Education has agreed with the audit recommendations in paragraphs 5.13, 5.23 and 5.29 of Chapter 1 of the Audit Report; and
(b) the EDB plans to increase the number of school audits to 12 in 2010-2011;

- urges the Secretary for Education to deploy sufficient manpower resources to carry out more audits on DSS schools, so as to ensure that the schools use government and school funds properly;

**Direct Subsidy Scheme subsidy**

- expresses dissatisfaction and finds it unacceptable that:
  
  (a) the then Education and Manpower Bureau did not always provide the Legislative Council ("LegCo") with full and accurate information about the changes in measures introduced to the DSS;
  
  (b) the then Education and Manpower Bureau did not seek approval from the LegCo's Finance Committee ("FC") for the introduction of the two-tier system, although it had financial implication to the Government; and
  
  (c) the then Education and Manpower Bureau did not inform the FC that exception had been given to a school to ensure that it would continue to receive the old DSS subsidy rate after the two-tier system was introduced;

- acknowledges that the Secretary for Financial Services and the Treasury has agreed with the general principles in the audit recommendations in paragraph 6.15 of Chapter 1 of the Audit Report;

- urges the Secretary for Education to ensure that accurate and complete information is always provided to the LegCo;

**International schools in the Direct Subsidy Scheme**

- expresses dissatisfaction and finds it unacceptable that:
  
  (a) the then Education and Manpower Branch did not inform the FC that School I, which had agreed in 1991 to meet its full operating cost, would be given recurrent subsidy upon its admission to the DSS in 1994; and
(b) despite the decision of the Executive Council ("ExCo") that international schools should no longer be eligible for admission to the DSS and those already in the scheme should be phased out gradually, in the Memorandum submitted by the Administration to the ExCo, the then Education and Manpower Branch did not include School I in the list of international schools to be phased out and the records of the then Education Department could not explain why School I should not be phased out;

- acknowledges that the Working Group set up by the EDB will critically review the justifications for continuing to allow School I to remain in the DSS;

- urges the Secretary for Education to:

  (a) proactively keep the LegCo informed when there are major changes to the information previously provided to the LegCo;

  (b) ensure that complete information is always provided to the ExCo; and

  (c) having regard to the results of the Working Group's review on the justifications for continuing to allow School I to remain in the DSS, take appropriate measures to address the matter as necessary;

Human resource management

- expresses serious concern that, of the four DSS schools visited by Audit:

  (a) three schools did not carry out open recruitment for some staff recruited in 2007-2008 to 2009-2010;

  (b) two schools did not follow the EDB's requirements of reporting the results of their staff recruitments to their governing bodies in 2008-2009 and 2009-2010;

  (c) one school has not set up a mechanism for determining the remuneration packages for its non-teaching staff as required by the EDB;
(d) one school did not have a formal staff performance management system in place. In another school, performance appraisal was carried out only for some staff. In the third school, six staff appraisal reports were not available for examination by Audit. In the remaining school, the appraisers were not required to record the justifications of their assessments; and

(e) in one school, the decisions of the SMC on contract renewal of staff members were not based on performance appraisals;

- acknowledges that the Secretary for Education has agreed with the audit recommendations in paragraphs 6.12, 6.17, 6.21 and 6.25 of Chapter 2 of the Audit Report;

- urges the Secretary for Education to:

(a) provide more training for staff of DSS schools to familiarise them with the EDB's various requirements in human resource management to help strengthen the schools' internal control mechanism; and

(b) consider requiring DSS schools to declare if they have complied with the EDB's requirements in human resource management matters and document the justifications for not following the requirements;

General administration

- expresses serious concern that, of the four DSS schools visited by Audit:

(a) three schools have not sought prior approval from the EDB for some trading operations carried out by them; and

(b) two schools have accepted donations from trading operators without any documented compelling reasons, and made no disclosure in the school reports;

- expresses concern that, of the four DSS schools visited by Audit:

(a) one school has not laid down any formal procurement policy and procedure. In another school, the procurement procedures for
making procurement with non-government funds are less stringent than those of the EDB's guidelines for aided school. No record is available showing that the adoption of the less stringent procedures has been approved by the SMC and made known to the stakeholders of the school;

(b) in three schools, no record is available showing that the staff involved in purchasing and supplies duties has signed the required undertaking that they would declare to the school governing body any current or future connections they or their immediate families have/will have with the suppliers;

(c) the profit of some of the items sold by three schools has exceeded the 15% profit ceiling set by the EDB; and

(d) no tender/quotation exercise has been carried out by one school for the selection of the tuckshop operator, and by another school for the selection of operators/suppliers for operating the school tuckshop, the provision of school bus service and the supply of lunch boxes;

- acknowledges that the Secretary for Education has agreed with the audit recommendations in paragraphs 7.12 and 7.23 of Chapter 2 of the Audit Report;

- urges the Secretary for Education to expeditiously implement the above audit recommendations;

Other governance issues

- expresses concern that:

  (a) the composition of the school governing bodies of six DSS schools (incorporated under their respective incorporation ordinances) does not include representatives of parents and teachers as school managers, which is not in line with modern corporate governance practices;

  (b) there is no requirement to disclose to the public the particulars of school managers (name, tenure of office and category of each manager) of SSBs other than the IMCs; and
(c) of the four DSS schools visited by Audit:

   (i) the attendance rates of some school managers at the school governing body meetings held by two schools were low;

   (ii) a quorum was not present at some school governing body meetings held by two schools; and

   (iii) all the four schools did not comply fully with the requirements stipulated in the EDB’s guidelines and the Education Ordinance on managing conflict of interests;

- acknowledges that the Secretary for Education has agreed with the audit recommendations in paragraphs 2.8, 2.15, 2.23 and 2.28 of Chapter 2 of the Audit Report;

- urges the Secretary for Education to expeditiously implement the above audit recommendations; and

Follow-up actions

- wishes to be kept informed of:

   (a) the progress made by the Working Group in reviewing the governance framework, internal control and enforcement mechanism and financial management of DSS schools; and

   (b) the progress made in implementing the various recommendations made by the Committee and Audit.
A. Introduction

The Audit Commission ("Audit") conducted a review of the residential treatment and rehabilitation ("T&R") services for drug abusers with focus on the following areas:

- allocation of resources to the Society for the Aid and Rehabilitation of Drug Abusers ("SARDA");
- usage of treatment centres;
- treatment centres on government sites/premises; and
- licensing of treatment centres.

2. **Hon Paul CHAN Mo-po** declared that he had been a member of the Beat Drugs Fund and Chairman of Friends of Caritas. He was currently a Council Member of Caritas-Hong Kong. Some organisations of Caritas-Hong Kong provided services for drug abusers but he had not participated in the relevant services.

3. **Mr Ambrose LEE Siu-kwong, Secretary for Security,** and **Mr Matthew CHEUNG Kin-chung, Secretary for Labour and Welfare,** respectively made an opening statement at the public hearing on 7 December 2010. The full texts of their statements are in **Appendices 23 and 24** respectively.

B. Allocation of resources to SARDA

Service re-engineering of Centre 1

4. According to paragraphs 1.2 and 1.5 of the Director of Audit's Report ("Audit Report"), psychotropic substance abuse ("PSA") has replaced heroin as the number-one enemy in the youth drug scene in Hong Kong. In particular, there was a rising trend of young drug abusers aged under 21 taking psychotropic substance. In 2009-2010, the Government provided some $100 million to support the operation of subvented treatment centres.
5. The Committee referred to paragraphs 2.3 and 2.4 of the Audit Report which stated that despite the Committee's concern expressed in its Report No. 50 of 2008 about the under-utilisation of Centre 1 of SARDA as a result of the persistent shift from heroin abuse to PSA, Centre 1 had still not been successfully re-engineered. Table 1 in paragraph 2.6 also showed that the occupancy rate of Centre 1 had decreased from 64.1% in 2006-2007 to 63.5% in 2008-2009. Notwithstanding the above, the Government continued to grant a significant amount of public money to SARDA in 2009-2010. The Committee asked:

- out of the $100 million provided by the Government to support the operation of subvented treatment centres, what the proportion allocated to SARDA was; and

- why Centre 1 had not been successfully re-engineered after a lapse of two years.

6. In response, Mrs Josephine NG LEUNG Wai-fun, Deputy Director of Audit, said that in 2009-2010, government subvention of $81 million was provided to SARDA in which $65 million (include in the $100 million) was related to SARDA's treatment centre services.

7. The Secretary for Security and Ms Sally WONG Pik-pee, Commissioner for Narcotics, replied that:

- of the 316 places in Centre 1, about 200 of them had already been occupied by heroin abusers. The Government had been looking into measures to utilise the remaining 100 places;

- to assist SARDA, the Security Bureau ("SB") had commissioned the Efficiency Unit ("EU") to undertake a study with a key objective of identifying and considering various options for SARDA to re-prioritise its existing resources and expand its T&R programmes for psychotropic substance abusers; and

- upon the recommendation of the EU, SARDA had launched a programme namely Project SARDA at Centre 1 in August 2010. Apart from providing services for male heroin abusers, the Centre also provided services for young adult male of PSA.
8. **Dr Cindy LAI Kit-lim, Assistant Director of Health (Health Administration and Planning)**, supplemented that:

- although there was a rising trend of the demand for PSA treatment, there was still demand on heroin treatment. As such, there should not be a total shift of resources from heroin treatment to PSA treatment. Centre 1 had been trying to allocate more resources to serve psychotropic substance abusers. Because the skill mix required of the staff providing treatment services to the two types of abusers were different, training for staff in response to the shift of resources was required; and

- apart from staff training, time was also needed for Centre 1 to build up its clients. Although probation officers ("POs") tried to refer more probationers to the Centre, the final decision was made by the probationers themselves. Subject to the feedback of Project SARDA, the Department of Health ("DH") hoped that the progress of service re-engineering of Centre 1 could be faster.

9. The Committee further asked:

- whether the Administration would consider requiring SARDA to meet certain utilisation standard for Centre 1, such as achieving an occupancy rate of 80% or 90%, as a condition for granting subvention to SARDA; and

- whether the DH had entered into a funding and service agreement ("FSA") with SARDA as urged by the Committee in July 2008.

10. The **Commissioner for Narcotics** said at the public hearing, and the **Secretary for Security** stated in his letter of 22 December 2010 (in Appendix 25) that:

- the DH had requested SARDA to review the resources of Centre 1 with a view to redeploying surplus resources, if any, to serve more psychotropic substance abusers. Following the review which was expected to be concluded by end-January 2011, the Administration would consider requiring SARDA to meet certain utilisation standard for Centre 1 as a condition for granting subvention; and
in the long term, the Administration aimed to change the mode of subvention for SARDA from the current deficiency grant to lump sum grant. The Narcotics Division ("ND"), the DH and SARDA hoped that the work of entering into an FSA with SARDA could be completed before the end of 2010-2011.

11. The Assistant Director of Health (Health Administration and Planning) supplemented that in calculating the amount of subvention, the DH considered the number of patients admitted for residential treatment and the bed-days occupied. The DH was aware of the decreasing number of bed-days occupied in Centre 1. Although the DH had not requested SARDA to meet a performance target on the occupancy rate, it had been closely monitoring Centre 1's utilisation. The major difficulty faced by Centre 1 was that there were not enough heroin abusers to fill the beds.

12. Noting that the skill mix required of staff providing treatment services to the two types of abusers were different, the Committee asked:

- about the differences between providing treatment services to heroin abusers and psychotropic substance abusers in terms of staff's skills and facilities; and

- of the two kinds of drug abuse, which kind of treatment was comparatively simple.

13. The Assistant Director of Health (Health Administration and Planning) said that:

- treatment of opiate abuse, such as heroin abuse, was different from that of PSA. For treatment of opium abuse, a medical approach would normally be adopted to help relieve abusers from symptoms of detoxification. More servicing staff was required as 24-hour medical care services had to be provided to patients to respond to their reactions towards treatment, especially during night-time and at the early stage of treatment. Apart from obtaining a licence from the Social Welfare Department ("SWD"), treatment centres which adopted a medical approach were also required to meet the licensing requirements under the Hospitals, Nursing Homes and Maternity Homes Registration Ordinance (Cap. 165);
- there had not been a standardised method for PSA treatment as it depended on the types of drugs taken and the level of abuse. As psychotropic substance abusers required less extensive medical care services than that of heroin abusers, the requirement on medical staff might be less for PSA treatment. While residential treatment services might not necessarily be required by psychotropic substance abusers, provision of counselling services, and educational or pre-vocational training to meet their specific rehabilitation needs should not be neglected; and

- as the skill mix required of the servicing staff for treatment of heroin abuse and PSA were different, it would be hard to conclude which kind of treatment was easier.

14. In response to the Committee's enquiry, the Commissioner for Narcotics supplemented that according to the ND's observation, the service re-engineering of treatment centres, particularly the non-subvented ones, which adopted a gospel approach for treatment, might be faster, as programmes offered by them were generally more flexible and apt to respond to the changing drug scene or social needs. Currently, most of them admitted psychotropic substance abusers.

"Project Youth Care" and "Project SARDA" programmes

15. According to paragraphs 2.9 to 2.11 and 2.13(d) of the Audit Report, in December 2009, SARDA had submitted a framework proposal to the ND for a 3-year pilot programme named "Project Youth Care". At the same time, SARDA applied to the Hong Kong Jockey Club Charities Trust for funding support for the proposed pilot programme, which followed a multi-disciplinary and holistic service model to deliver drug preventive and rehabilitation programmes to youths aged 12 to 18. The Committee asked about:

- the relationship between the Project Youth Care programme and the Hong Kong Jockey Club Charities Trust; and

- the latest development of the Project Youth Care programme.
16. The Commissioner for Narcotics replied at the public hearing and the Secretary for Security stated in his letter of 17 January 2011 (in Appendix 26) that:

- the Administration had been working with SARDA earnestly to help the latter re-engineer its resources and facilities, as previously advised by Audit and the Committee. The proposed Project Youth Care programme sought to deliver, inter alia, residential services for male adolescents aged 12 to 18 through the facilities of Centre 1, after necessary upgrading and conversion;

- as the implementation of the pilot programme required a one-off funding, the Administration had to evaluate the effectiveness of the programme for consideration of granting subvention to it;

- the ND had since May 2010 provided detailed observations and comments to SARDA to help it substantiate its proposal, against its ongoing funding application to the Hong Kong Jockey Club. A number of exchanges and meetings were held with SARDA to render the Administration's advice and assistance. The SB and the ND emphasised the need for expediting the Project Youth Care proposal to better use the under-utilised facilities in Centre 1 to serve more psychotropic substance abusers, and for redeploying existing resources to this pilot project as early as possible;

- in November 2010, SARDA advised the ND that it would not further pursue the Project Youth Care proposal. Rather, it would shift and focus its efforts on "Project SARDA", an initiative that it had launched at Centre 1 in August 2010 to meet the changing drug scene. Project SARDA provided a residential programme of 26 to 52 weeks targeting at adult male psychotropic substance abusers aged between 21 and 35. Initially, Centre 1 had set aside 38 places for Project SARDA;

- the SB and the ND had looked carefully into the Project SARDA initiative and found that it enabled SARDA to:

  (a) make early and better use of existing resources and facilities at Centre 1 to service young adult male psychotropic substance abusers without the need for additional project funding or much conversion works;
(b) meet a service need brought by the changing drug scene. According to the Central Registry of Drug Abuse, the number of psychotropic substance abusers aged between 21 and 40 saw a notable increase of 86% from 2005 to 2009, which was much faster than those aged below 21 (51%). In 2009, the numbers of reported drug abusers of these two age groups were similar, i.e. over 3,000; and

(c) capitalise on the strength of Centre 1 in handling adult male drug abusers and enhance the vocational elements, to help young adult male psychotropic substance abusers reintegrate into society after completion of the new residential programme;

- the SB and the ND considered that Project SARDA, which started with 38 places (hence making up the overall occupancy of 66% at Centre 1 when these places were filled), was a proactive and prudent first step of SARDA in the right direction. With sustained efforts to provide more places for male psychotropic substance abusers over time, there was realistic scope for SARDA to bring the overall occupancy of Centre 1 to around 80%; and

- in this direction, SARDA had been working closely with different parties such as Probation Offices to promote Project SARDA to the target groups in need. As at 12 January 2011, 15 male psychotropic substance abusers had been admitted to the Project SARDA programme. SARDA had undertaken to strive for success and expand the programme by phases where appropriate. The ND and the DH would continue to work with SARDA to make optimal use of the resources and facilities at Centre 1.

C. Usage of treatment centres

Control over non-subvented treatment centres

17. The Committee noted that of the 40 voluntary treatment centres operated by 17 non-governmental organisations ("NGOs") that provided T&R services for drug abusers, 20 were subvented whereas 20 were non-subvented. The Committee asked about the reasons for including the 20 non-subvented centres in the audit review.
18. **Mr Benjamin TANG, Director of Audit**, and the **Deputy Director of Audit** replied that:

- all treatment centres, including the non-subvented ones, were required to obtain a licence from the Government to operate their centres. In addition, some problems identified by Audit concerned both subvented and non-subvented centres;

- of the 20 non-subvented centres, 10 of them were operated on government sites/premises and there was a need to review whether those sites/premises were used effectively; and

- if the non-subvented centres were not covered in the audit review, the Audit Report would be unable to show a full picture of the problems of the existing T&R services for drug abusers.

19. The Committee further asked:

- whether there were any treatment centres which were not subsidised by the Government in one way or another; and

- whether financial assistance provided under the Comprehensive Social Security Assistance ("CSSA") to drug abusers in treatment centres was a form of indirect subsidy and the number of such abusers.

20. **Mr Patrick NIP Tak-kuen, Director of Social Welfare**, replied at the public hearing and the **Secretary for Security** replied in his letter of 22 December 2010 that for non-subvented treatment centres, some of them were totally not receiving any form of government subsidy and were self-financed. Some were assisted by the Government in terms of land, nominal rents, rates relief, payment of CSSA to eligible clients, and grants for employment of teachers. As at end of November 2010, a total of 554 recipients of CSSA were residing in treatment centres.

21. Noting that the operation mode of non-subvented centres was relatively independent and the Government's control over them might be limited, the Committee asked how the Administration could ensure that there were sufficient T&R services provided for drug abusers, in consideration of the rising trend of young drug abusers taking psychotropic substances.
22. The Secretary for Security replied that:

- the Government had taken various actions in recent years to combat the escalating drug abuse problem (particularly among the youth), including the following:

  (a) in October 2007, a high-level inter-departmental Task Force on Youth Drug Abuse ("Task Force") chaired by the Secretary for Justice ("S for J") had put forward short-term, middle-term and long-term strategies in combating the drug abuse problem. In 2009, the implementation of those strategies was personally led by the Chief Executive;

  (b) the Government had also allocated additional resources for implementing a series of T&R measures in areas including education, publicity, combating the source of drugs as well as T&R services; and

  (c) with the funding approval of the Legislative Council for an injection of $3 billion into the Beat Drugs Fund, the Government would make better use of the investment return of the Fund to support treatment centres in obtaining licences. Funding would be provided to the applicants immediately once their applications for the Fund were approved; and

- the Government's efforts in the past 12 months had produced positive outcome. According to the statistics, the number of young drug abusers had decreased by 20%.

23. The Director of Social Welfare supplemented that:

- because of historical factors, many treatment centres were operated by NGOs which were non-subvented. However, all of them were subject to licensing control under the Drug Dependent Persons Treatment and Rehabilitation Centres (Licensing) Ordinance (Cap. 566) ("the Licensing Ordinance"); and

- the Government had allocated additional resources to provide an additional 101 subvented places in 2008. Apart from using some of the additional resources to convert non-subvented places to subvented places, there had been a net increase in the number of places by 37.
Overall capacity and uneven workloads among treatment centres

24. Although additional resources were allocated for implementing a series of T&R measures since 2008-2009, Figure 1 in paragraph 3.8 of the Audit Report showed that the overall capacity of treatment centres in 2010, as compared to that of 2003, had decreased. The Committee asked about the reasons for the decrease.

25. In his letter of 22 December 2010, the Secretary for Security explained that during the seven-year period from 2003 to 2010, there was a reduction in the licensed capacity of some treatment centres as a result of closure of nine treatment centres for various reasons, including service re-engineering of the NGOs concerned and reduction in the places as initiated by a few NGOs. During the same period, there was an increase in the licensed capacity as a result of expansion of six centres and setting up of one new centre. The overall capacity of 1,635 places in August 2010 was the net total number of places after off-setting the increase of 166 places by reduction of 310 places in the overall licensing capacity.

26. The Committee referred to paragraphs 3.13 and 3.14 of the Audit Report which stated that the workloads among treatment centres were uneven. There were treatment centres with high occupancy rates and long waiting time on one hand and treatment centres with significant spare capacities on the other hand. The Committee was concerned that information about the number of drug abusers on the waiting list and the number of vacant places available in each treatment centre were not made known to the POs of the SWD and drug abusers. The Committee asked whether there was any mechanism to inform POs of the workload statistics and occupancy rates of different centres.

27. The Secretary for Security and the Director of Social Welfare replied that:

- in deciding which treatment centre was suitable for a probationer, POs would consider various factors, which included occupancy rate of treatment centres, age and preference of the probationers, such as the preferred type of treatment programme and the length of treatment programme, etc. In the past, POs checked the centres' occupancy rate by phone;

- since 2010, up-to-date information on the centres' occupancy rates, including the number of abusers on the waiting list and the number of
vacant places in each centre, had been uploaded onto the Intranet of the SWD for POs' timely and easy access. Such information would be updated every three to four months; and

- notwithstanding the above, under the Probation of Offenders Ordinance (Cap. 298), POs could not send probationers aged 14 or above to any treatment centre against their wish. POs could only persuade, explain or give recommendations to probationers with regard to the situation.

28. The Committee further asked whether the above measure on sharing centres' information in the SWD was put into practice before or after the audit review.

29. The Secretary for Security replied that the new measure was implemented before the audit review. Since April 2010, information on the updated occupancy rate of each centre had been distributed to POs for reference and, since August 2010, up-to-date information on the centres' occupancy rates had also been uploaded onto the Intranet of the SWD for POs' timely and easy access.

30. According to paragraph 3.22 of the Audit Report, an audit analysis of the 648 cases related to referral of probationers by POs indicated that in 201 (31%) cases, the probationers had to wait for over two weeks before admission to the centres. The time lapse ranged from less than two weeks to 21 weeks. The Committee asked about the waiting time for female and male drug abusers respectively.

31. The Commissioner for Narcotics replied that:

- female drug abusers constituted 19% of the total number of drug abusers. However, the number of residential places for female drug abusers was unable to serve all of them, though the difference was not big; and

- as reflected by some POs, the demand for residential services of treatment centres by female drug abusers was higher than that of male drug abusers. The ND supported the increase of residential places for female drug abusers upon the in-situ expansion or re-provisioning of treatment centres.
32. The **Director of Social Welfare** and **Mr FUNG Man-lok, Assistant Director (Youth and Corrections) of the SWD**, supplemented that:

- of the 40 treatment centres, 11 served female drug abusers, 28 served male drug abusers and one both female and male. The total number of places allocated for female drug abusers was 216. To respond to the rapid increase in the number of young female drug abusers in the past few years, 27 of the additional 101 subvented places in 2008 were allocated for servicing female drug abusers, representing about 30% of the total increase;

- compared to male drug abusers, female drug abusers were easily affected by other people and were always provided with drugs free of charge. Thus, many female drug abusers preferred to reside in the treatment centre in order to stay away from drug sources, and hence the demand for residential T&R services by female drug abusers was higher than that of male drug abusers. The SWD and the ND were actively seeking to increase the number of residential places for female drug abusers; and

- of the six treatment centres with an occupancy rate of 100% or more, two of them admitted female drug abusers only. Since the strength of servicing staff was different in each centre, there was the situation where there were vacant residential places on one hand and a waiting list on the other hand due to insufficient manpower in treatment centres. POs would continue to arrange appropriate community-based drug treatment programmes to assist probationers convicted of drug-related offences while awaiting centre placement.

33. The **Deputy Director of Audit** supplemented that Table 3 in paragraph 3.23 of the Audit Report showed that of the 71 cases with waiting time of over two months, 33 were female drug abusers.

34. The Committee noted that the waiting time for centre placement in respect of female drug abusers was relatively long and there was also a shortage of places for female drug abusers. The Committee asked, for those treatment centres which admitted female drug abusers, whether the Administration had assessed if the outcome measure of achieving one of the three objectives (i.e. settled with schooling/retraining, settled with employment and led a decent living), as stated in
paragraph 3.29(a) of the Audit Report, could be attained upon termination of aftercare service for such abusers, and what the assessment results were.

35. In his letter of 22 December 2010, the Secretary for Security replied that:

- of the 12 treatment centres which admitted female drug abusers, the SWD and the DH only had information on seven of them which were subvented by the Government. Of these seven centres, five centres were under the SWD's subvention while two were under the DH's subvention;

- the above outcome measure was applicable to three of the five centres subvented by the SWD. The three centres had to attain the services level agreed with the SWD as prescribed in the FSA. The agreed level was 60%. The SWD had, through the existing Service Performance Monitoring System, assessed and confirmed that all three centres had met the performance standard for the first half year of the 2010-2011 financial year (April to September 2010);

- the remaining two treatment centres subvented by the SWD had another set of performance standards in their FSAs, to which the aforesaid indicator was not applicable; and

- for the two female centres under the DH's subvention, for case management purposes, the NGO concerned had been monitoring the rehabilitated abusers' conditions after programme completion with reference to the three objectives stated in the SWD's FSAs. For the first half year of 2010-2011 financial year (April 2010 to September 2010), the percentage of rehabilitated drug abusers who had met one of the three objectives reached 67%.

36. The Committee noted from Table 1 in paragraph 2.6 and Appendix C of the Audit Report that Centres 3 and 4 of SARDA, which admitted female drug abusers only, had been admitting predominantly psychotropic substance abusers and were fully utilised, but Centre 1 of SARDA was not yet positioned to cope with psychotropic substance abusers or young drug abusers, and had a relatively low occupancy rate. The Committee asked:

- whether there was a mismatch of resources allocated between female heroin drug abusers and female psychotropic substance abusers in Centres 3 and 4; and
37. The Assistant Director of Health (Health Administration and Planning) said that:

- Centres 3 and 4 provided 42 and 24 places for female drug abusers respectively. The utilisation rate of the two centres was as high as 95% and 100%. Although the original target clients of both centres were female heroin abusers, they had been admitting female abusers of both heroin and psychotropic substances. It was noted that the number of female psychotropic substance abusers in these two Centres had been increasing. In fact, the EU had recommended in its report that residential places in Centre 3 should be increased. SARDA was actively considering the feasibility of the recommendation; and

- since the scale of operation of Centres 3 and 4 was smaller than that of Centre 1, the re-engineering of these two centres could progress faster.

Effectiveness of treatment programmes

38. Noting that different treatment centres provided different treatment programmes, the Committee asked whether the Administration had reviewed which kind of treatment programmes was more effective and had higher success rate than the others, with a view to promoting the successful programmes to other treatment centres.

39. The Secretary for Security and the Commissioner for Narcotics replied that:

- the choice of operation mode by different treatment centres depended on the organisations' belief and experience. The Administration would not impose any particular treatment mode on the centres;

- some treatment programmes were particularly popular as they provided relatively comprehensive educational programmes in shorter duration. As such, the Administration had been promoting such programmes in the Fifth three-year Plan on Drug Treatment and Rehabilitation Services in Hong Kong. It also planned to invite organisations to submit
proposals on effective modes of service and treatment programmes. It hoped to receive proposals which included solid educational programmes and flexibility in the treatment programmes; and

- starting from the 2010-2011 school year, the Education Bureau ("EDB") had enhanced the level of subvention for educational programmes in treatment centres to around $460,000 per programme a year. In addition, the EDB had also removed the restriction on the minimum number of students in each programme. The enhanced subvention mode would help centres improve their educational programmes.

40. According to paragraph 3.29(a) of the Audit Report, the SWD and the DH required their subvented treatment centres to submit different information in their quarterly performance returns. The Committee asked:

- apart from information on the number of patients admitted for residential treatment and bed-days occupied at treatment centre, whether the DH would collect other information from the treatment centres;

- about the meaning of a "decent living" as an "outcome measure"; and

- how the Administration would ensure that the aftercare cases had achieved the objectives stated in paragraph 3.29(a) of the Audit Report.

41. The Assistant Director of Health (Health Administration and Planning) replied that apart from the information on the number of patients admitted for residential treatment and bed-days occupied at treatment centre which were used for calculating the amount of subvention, the DH also collected information on programme completion rate of detoxification and rehabilitation, abusers' age and sex as well as the type of abuse (i.e. heroin or psychotropic substances).

42. The Director of Social Welfare said that the performance of treatment centres was assessed against the performance standards in the FSA. The standards were set after discussion between the SWD and the subvented organisations. As specified in the FSA, "decent living" referred to those female service users having performed/resumed the role of housewife, or those aged persons having reunited with their families/secured stable living, including accommodation (e.g. private premises or aged home), etc.
43. The Commissioner for Narcotics supplemented that:

- to help rehabilitated abusers integrate into society for normal life, some treatment centres provided halfway houses in the city for rehabilitated heroin abusers. The halfway houses might be located in a public housing estate or private estate. They provided counselling services and accommodation for rehabilitated abusers who were just discharged from the treatment centres; and

- as rehabilitated psychotropic substance abusers might not be allocated a place in the halfway house and they might need to return home or return to school immediately after treatment, the Administration was very concerned about the aftercare services provided for them. The ND was discussing with local stakeholders on the mechanism for providing T&R services in phases from "awareness" to "integration into society".

44. The Committee further asked:

- whether the subvention (i.e. $460,000) provided by the EDB to treatment centres for operating educational programmes was enough for the centres to provide formal education to young drug abusers aged 18 or below, so that such abusers could continue their studies in normal schools after treatment; and

- for how long the young drug abusers needed to wait before they could resume normal schooling after treatment.

45. The Commissioner for Narcotics replied that:

- there were 13 treatment centres providing educational programmes funded by the EDB. One of the requirements of the subvention was that the subsidies should be used for the employment of qualified teachers. As such, the quality of education was guaranteed. However, whether the rehabilitated abusers would return to school or find a job would depend on the abusers' preference;

- some treatment centres had connections with mainstream schools and could arrange their clients to study in those schools after treatment. For those centres which could not arrange such service, the rehabilitated
abusers could approach the regional education officer of the EDB for arrangement;

- since the young drug abusers would only reside in the treatment centres for a few months or up to about one year, the major objective of providing educational programmes was to maintain a routine and mindset of learning. The level of education provided might not be equivalent to that in formal secondary schools, but main subjects, such as Chinese, English and Mathematics, should be included in the programme; and

- although the SWD required subvented centres to submit information on the number of young drug abusers who returned to schools after treatment, such figures were not provided by non-subvented centres. The ND learnt from some treatment centres that not many young drug abusers returned to school after treatment and the majority of them preferred finding a job.

Coordination among Government bureaux/departments

46. Noting that different government bureaux and departments joined hands to combat the drug abuse problem, the Committee enquired whether there was any coordination among these government bureaux and departments, and whether there was an inter-departmental unit which met regularly to discuss the measures to deal with the drug problems.

47. The Commissioner for Narcotics replied that:

- there had been coordination among different government bureaux/departments on combating the drug abuse problem through different platforms, such as the Action Committee Against Narcotics, the Drug Liaison Committee and the Task Force set up under the chairmanship of the S for J. The Chief Executive also led relevant Principal Officials to expedite and escalate efforts to combat the youth drug problem in 2009; and

- as for the Task Force Report which contained some 70 recommendations, the ND performed the role of a coordinator to implement those recommendations.
48. To ascertain whether there was a sufficiently high-ranking government official to take charge of the formulation of the Government's anti-drug policy and the overall coordination of anti-drug efforts, the Committee asked which government official performed the role of the coordinator in combating the escalating drug abuse problem and about the ranking of the official.

49. The Commissioner for Narcotics said at the public hearing that the ND worked hard to coordinate the relevant government bureaux/departments in combating the drug abuse problem. The Secretary for Security stated in his letter of 22 December 2010 that the rank of the Commissioner for Narcotics was Administrative Officer Staff Grade B.

50. The Committee noted from paragraph 3.30(e) of the Audit Report that there was no arrangement for the regular dissemination of information between the SWD and the EDB. As a result, 10 centres had each admitted quite a few young drug abusers (aged below 18) for treatment in their centres, but these centres had not sought subvention from the EDB for operating educational programmes. The Committee asked about the measures which the Administration had taken or would take to improve information dissemination among government bureaux/departments.

51. The Commissioner for Narcotics replied that:

- the ND was running a pilot scheme namely the Service Information System ("SIS") which captured extensive drug-related information provided by five subvented centres. The information collected included operational statistics, output and outcome performance. The ND was conducting a final evaluation of the SIS. Subject to the findings of the review, the ND considered that the SIS should be extended to all other subvented treatment centres and be promoted for voluntary adoption as far as possible by non-subvented centres to facilitate continuous service improvement; and

- in the evaluation, the ND noted that a vast amount of information/statistics was collected from treatment centres by different departments for different purposes and the bases used in arriving at the information/statistics were different. In collaboration with the SWD, the DH, the EDB and relevant stakeholders, the ND would review the information required, streamline the information collection procedures,
and promote the collection from and the sharing of information among relevant parties. The review was expected to be completed by 2011.

D. Treatment centres on government sites/premises

Operation of Centre 21 by NGO 2 at Shatin (Case 4)

52. Paragraphs 4.20 to 4.26 of the Audit Report revealed that NGO 2 was granted a government site (of some 11,000 square metres) by private treaty grant ("PTG") for operating a non-profit-making training and rehabilitation centre for displaced persons – Centre 21. The site was described in 1996 by the Director of Lands as "a big site with good accessibility and immediate availability" and one not commonly found. Annual rent was set at 3% of the rateable value of the whole site. In November 2009, Centre 21 was granted a licence under the Licensing Ordinance with an approved licensed capacity of 318 places. The utilisation rate of Centre 21 had been very low. In the seven years up to June 2010, the centre occupancy ranged from 48 to 169 residents. The residents included not only drug abusers but also non-drug abusers and other people not receiving T&R services. The SWD had not enforced the Conditions of Grant on scale of operation, submission of accounts and report on operation.

53. Against the above background, the Committee asked why the SWD had not exercised proper control to ensure that Centre 21 operated on a satisfactory scale, given that it was located on such a good site.

54. The Director of Social Welfare replied that:

- in the past, the SWD's monitoring of treatment centres had focused on subvented centres. Centre 21 was the only centre which was non-subvented and operated through PTG within the purview of the SWD. The SWD had not followed up on whether this centre had submitted audited accounts before the matter was brought up by Audit. The SWD would monitor whether Centre 21 had fulfilled the requirements under the Conditions of Grant, which included the submission of audited accounts and its scale of operation; and

- as granting of land through PTG was considered a form of government subsidy, the SWD would actively explore with Centre 21 on how to better utilise its facilities and increase its occupancy rate.
55. The Committee noted from paragraph 4.25(a) of the Audit Report that Centre 21 did not employ any paid staff. Instead, it was manned by volunteer staff who served in the centre for training purposes. The Committee asked:

- whether the SWD had considered the capability of Centre 21 before granting a license for it to operate in a scale with 318 places; and

- about the progress made by the SWD to help Centre 21 increase its occupancy rate.

56. The Director of Social Welfare replied that:

- the scope of services provided by Centre 21 was mainly targeted at serving deprived persons, such as street sleepers or other people with difficulties. The ND and the then Health and Welfare Bureau had considered various factors such as the organisation's belief, experience, financial and administrative capability before giving policy support for the land grant and approving its licensed capacity;

- since Centre 21 was a non-subvented centre, the SWD could not set a performance target on its occupancy rate. The SWD had been encouraging its POs to refer more cases to Centre 21 where appropriate. In the past few months, the occupancy rate of Centre 21 had increased. However, with due regard to its constraints, especially on manpower and operational experience, the centre would have to admit more residents by phases; and

- for any land grant by PTGs in the future, the SWD would liaise with relevant government departments to consider putting in place a mechanism for monitoring the land use by treatment centres and include relevant requirements in the Conditions of Grant.

57. According to paragraph 3.24 of the Audit Report, of the 648 active PO referral cases as at 23 April 2010, only 43 (6.6%) cases related to probationers under treatment at Centre 21. The Committee asked whether Centre 21 had ever rejected any PO referral cases.
58. In his letter of 22 December 2010, the Secretary for Security replied that according to available records, there had only been two occasions on which the offenders referred to Centre 21 by the POs were found not suitable for admission by the centre because of their individual circumstances.

Idling of a treatment centre site by NGO 1 on Lantau Island (Case 3)

59. According to paragraphs 4.11 to 4.19 of the Audit Report, in Case 3, a site on Lantau Island had been granted by short term tenancy ("STT") at nominal rent since 1993 to NGO 1 for operating a treatment centre, but the centre did not appear to have come into operation for the past 17 years. On a few occasions, the Administration could have become aware at an earlier date that the site was idle, but there was inadequate follow-up action. Given that the relevant government departments had not monitored the use of the site, resulting in its idling for 16 years, the Committee queried:

- why the relevant government departments had not taken any actions regarding Case 3 before 2010; and

- what actions had been taken to follow up the irregularities, and how the Administration would prevent the recurrence of similar cases.

60. The Commissioner for Narcotics admitted that there had been omissions on the part of the Administration in Case 3. She said that:

- the Government's control over non-subvented treatment centres was limited in the past as a licensing scheme had not yet been established. In Case 3, after giving policy support for the granting of a site to NGO 1, the government departments concerned did not follow up whether the proposed centre had started operation or not. With the passage of time, no one in the departments was aware of this site until it was raised by Audit;

- to follow up, the Lands Department ("Lands D") and the SWD had immediately inspected other centres operating on land grants or STTs to see whether there were similar cases. The SWD had confirmed with the Lands D that no similar cases were identified and Case 3 was the only case in which the granted land was idle;
- the Administration had contacted NGO 1 to seek its confirmation on whether the STT was still required. At last, NGO 1 indicated that it did not require the STT anymore. Since the premises on the Lantau site were in very poor physical conditions, and the scope for refurbishment/redevelopment into a treatment centre that could meet the licensing requirements was limited. The land was eventually returned to the Lands D; and

- with the established system nowadays, similar cases should not happen again. As the granting of land to operate a new treatment centre was considered an important matter, the Administration would closely follow up to check the progress. After all, treatment centres could not operate until they met the licensing requirements and used the land to the satisfaction of the Lands D, the SWD or the ND.

61. Miss Annie TAM, Director of Lands, added that:

- as there were a lot of land grants in Hong Kong, it was not possible to inspect every land grant to check whether all conditions in the agreement were complied with;

- in the past, when the Lands D granted a piece of land to treatment centres through STTs, it mainly relied on the advice of the policy departments on the conditions to be included into the Conditions of Grant with a view to monitoring the centres. There were two types of STTs: one was granted through tendering and the grantees were required to pay the rent; the other was granted with the support of relevant policy department and no rental was received. The Lands D would arrange its staff to inspect those centres which were required to pay the rent once every three years upon rental adjustment. The duration of land grant which was supported by a policy department was relatively long and the Lands D would not arrange inspection of those centres except upon receipt of complaints or referrals. In Case 3, the Lands D had not received any complaints or referrals about the premises over the years; and

- subsequent to the incident of Case 3, the Lands D would arrange its staff to inspect all treatment centres once every three years, no matter whether they were operated on STTs or PTGs, by completing a form and seeking the SWD's advice on whether the centres had operated to its satisfaction.
62. Noting that the SWD would provide advice to the Lands D on the conditions to be included in the land grant, the Committee asked whether the Lands D or the SWD would require the treatment centres to meet certain performance targets in the land grant.

63. The **Director of Lands** said that:

- in the Conditions of Grant for Cases 3 and 4, it was stated that the grantee had to operate the whole of the Centre on a scale satisfactory to the Director of Social Welfare and submit to the SWD audited accounts. The SWD considered that such conditions could have already enabled it to monitor the treatment centre; and

- the Lands D would accede to any request of the SWD for inclusion in the Conditions of Grant any requirements related to land, where appropriate. As for details of operation such as performance targets, the SWD might need to enter into a service agreement with the treatment centre separately.

**Scale of operation of Centre 37**

64. According to paragraph 4.6 of the Audit Report, Centre 37 had been operating on an STT since February 2003. For the seven years ended August 2010, Centre 37 had only admitted six drug abusers, with some staying for just a few days. Although the SWD found in many of its inspections that the centre was shabby and remained closed, it had not taken active actions to follow up and had granted a Certificate of Exemption ("CoE") to the centre each year to facilitate its continued operation. The Committee asked the reasons why:

- the six drug abusers only stayed in Centre 37 for a short period of time; and

- the Administration granted a CoE to Centre 37 annually despite its low occupancy rate.

65. The **Director of Social Welfare** said that staff of the Licensing Office of the SWD had been providing assistance and recommendations to Centre 37 to rectify its problems. In fact, Centre 37 was advised in May 2009 to suspend admission of new clients until removal of unauthorised structures which the Buildings Department
considered as making the centre dangerous for occupation. As safety was a major concern of the SWD, it would take this factor into consideration when deciding whether to grant further CoE to the centre.

66. The **Commissioner for Narcotics** said at the public hearing and the **Secretary for Security** stated in his letter of 22 December 2010 that:

- the progress of improvement works in Centre 37 was slow as the NGO operating Centre 37 was suffering from limitation in manpower and expertise. The ND and the SWD had been giving assistance to the centre; and

- non-subvented NGOs had on their own initiative developed modus operandi that suited their clientele most. According to the NGO operating Centre 37, which was not subvented by the Government, its service targets were those occasional drug abusers and "underground drug abusers" who had low/no motivation to join a long residential treatment programme. To cater for the unique nature of its clientele, the NGO had run short-term residential treatment programmes, ranging from one to two weeks, to suit their rehabilitative needs.

E. Licensing of treatment centres

Licensing scheme introduced since 2002

67. As mentioned by the Secretary for Security in his opening statement, among the 40 existing treatment centres, 21 of them had not yet obtained a licence. The Committee asked, apart from the seven centres which were expected to obtain a licence in the coming two years:

- what the licensing situation of the remaining 14 centres was; and

- the actions which the Government would take in case these 14 centres could not meet the licensing requirements eventually.

68. The **Director of Social Welfare** replied that seven additional treatment centres were expected to obtain a licence in two years. The Government would continue to liaise with the remaining centres and provide necessary support to assist them in meeting the licensing requirements.
The Committee further asked:

- whether the Government had set a concrete timetable for requiring all treatment centres to comply with the licensing requirements; and

- whether those treatment centres operating on CoEs would pose safety hazards to their service users.

The Director of Social Welfare responded that:

- the scale of operation and manpower varied among treatment centres. Some non-subvented centres had been providing T&R services for a long time and their frontline services were mainly run by volunteers. In consideration of the different situations of different treatment centres, the Administration had allowed grace periods of four and eight years for subvented and non-subvented centres respectively to meet the licensing requirements. Although the Licensing Ordinance did not stipulate the length of grace periods, the SWD believed that due consideration had been given to the situation at the material time in determining the two grace periods;

- for those treatment centres which had yet to comply with all the licensing requirements, they were required to apply for a CoE from the SWD on an annual basis. The SWD would consider the actual situation of each centre, such as the progress of its re-provisioning or upgrading and construction works, in deciding whether to continue granting it the CoE; and

- when granting CoEs to treatment centres, the SWD would accord a high priority to their safety, which included building, structural and fire safety, as well as their hygiene standard. As some centres were set up using existing structures then available to them, in some cases, statutory planning requirements had not been met and in-situ upgrading works alone would not be possible to meet the licensing requirements. Under such circumstances, the centre operators would need to re-provision their centres to new sites for continuous operation and had to apply for CoEs from the SWD.
71. Noting that some non-subvented and/or voluntary organisations were small in scale and might not be familiar with relevant statutory requirements, the Committee asked whether there was a special team to render assistance to such organisations in meeting the licensing requirements.

72. The **Director of Social Welfare** replied that apart from the financial support provided by the ND for the centres' re-provisioning or in-situ upgrading, the SWD staff would liaise with the centres and provide advice to them through meetings. With the addition of two social workers, the SWD hoped to strengthen the work on licensing.

**Difficulties in securing suitable sites/premises for re-provisioning**

73. As mentioned in paragraph 5.16 of the Audit Report, many treatment centres needed to be re-provisioned in order to meet the licensing requirements. However, re-provisioning was very often a long process. It involved not only the identification of vacant government sites/premises suitable for setting up centres, but also processing of applications seeking planning permissions, consultation with local communities and processing of land grant (including the formulation of PTG/STT agreements).

74. The Committee referred to paragraph 5.22(a) of the Audit Report and noted that many of the vacant school premises were not considered by the SWD due to reasons such as "legality of existing structures in doubt", "inadequate floor area", "anticipation of local objection" or "proximity to residential area". The Committee asked about:

- the number of cases in which the premises were not chosen by the SWD due to "anticipation of local objection", in each of the years from 2004-2005 to 2009-2010; and

- whether there had been cases where the SWD did not consider using the premises for the reason of "actual" local objection.
In his letter of 1 December 2010 (in Appendix 27), the Director of Social Welfare replied that:

- in consultation with the ND, the SWD had made strenuous efforts to assist treatment centres for drug abusers in securing suitable sites/premises for re-provisioning, where in-situ upgrading or redevelopment was not feasible, with a view to meeting the licensing requirements. Of the 19 treatment centres licensed since 2002, six were licensed during 2009 and 2010. The SWD anticipated that another two treatment centres would be re-provisioned while another five treatment centres would be upgraded in-situ for licensing in the next two years. The two centres under re-provisioning had successfully secured a suitable new site for combined operation, following necessary local consultation and concerted efforts made by the SWD, the ND and other government departments in collaboration with the NGO concerned;

- in searching for suitable sites for re-provisioning of treatment centres, the SWD had to consider a basket of factors including the capacity and operational needs of the treatment centres requiring re-provisioning; space and area requirements; conditions of existing facilities on sites available; other planned uses; accessibility, planning and land usage; scale, technical feasibility, cost and time of the conversion/construction works required; site compatibility with the treatment models or programmes of the treatment centre; and views of relevant departments, etc;

- vacant school premises were made known to the SWD either through circulation by other government departments, mainly the Government Property Agency ("GPA") or the Lands D, or through referral from the GPA or the Lands D upon direct application by an operating NGO of a treatment centre which had identified the premises. Records of the SWD indicated that of all the vacant school premises circulated to the SWD from 2004-2005 to 2009-2010, 53 vacant school premises were available for the SWD's assessment and consideration of re-provisioning of treatment centres. Among them, two sites were identified and applied for by operating NGOs. The SWD supported their applications because the treatment centres had genuine need of re-provisioning and the sites were considered suitable for the purpose with due consideration of the above factors. Policy support had also been given by the ND along this line;
- the SWD had carefully looked into each of the remaining 51 premises. They were considered against the SWD's criteria and found not suitable. Inadequacy in area provision, land status (e.g. falling into private land), technical difficulties, competing uses and other factors were noted. In many cases, local objections were anticipated and were one of the pertinent issues that the SWD had taken into account. However, it might not be appropriate to attribute anticipated local objections as the only criterion that had affected the SWD's assessment of these premises. This notwithstanding, there had not been any case where vacant school premises were not considered due to "actual" local objection; and

- the SWD and the ND would continue the joint effort in identifying possible sites and promoting to the community the important role played by treatment centres and call for local support for setting up treatment centres.

76. The Committee asked about:

- the criteria adopted by the Administration in granting a licence under the Licensing Ordinance; and

- whether the above criteria included the contents of the education programmes provided by the treatment centres.

77. The Director of Social Welfare replied that:

- the Code of Practice issued by the SWD had provided guidelines on the execution of the Licensing Ordinance. When assessing a licence application, the SWD would consider various factors, including the land grant conditions, building safety of the centres, as well as operation and management of the centres;

- to facilitate treatment centres in obtaining a licence, the SWD had compiled a "Checklist for Drug Dependent Persons Treatment and Rehabilitation Centre for Obtaining a Licence", which listed all information required for application and provided the contact details of relevant government departments for enquiries by applicants; and

- for those NGOs which received government subvention, they would have to meet the service targets specified in the FSA and be subject to
monitoring. For those which did not receive government subvention, they had a larger degree of flexibility in their operation, which varied in terms of service mode, treatment method and length of programme.

F. Conclusions and recommendations

78. The Committee:

- affirms the contributions made by treatment centres (both subvented and non-subvented) in their combat against drug abuse;

- notes that the service demands of heroin abusers and psychotropic substance abusers are different, in that the former require medical-oriented treatment while the latter require a whole range of education and rehabilitation services in order to rebuild the self-esteem and sense of responsibility of the abusers, who are mostly young people, and that the skill mix required of the staff providing treatment services to these two types of abusers are different;

- expresses grave dismay and finds it unacceptable that despite the widespread public concern over the persistent shift from heroin abuse to psychotropic substance abuse ("PSA") and the Government's heightened efforts to combat the escalating youth drug abuse problem, the Secretary for Security has failed to re-align the treatment and rehabilitation ("T&R") services for drug abusers with the changing drug scene and service demands, as reflected by the sluggish resources adjustment from heroin abuse treatment to PSA treatment, the uneven workloads among treatment centres, and the decrease in the overall capacity of treatment centres, etc;

- considers that:

(a) the problems identified by the Director of Audit in the provision of residential T&R services are mainly attributable to there being no sufficiently high-ranking government official to take charge of the formulation of the Government's anti-drug policy and the overall coordination of anti-drug efforts, as well as the slackness of the Department of Health ("DH"), Social Welfare Department ("SWD"), Lands Department ("Lands D") and Narcotics Division ("ND") in performing their respective monitoring roles; and
(b) although the Government's control over non-subvented treatment centres is generally limited, it should persuade and assist the centres to provide appropriate services that are geared to the needs of drug abusers, particularly the young psychotropic substance abusers;

- urges:

(a) the Secretary for Security to:

   (i) give more personal attention to, and designate a sufficiently high-ranking official to take charge of, the formulation of the Government's anti-drug policy and the coordination of the Government's anti-drug efforts with other government bureaux, departments and non-governmental organisations ("NGOs");

   (ii) proactively and regularly review the service needs in the community with a view to identifying any service gap, and take appropriate actions to close the service gap in a timely manner; and

   (iii) proactively coordinate with the Secretary for Education to enhance the effectiveness of the educational programmes provided by treatment centres, so as to meet the diverse needs of school-age residents; and

(b) the DH, SWD, Lands D and ND to properly perform their respective monitoring roles over the treatment centres, including the non-subvented ones, such as through enforcement of relevant conditions in the land grant/tenancy agreements;

Allocation of resources to SARDA

- considers that an effective utilisation and successful re-engineering of SARDA's services would be conducive to addressing the rising demand for treatment of psychotropic substance abusers, given that a significant proportion ($65 million out of the $100 million in 2009-2010) of the Government's resources for supporting the operation of subvented treatment centres was allocated to SARDA and that the 460 subvented places provided by SARDA represented 58% of the total number of places provided by all treatment centres under government subvention;
expresses dismay and serious concern that:

(a) despite the Committee's concern expressed in July 2008 and the fact that Centre 1 (with a capacity of 316 places) operated by SARDA had been under-utilised for quite a number of years, the centre has still not been re-engineered to cope with PSA; and

(b) the DH and SARDA have still not entered into a funding and service agreement ("FSA") as urged by the Committee in July 2008;

acknowledges that:

(a) instead of pursuing further the "Project Youth Care" proposal, SARDA has shifted and focused its efforts on a new programme named "Project SARDA", which was launched at Centre 1 in August 2010 to meet the changing drug scene. The project provides a residential programme of 26 to 52 weeks targeting at adult male psychotropic substance abusers aged between 21 and 35;

(b) the Security Bureau considers that when the 38 places provided under the "Project SARDA" programme are filled, the overall occupancy of Centre 1 will be 66% and there is realistic scope for SARDA to bring the overall occupancy of Centre 1 to around 80%;

(c) the Commissioner for Narcotics has agreed with the audit recommendation in paragraph 2.12 of the Director of Audit's Report ("Audit Report"); and

(d) the Director of Health has said that the DH will continue to support SARDA in re-engineering its services, under the leadership of the ND;

- urges:

(a) the Secretary for Security to:

(i) accord a high priority to monitoring the pace of service re-engineering of Centre 1 and provide necessary support to SARDA to expedite the service re-engineering; and
(ii) closely monitor the trend of PSA by young people aged under 21 to ensure that they would not be neglected and should there be any resurgence of abusers of this age group, prompt support could be provided to them; and

(b) the Director of Health to enter into an FSA with SARDA without further delay;

Usage of treatment centres

- finds it unacceptable that the Secretary for Security and the Commissioner for Narcotics have failed to take effective measures to close the gap between the service needs of drug abusers and the services provided by treatment centres, and to ensure that drug abusers in need of treatment are always provided with appropriate services as early as possible, as reflected by the following:

(a) despite the rising trend of drug abuse in recent years, the overall capacity of treatment centres decreased from 1,779 places in 2003 to 1,635 places in August 2010;

(b) while only 799 (49%) of the 1,635 places available are subvented, a significant proportion of the subvented places remains geared to heroin treatment instead of the treatment of PSA, which is the number-one enemy in the youth drug scene in Hong Kong;

(c) of the 1,261 places that mainly cater for PSA treatment, 824 (65%) places are provided by non-subvented treatment centres over which the Government's control is generally limited;

(d) not all 1,635 places are available to drug abusers because some treatment centres can have used some of their non-subvented places for admitting non-drug abusers, and some centres may not be ready to operate at full capacities due to various reasons (such as staff resource constraint);

(e) according to an ND survey of September 2009, there was feedback from the anti-drug sector on the inadequacies in the services provided by existing treatment centres. Such inadequacies included insufficient places, long waiting time, inadequate training for centre staff, lack of medical support, need for strengthening the
vocational and educational programmes for drug abusers, and lack of transparency in the provision of services;

(f) there are uneven workloads among treatment centres, some with high occupancy rates and long waiting time and some with significant spare capacities. In particular, there is a shortage of places for female drug abusers;

(g) in 71 (11%) of the 648 drug abuser cases relating to referral of probationers by probation officers to treatment centres, the probationers had to wait for over two months (with 12 cases over four months) before admission to treatment centres. This is entirely unsatisfactory given that drug abusers' motivation to seek treatment may decrease with the passage of time. An analysis of the 71 cases further shows that 94% of the cases related to six treatment centres with limited licensed capacities. On the other hand, there are other treatment centres with significant spare capacity;

(h) in 14 (64%) of the 22 cases selected by the Audit Commission for examination, although the probation orders issued by court had disallowed the probationers from taking any kinds of dangerous drugs during the probation supervision periods (usually one to three years), the probationers were found to have abused drugs while awaiting admission to treatment centres. Among the 14 cases, five (36%) probationers had their probation supervision periods extended subsequently (by three to 15 months);

(i) long waiting time also has an impact on increasing the SWD probation officers' workloads, because the probation supervision periods may need to be extended and probation officers need to supervise the probationers until the probation orders are satisfactorily discharged; and

(j) the existing mechanism of collecting information from treatment centres was fragmented, and the information so collected was not effectively shared within the Government, as detailed in paragraph 3.30 of the Audit Report. In particular, information on the number of young drug abusers under treatment at centres collected by the SWD during licensing inspections was not shared with the Education Bureau;
- acknowledges that:

(a) the Administration has accepted the audit recommendations in paragraphs 3.32 and 3.33 of the Audit Report;

(b) there are various reasons for the uneven allocation of probation officer referral cases and relatively long waiting period for some of the treatment centres, including a rapid increase in the number of young female drug abusers in the past few years, and the fact that some centres are more popular as they provide relatively comprehensive drug treatment programmes or provide flexibility in the duration of treatment programmes which are most welcomed by probationers;

(c) the Administration is taking measures to increase the number of treatment centre places, including supporting centre expansion where feasible and justified, and planning to invite in the fourth quarter of 2010 proposals for new and effective modes of service and treatment programmes;

(d) the Administration has also pursued other measures to even out the workloads of treatment centres, such as disseminating updated information about centres' occupancy rates and programmes to probation officers periodically to assist them in their work, enhancing the level of subvention to educational programmes in treatment centres, focusing efforts on centres with lower occupancy rates and solid service capabilities to strive for fuller use of their capacities; and

(e) the ND is assessing the effectiveness of the Service Information System, which captures extensive drug-related information including operational statistics, output and outcome performance, with a view to introducing the system to all treatment centres. In addition, the ND is consolidating the various information collected from different government bureaux/departments to streamline the information collection procedures;

- urges the Secretary for Security to:

(a) oversee the timely implementation of the above audit recommendations, including the provision of adequate resources to cope with the increasing service demands;
(b) improve the coordination among relevant government bureaux/departments in overseeing and reviewing the T&R services for drug abusers and to take effective measures to ensure that drug abusers are always provided with appropriate and timely T&R services;

(c) suitably redeploy government resources provided to treatment centres in the light of the utilisation and service demand for different centres, such as providing resources to expand the capacity of those treatment centres which are more popular;

(d) make reference to overseas experience in devising the effective means for providing treatment and after-care services to drug abusers; and

(e) conclude the assessment of the effectiveness of the Service Information System without delay and introduce it to more treatment centres, so as to streamline the information collection procedures;

- urges the Secretary for Labour and Welfare and the Director of Social Welfare to take effective measures to improve the effectiveness of dissemination of updated information on treatment centres' occupancy rates and programmes to probation officers, so as to even out the workloads among the treatment centres;

Treatment centres on government sites/premises

- notes that many of the existing treatment centres are operated on government sites/premises granted to NGOs through private treaty grants or short term tenancies at nominal premiums/rents;

- expresses serious concern and finds it unacceptable that the Director of Social Welfare, Director of Lands and Commissioner for Narcotics have failed to devise a suitable monitoring mechanism to ensure enforcement of the conditions in the land grant/tenancy agreements that require the grantees to use the government sites/premises on a scale and/or in all respects to their satisfaction. As a result, some treatment centres have been under-utilised or left idle, as follows:

(a) in Case 4, after granting a good site of a sizeable area at Shatin to an NGO by private treaty grant in 1998 for the operation of a
training and rehabilitation centre (Centre 21) for displaced persons, the SWD did not properly exercise its regulatory powers provided under the Conditions of Grant to monitor the operation of Centre 21. As a result, there was no assessment on the scale of Centre 21’s operation, no submission of audited accounts for Centre 21 and no request for operational reports, as detailed in paragraph 4.25 of the Audit Report. This is particularly undesirable given that some treatment centres are overloaded (especially when there was a shortage of female places) and there is waiting time for many probation officer referral cases, while Centre 21 has a large licensed capacity (318 places since November 2009) for admitting both male and female drug abusers but only admitted limited probation officer referral cases;

(b) in Case 3, after granting a site on Lantau Island by short term tenancy in 1993 to another NGO for operating a treatment centre, the ND, the SWD and the Lands D failed to monitor whether the proposed centre had started operation or not. In the event, the Lantau site had remained idle for 16 years until October 2010 when the tenancy was terminated; and

(c) the SWD has exercised little control over the scale of operation of non-subvented treatment centres, as detailed in paragraph 4.6 of the Audit Report. For example, for the seven years ended August 2010, Centre 37 has only admitted six drug abusers, with some staying for just a few days. Although the SWD found in many of its inspections that Centre 37 was shabby and remained closed, it has not taken active actions to follow up and granted a Certificate of Exemption to the Centre each year, as a matter of routine, to facilitate its continued operation;

- acknowledges that:

(a) the Secretary for Labour and Welfare and the Director of Social Welfare have undertaken to review the appropriate degree of monitoring over existing non-subvented treatment centres, and will seek the advice of the ND and the Lands D in setting up an appropriate monitoring mechanism for new centres;

(b) the Director of Lands and the Commissioner for Narcotics have agreed with the audit recommendations on Case 3 in paragraph 4.28 of the Audit Report. The Director of Social Welfare has said that
the SWD is ready to join hands in exploring the alternative uses of the recovered Lantau site, and the SWD has confirmed with the Lands D that no other similar cases of idling sites are found;

(c) regarding Case 4, the SWD has agreed to take proper measures to enforce the Conditions of Grant (e.g. Centre 21 being operated on a satisfactory scale and the submission of audited accounts);

(d) the SWD will follow up on the propriety of the NGO's appointment of auditor in Case 4;

(e) the SWD will also explore ways to make effective use of Centre 21's capacity to meet the demand for residential T&R services, including:

(i) exploring with Centre 21, in collaboration with the ND, on enriching the centre's education and pre-vocational programmes for school-age probationers as well as improving its manpower strength; and

(ii) encouraging its probation officers to, where appropriate, refer more cases to Centre 21; and

(f) the Commissioner for Narcotics has agreed with the audit recommendations in paragraph 4.27(c) to (e) of the Audit Report and will provide assistance;

- urges the Secretary for Labour and Welfare and the Director of Social Welfare, in collaboration with the Commissioner for Narcotics and the Director of Lands, to:

(a) expeditiously implement the above audit recommendations;

(b) enforce the conditions in the land grant/tenancy agreements for government sites/premises, which may cover the scale of operation, submission of accounts and report on operation to ensure the optimal use of government sites/premises; and

(c) critically review the land grant to Centre 21 at an opportune time to ensure that the site is put to the most effective use in line with the Government's anti-drug policy;
- urges the Director of Social Welfare and the Commissioner for Narcotics to critically review the propriety of granting further Certification of Exemption to Centre 37;

Licensing of treatment centres

- expresses serious concern that:

(a) although the Drug Dependent Persons T&R Centres (Licensing) Ordinance (Cap. 566) commenced in April 2002 and grace periods of four years and eight years allowed for subvented and non-subvented treatment centres respectively have expired/will soon expire, as at August 2010, 21 of 40 treatment centres are still operating on Certificates of Exemption, comprising five subvented and 16 non-subvented centres. Despite the assurance given in 2006 by the Administration to the Panel on Security that every assistance has been rendered to help non-subvented centres comply with the licensing requirements, the progress is not satisfactory;

(b) for the five subvented treatment centres still operating on Certificates of Exemption, although they have furnished works schedules to the SWD, there is indication that one of them has already encountered slippage in its works progress;

(c) for the 16 non-subvented centres still operating on Certificates of Exemption, as at August 2010, only six have submitted works schedules to the SWD. The other 10 centres have not submitted any works schedules nor set any target dates for meeting the licensing requirements. For two of the six centres which have submitted works schedules, they have not appointed authorised persons to prepare such schedules. This casts doubt on whether the completion targets set for these two centres are realistic;

(d) many treatment centres need to be re-provisioned in order to meet the licensing requirements. However, re-provisioning is very often a long process, involving not only the identification of vacant government sites/premises for setting up treatment centres, but also processing of applications seeking planning permissions and consultation with local communities. If local communities object to the setting up of treatment centres in their vicinity and the problem cannot be resolved, granting potential sites to treatment centres will be difficult;
(e) there have been cases where treatment centres did not consider potential sites for re-provisioning because of the need for maintaining slopes (which was generally very costly) within the sites;

(f) while the SWD considered that many vacant sites/premises were not suitable for use as treatment centres, there was no evidence that it had explored various measures (e.g. the feasibility of removing the illegal or old structures and constructing new structures) to make use of the sites/premises before giving them up. Besides, its reasons for rejecting the sites/premises were not always recorded;

(g) in one case, the SWD took a long time to arrange potential operators to visit a potential site for re-provisioning of existing treatment centres, and the site was eventually allocated to another government department for temporary use;

(h) although the Administration has provided technical advice to treatment centres on the in-situ upgrading works required, some non-subvented centres are not keen to carry out the works in order to meet the licensing requirements and accord low priority to this issue; and

(i) there was low utilisation of the Special Funding Scheme, which was established in 2002 under the Beat Drugs Fund to help treatment centres carry out capital works for meeting the licensing requirements. Up to April 2010, only $10 million (43% of the earmarked funding of $23 million) has been granted to five applications;

- acknowledges that:

(a) with enhanced manpower in 2010, the SWD has stepped up efforts in site search, in minimising the lead time in bidding for potential sites and in pursuing an improved record system;

(b) funds of $3 billion have been injected into the Beat Drugs Fund to form a larger capital base for generating greater income to support anti-drug efforts, and the scope of the Special Funding Scheme under the Fund would be expanded to provide adequate funding support to treatment centres operating on Certificates of Exemption to meet the licensing requirements as early as possible;
(c) the Director of Social Welfare has agreed with the audit recommendations in paragraphs 5.31 and 5.32 of the Audit Report; and

(d) the Commissioner for Narcotics has also accepted the audit recommendations in paragraphs 5.31 to 5.33 of the Audit Report;

- urges:

(a) the Director of Social Welfare and the Commissioner for Narcotics to enhance the support provided to those treatment centres which are still operating on Certificates of Exemption, and proactively provide assistance to enable them to comply with the licensing requirements as early as possible; and

(b) the Secretary for Security to closely monitor the progress of the treatment centres in meeting the licensing requirements, and implement the expanded Special Funding Scheme as soon as possible; and

Follow-up action

- wishes to be kept informed of the progress made in implementing the various recommendations made by the Committee and Audit.
A. Introduction

The Audit Commission ("Audit") conducted a review of the Community Investment and Inclusion Fund ("CIIF") with focus on the following areas:

- governance of the CIIF;
- development of social capital;
- assessment and monitoring of projects; and
- use of funds by grantees.

2. Hon Starry LEE Wai-king declared that she was honorary chairman or member of some organisations which might have applied for CIIF funding.

3. Hon Paul CHAN Mo-po declared that he was involved in different charitable organisations which might have applied for CIIF funding.

4. Mr Matthew CHEUNG Kin-chung, Secretary for Labour and Welfare, made an opening statement at the public hearing on 30 November 2010. The full text of his statement is in Appendix 28.

B. Development of social capital

Utilisation of CIIF funding

5. The Committee noted that the CIIF was established in 2002 with a capital of $300 million. The CIIF, in the form of seed money, encouraged mutual care and promoted community participation and cross-sectoral collaboration through collaborative projects among community and commercial organisations, with a view to building social capital, including "mutual trust", "community networks", "collaboration spirit" and "social cohesion", etc. The CIIF's objective and positioning was to serve as a catalyst to foster social capital development through promoting the concept of social capital to all sectors. The CIIF was not a general welfare fund or one that disbursed financial assistance.
6. According to paragraph 1.8 of the Director of Audit's Report ("Audit Report"), as at May 2010, the CIIF had approved a total of 213 projects and the total amount of approved funding was $212 million.

7. Against the above background, the Committee asked:

- about the lessons learnt by the Government and the CIIF Committee over the past eight years and how they would draw on the past experience to better utilise the CIIF in the future; and

- whether any mistakes had been made in the past and what improvement measures had been taken.

8. The Secretary for Labour and Welfare said that:

- the concept of social capital was not easy to understand and some people were still unfamiliar with it, though the CIIF had been established for eight years;

- the CIIF was different from other funds as it was a seed fund that aimed at promoting and building social capital in Hong Kong and the CIIF would not support "one-off activity" projects and those without long-lasting effect on community development. It placed considerable emphasis on the sustainability of the projects beyond the CIIF funding period. As not many people were familiar with the CIIF's objectives, many unqualified applications were received during the early stage of the Fund, and hence the assessment of applications was slow;

- to address the above problem, the CIIF had developed a set of clearer and more concrete assessment criteria and procedures to help process applications efficiently, i.e. including weightings in the marking scheme for the 16th batch of applications. It had also assigned a CIIF Committee member to serve as a mentor of each approved project to help provide guidance and support to the project team together with the CIIF Secretariat during the project implementation period; and

- the Labour and Welfare Bureau ("LWB") and the CIIF Committee would draw on the successful experience of well-performed projects, such as the one relating to the establishment of a "House Captain/Floor
Captain System" in housing estates, and promote them to other districts in the territory.

9. Mr YEUNG Ka-sing, Chairman of the CIIF Committee, supplemented that:

- although mistakes had been made over the past eight years, none of them was serious. In the first year when the CIIF was established, the success rate of applications was only about 7% to 8%. The reason was that many applicants were not familiar with the CIIF objectives. As a result, almost all applications were made by welfare agencies which expected recurrent funding support from the CIIF. The work progress was slow at that time and it was not easy to promote the Fund. Up till recent years, there had been cooperation among the community, business and the Government, and increased participation from the business establishments; and

- in the past eight years following the establishment of the CIIF, mutual support and assistance among people in the community were fostered. For example, the project run by the United Christian Hospital ("the Hospital") had shortened the queue for the Hospital's services. Another project implemented by the Chamber of Hong Kong Computer Industry Company Limited was an innovative one, and it enhanced the confidence of participating youths as well as their capability to solve problems independently.

10. The Committee queried:

- why it took the Government eight years to learn how to use the Fund;

- why the $300 million had not been fully utilised; and why there had been a drastic decrease in the number of CIIF applications from over 200 applications in the first two years to about 100 or below in the years that followed; and

- whether the objectives of the CIIF had been achieved.
11. The Secretary for Labour and Welfare replied that:

- the Fund was established for the purpose of promoting the social capital concept to hold the strengths of community together through practical experience. It expected a long-lasting effect on social capital development in the community. As social capital was a relatively new concept, the Government had spent time to explore and promote it through successful examples. In the recent three to four years, the CIIF had established a clear direction and had taken stock of some successful projects, some of which promoted cross-sectoral collaboration, for further development in other districts. Such cross-sectoral collaboration formed the foundation of social capital through networks in the whole community;

- the LWB and the CIIF Committee had upheld the principle of prudent use of public funds when assessing applications. Since the CIIF was a form of seed money, the CIIF Committee would attach importance to the effectiveness of the projects in terms of promotion of multi-partite collaboration and social capital development rather than focusing on the number of projects approved. An example of a quality project was the one implemented by the Salvation Army in Wong Tai Sin. The project had mobilised a group of elderly to manage an "elderly shop" and formed cleaning teams led by women. The project was not simply running a business but had enhanced the cooperation and collaboration among various groups in the district. Although the CIIF funding for the project had expired in 2007, it was still making a profit; and

- the LWB and the CIIF Committee had stepped up publicity efforts to promote the CIIF in order to encourage more eligible applicants to make applications. These included extending invitation to all interested organisations to attend briefing sessions and arranging interviews by RoadShow and TV stations. In addition to promoting successful projects, the LWB and the CIIF Committee also promoted the cooperation among organisations in implementing the projects.

12. The Chairman of the CIIF Committee supplemented that:

- as perceived by both the World Bank and the Asian Development Bank, without the development of social capital, people would only unceasingly ask for welfare. That was the reason for setting up the CIIF. All CIIF Committee members and he considered the CIIF very successful, as only a small amount of money (i.e. $212 million) had
been allocated in eight years while 21,000 people had been transformed from recipients to providers of assistance;

- the effectiveness of the CIIF’s strategies in developing social capital was affirmed by a study of the CIIF operation and funded projects conducted by a consortium comprising academics from local universities, which reflected that social capital was a new concept and was worthy of promotion. The CIIF conducted annual forum and invited overseas guests to join and share experiences on social capital. The guests reflected that the mode adopted by Hong Kong to build social capital was effective;

- the LWB had commissioned independent consultants in 2010 to conduct another external review on the effectiveness of the CIIF. Upon the completion of the review in early 2012, the LWB would submit a paper to the Government on the way forward of the Fund;

- to promote the CIIF, he had reported progress of the CIIF to the chairmen of the 18 District Councils through the Home Affairs Department. The District Council chairmen and members helped promote the Fund in the districts;

- 17 out of 229 applications were approved in 2002. The number of successful applications was small because the majority of applications were unqualified. In addition, the CIIF Committee had turned down some applicants who were not able to achieve financial sustainability. With the passage of time, people had become aware that the CIIF was not a recurrent fund. The number of annual applications had decreased and remained at a range between 50 to 80. Although the number of applications had decreased, the success rate had relatively increased; and

- after several years of the CIIF operation, he expected that there would not be as many innovative projects as when the Fund was set up.

Social capital concept

13. Noting that people were not familiar with the concept of social capital, the Committee asked about:

- the definition of "social capital" according to the World Bank and the Asian Development Bank; and
14. In his letter of 29 November 2010 (in Appendix 29), the Secretary for Labour and Welfare advised that:

- the definition of social capital adopted by the CIIF was based on the World Bank's definition announced on its official website. "Social capital" referred to the institutions, relationships, and norms that shaped the quality and quantity of a society's social interactions. Social capital included social norms (individual attitudes and social values), networks, and institutions. The "strategies" deployed in social capital development included "cognitive", "relational" and "structural" dimensions, incorporating psychological and sociological concepts of "role transformation", "social trust" in horizontal "bridging" across heterogeneous groups and collaboration in vertical "linking" partnerships across sectors and power hierarchy. Social capital was more than the sum of the institutions or the talents of individuals that underpinned a society. It agglomerated the people and the institutions together with a view to striving for the common good; and

- the Asian Development Bank did not elaborate much on the definition of social capital. Social capital included networks, groups, mutual trust, mutual understanding, personal attitudes, social values and systems, which were basically similar to the World Bank's definition.

15. The Committee further asked whether the Administration, when appointing members from different sectors to the CIIF Committee, had considered their knowledge in social capital and whether an introduction to the concept of social capital was given to the new members.

16. The Secretary for Labour and Welfare and the Chairman of the CIIF Committee said at the public hearing and the Secretary for Labour and Welfare replied in his letter of 29 November 2010 that:

- when appointing members to the CIIF Committee, the Administration would carefully consider all relevant factors, including their knowledge and experience in social capital and whether they could facilitate the
promotion and development of social capital, and determine the suitability of individuals to serve as members of the CIIF Committee;

- when issuing appointment letters to the new members, the Administration would attach a copy of the relevant Legislative Council ("LegCo") Finance Committee paper, which included an introduction to social capital, background, objectives, models and assessment criteria, etc. of the CIIF when it was set up in 2002 for their information; and

- with the establishment of the Social Capital.Net by the CIIF to consolidate local practical experience on social capital for its better development, its 100 members had a good grasp of the social capital concept. The LWB and the CIIF Committee were promoting this programme to recruit more members, in order to disseminate the social capital concept in the community through social networks.

External Review on CIIF

17. Noting that the LWB had commissioned independent consultants to conduct another external review on the effectiveness of the CIIF, the Committee asked who would conduct the review and about the review timetable.

18. The Chairman of the CIIF Committee replied at the public hearing, and the Secretary for Labour and Welfare replied in his letter of 17 December 2010 (in Appendix 30) that:

- the review was conducted by two universities which were recommended by the CIIF Committee and commissioned by the LWB through open tender. It was launched in October 2010 and was expected to be completed in early 2012. The consultants were required to submit interim report as well as final report; and

- the two universities would study different subjects separately. One of them was responsible for in-depth study of the 20-odd projects in Tin Shui Wai. The projects were developed in response to the tragedies happened in that district a few years ago.
Assessment of CIIF applications

19. The Committee referred to the guidelines on assessment procedures and criteria for CIIF applications in 2002 provided by the Secretary for Labour and Welfare in his letter of 29 November 2010. The guidelines stipulated that the innovative nature, merit and intent of the CIIF came with increased risk exposure. The risk areas to be addressed by the CIIF Committee included: the expected outcomes were new and might be difficult to specify, achieve, or monitor as well as measure; and the assessment criteria and process were new and untested. The Committee asked whether the CIIF Committee had a better understanding of the risks after so many years of experience.

20. In response, the Chairman of the CIIF Committee said that:

- it was difficult for the CIIF Committee to ascertain if the expected outcome could be achieved due to the existence of many variables, such as withdrawal of stakeholders in the process of project implementation. Yet, the CIIF Committee would try its best to perform its duty;

- the past experience of applicants would also affect the chance of project failure or delay. The CIIF Committee was able to deal with the risk of grantees not being able to continue their projects; and

- the CIIF had been reviewing the assessment criteria to ascertain their appropriateness.

21. The Committee referred to the revised assessment criteria for the 16th batch of applications. The Committee was concerned that the requirements on organisations' leadership and capability would not be conducive to small organisations' application for the Fund. The Committee asked whether there were examples of approved projects run by small organisations.

22. The Chairman of the CIIF Committee responded that there had not been many projects which were run by small organisations with CIIF funding. They contributed to about 20% of the total number of projects and often had to cooperate with other stakeholders. As the CIIF did not want to rely too much on welfare agencies to achieve its objectives, it had been encouraging small-to-medium-sized commercial companies to apply for the Fund. Such companies, however, were not keen on applying for CIIF funding.
23. The Committee referred to a discussion paper on "CIIF applications: assessment procedures and criteria" prepared by the CIIF Secretariat for the first meeting of the Assessment Sub-committee (currently known as the Assessment and Evaluation Sub-committee) ("the Sub-committee") of the CIIF on 20 September 2002, which was provided by the Secretary for Labour and Welfare in his letter of 29 November 2010. As stated in the assessment form attached to the discussion paper, one of the criteria for assessing CIIF applications was "other negative factors" which included the draft criterion of "political consideration". The Committee asked why such a criterion was included, and whether the CIIF Committee had ever assessed any application by this criterion.

24. The Secretary for Labour and Welfare responded in his letter of 17 December 2010 that:

- according to the minutes of the Sub-Committee meeting on 20 September 2002, there was no discussion on the draft criterion at the meeting;

- the CIIF Committee had discussed the assessment procedures and criteria at its meeting held on 24 September 2002. The meeting agreed that the Sub-committee would conduct a "practice run" in late October 2002, with a view to building consensus on the application of the assessment criteria and detailed working arrangements of the assessment procedures as proposed by the Sub-committee;

- the Sub-committee subsequently held its second meeting on 29 October 2002 to further discuss the assessment procedures and criteria. The assessment form attached to the discussion paper for the meeting was revised and the draft criterion of "political consideration" was deleted;

- when the first batch of applications was submitted to the CIIF Committee for vetting on 9 December 2002, the criterion of "political consideration" was no longer included in the assessment form. Therefore, since the CIIF processed its first batch of applications, "political consideration" had not been one of the criteria for vetting project applications; and

- the CIIF had subsequently further revised the assessment form and the most updated version also did not include the criterion of "political consideration".
Project sustainability

25. According to paragraph 3.13 of the Audit Report, of the 10 completed projects, the sustainability of seven of them was questionable. The Committee asked whether the CIIF Committee had conducted any review to ascertain why the seven projects could not sustain.

26. The Secretary for Labour and Welfare replied in his letter of 17 December 2010 that:

- the LWB and the CIIF Committee believed that Audit mainly meant that the projects could not sustain financially, e.g. other sources of subsidies were still required;

- the CIIF Committee considered that the concept of sustainability should be interpreted from a wider perspective. The projects needed not necessarily be implemented in their original modes of operation. In fact, if the operating organisations could adopt effective social capital strategies in implementing the projects, the social outcomes of the projects would become sustainable. These social outcomes included the enhancement of participants' capacity through role transformation, successful establishment of networks of mutual help in the neighbourhood, and creation of more development opportunities in society through multi-partite collaboration, etc;

- the LWB and the CIIF Committee considered that nine of the 10 projects mentioned in the Audit Report were sustainable in terms of social outcomes. The remaining project was completed in 2005 and the relevant project staff had already departed. The grantee indicated that it could not provide information for assessment purpose; and

- the CIIF Committee reviewed the overall performance of project sustainability from time to time. Five local academic institutions were commissioned to jointly conduct an evaluation study for the CIIF between 2004 and 2006. The study confirmed the effectiveness of the CIIF in fostering mutual support in the neighbourhood, tripartite collaboration among the community, business sector and the Government, as well as community participation, etc. The CIIF had commissioned independent consultants to launch the second evaluation study in October 2010. The study was expected to be completed in early 2012.
The Committee further asked:

- whether the CIIF Committee would set a quantifiable target, such as 70%, in respect of the number of projects which could sustain; and

- whether the CIIF would allow flexibility for those projects which could be socially sustainable but needed longer time to attain financial sustainability.

In response, the Chairman of the CIIF Committee said that:

- he could hardly guarantee that all completed projects would be sustainable as there were many variables, such as change of personnel, which would affect project sustainability. However, sustainability would be the focus of the CIIF’s work. In fact, the CIIF Committee had been following up the sustainability of the completed projects launched in 2002; and

- when the CIIF was established, it targeted on projects requiring two to three years for development. As such, only large organisations were capable of carrying out the projects. The CIIF had adjusted its target and would approve projects which lasted for one year. Upon conducting reviews after project completion, capable organisations would be encouraged to submit applications for further funding their projects.

Difficulties in applying for CIIF funding or implementing CIIF projects

According to paragraph 3.5 of the Audit Report, some grantees had reflected that the implementation of a project involved heavy administrative workload (e.g. preparing quarterly project progress reports) and high administrative cost. The Committee was also aware that some grantees had encountered difficulties in applying for advance payment of disbursement as operating/start-up funds, and in obtaining approval for re-allocation of funds during the implementation of the projects. The Committee asked about the CIIF Committee's mechanism of reporting project progress by grantees as compared to that of similar funds in the Government.
30. The Chairman of the CIIF Committee replied at the public hearing and the Secretary for Labour and Welfare replied in his letters of 29 November 2010 and 17 December 2010 that:

- according to the Conditions of Grant of the CIIF, grantees were required to submit four quarterly reports every year during the implementation period to enable the CIIF Secretariat to conduct timely monitoring and provide advice and support to the grantees when necessary to help them complete the projects. To facilitate the reporting of project performance by the operating organisations, the CIIF Secretariat had revised the quarterly performance report form in early 2010 to set out clearly the items that needed to be reported, so as to make it easier for the operating organisations to complete the report form and understand the requirements of the CIIF. The CIIF Secretariat would also send guidelines to grantees via e-mail about half a month before each reporting deadline to remind them of the need to submit reports on time and the points to note; and

- the CIIF provided seed money to facilitate and promote the development of social capital and had a clear objective and positioning. It did not provide financial support for individuals or support various social welfare programmes. Thus, it was not appropriate to make a comparison of operation between the CIIF and other government funds.

31. The Committee referred to the quarterly progress report form, which required the grantee to report on the overall social capital outcomes and specific objectives assessment, and to provide project participants' feedback for sharing, such as positive changes, touching stories, commendations or complaints of participants. The Committee asked whether the grantees would discuss with their project mentors before completion of the progress reports.

32. In response, the Chairman of the CIIF Committee replied that:

- each CIIF project would be followed up by a project officer of the CIIF Secretariat. The officer would be very familiar with the project development and would vet the quarterly progress reports submitted by grantee;

- the mentor of the project, together with the project officer, would pay site visits and hold review meetings with the project team to discuss the
team's concern and project performance where appropriate. As a general practice, when mentors came across successful projects, they would share the experience of these projects with other grantees; and

- among the 213 approved projects, the majority of them were able to meet the expected targets, 26% were well-performed flagship projects and 12% with unsatisfactory performance/rooms for improvement. The CIIF would prioritise the projects having regard to their circumstances and give appropriate assistance to them.

33. As regards the advance payment of disbursement as operating/start-up funds, the Committee asked:

- whether all applicants were eligible for applying for advance payment of disbursement;

- about the number of projects for which advance payments had been made to the grantees since the establishment of the CIIF in 2002; and for each of these projects, the percentage of the funds advanced versus the total amount of the approved budget; and

- how the CIIF Committee's mechanism of granting advance payments compared to similar funds in the Government, including the criteria for approving application for advance.

34. In his letter of 17 December 2010, the Secretary for Labour and Welfare replied that:

- a total of 229 projects had been approved by the CIIF since its establishment in 2002. Four of the projects were granted advance payment as part of the subsidies by the CIIF Committee. The percentage of the funds advanced versus the total amount of the approved budget ranged from 5% to 13%;

- the CIIF funds were mainly disbursed in the form of reimbursement on a regular basis. To prevent potential abuse of public funds, the CIIF Committee would consider and handle requests for advance payment of subsidies only on a case-by-case basis under exceptional circumstances. The amount of funding involved normally would not exceed the estimated costs for the first three months of the projects. For the four
applications approved previously, the main considerations of the CIIF Committee included the track record of the applicants, their affordability for advance payment of costs, as well as the expenditure items which required advanced funds and the reasonableness of the amount of funds involved; and

- the CIIF was unique in nature and had a clear objective and positioning. It provided seed money to facilitate and promote the development of social capital. It did not provide financial support for individuals or support various social welfare programmes. Thus, it was not appropriate to make a comparison of the funding arrangements between the CIIF and other government funds.

35. The Committee further asked whether the CIIF would approve application for re-allocation of funds among different expenditure items of the budget based on the actual situation of the projects; and whether the CIIF Committee would consider relaxing some of its administrative requirements and procedures to facilitate grantees' implementation of their projects, and to encourage those organisations with lower financial capacity but had innovative ideas to apply for the Fund.

36. The Chairman of the CIIF Committee responded that:

- there was an established system for grantees to revise their budget with justifications. The grantees were allowed to re-allocate not exceeding 15% of the approved amount of an expenditure item. However, they were required to seek the CIIF Committee' approval for re-allocation of funds of more than 15%. The CIIF Committee would normally approve such a re-allocation request with justifications;

- since the CIIF was funded by public money, the CIIF Committee and the Administration had to uphold the principle of prudence in implementing the administrative requirements and procedures. For example, the CIIF Secretariat would ensure that there were sufficient supporting documents before granting reimbursement of expenditure by grantees;

- in the past, the CIIF Secretariat might ask the applicants to revise their project proposals so as to increase their chance of being approved by the CIIF Committee. The good intention of the Secretariat staff was, however, misunderstood by some applicants as forcing them to revise
their proposals, and hence increasing their administrative workload. In order to improve the situation, the CIIF had arranged interviews between individual applicants and the CIIF Committee members to enable them to exchange views on the ideas and content of the projects, with a view to enhancing the quality of the project proposals; and

- to reduce applicants' administrative workload, the CIIF had simplified the application form for CIIF funding in the last quarter. It was a dilemma for the CIIF Committee as it had to ensure the optimum use of the CIIF funding on one hand and to facilitate applicants or executive agencies on the other hand. The CIIF had been reviewing the application procedures from time to time. With a view to simplifying the procedures by digitalisation, the CIIF Secretariat had also employed a Computer Analyst/Programmer. He believed that with digitalisation, more manpower could be released to perform other jobs.

C. Assessment and monitoring of projects

37. The Committee referred to the funding recommendations prepared by the CIIF Secretariat for the Sub-committee meeting on 29 October 2002, as provided by the Secretary for Labour and Welfare in his letter of 29 November 2010. Noting that the cost of rental of the three projects (Application Nos. 11-1, 17-1 and 113-1) appeared to be very high when compared to the total budget, the Committee asked:

- about the reasons for the high rental costs of the three projects; and

- whether the LWB or the CIIF Committee had ever explored the feasibility of helping the grantees of these projects to make use of vacant government premises in order to reduce rental costs.

38. In his letter of 17 December 2010, the Secretary for Labour and Welfare replied that:

- Application No. 11-1: the project aimed to identify a regular venue in Kwai Tsing for setting up a "cyber cafe for the elderly" to provide a platform for mutual acquaintance for the elders in the district;

- Application No. 17-1: the project aimed to identify a regular venue in Fu Cheong Estate, Sham Shui Po, for provision of after-school care service; and
- Application No.113-1: the project aimed to rent a shop in the shopping centre near Po Tin Interim Housing ("IH") for office use by the project staff and for IH residents to gather.

39. Regarding the reasons for the high estimated rental costs, the Secretary for Labour and Welfare stated in the same letter that:

- the CIIF had been encouraging applicants to establish networks of mutual help with local stakeholders in pursuance of the development of the social capital concept. Among the three applications, Application No.11-1 was finally not accepted by the CIIF Committee;

- as for the other two applications (i.e. Application No.17-1 and Application No.113-1), the Sub-committee, when discussing the applications, considered that the proposals had the potential for developing social capital. However, the Sub-committee also noted that the estimated rental costs were on the high side and thus encouraged the applicants to cooperate with local stakeholders to make effective use of the existing community resources to reduce unnecessary rental costs;

- the two applicants actively discussed with local groups and successfully secured the provision of venues by local stakeholders to achieve the benefits of sharing community resources. The two applications (i.e. Application No.17-1 and Application No.113-1) were formally approved by the CIIF Committee after amendments had been made to the estimated costs; and

- in line with its objective of establishing social capital in the community, the CIIF would continue to encourage applicants to make active efforts to implement projects jointly with local stakeholders, including government departments.

D. Governance of the Community Investment and Inclusion Fund and use of funds by grantees

Governance of CIIF

Publication of performance information

40. According to paragraph 2.15 of the Audit Report, the CIIF Secretariat had compiled 17 items of performance information for the CIIF Committee's internal
consumption. However, it only published nine items on the CIIF's websites and/or in the periodic progress reports submitted to the LegCo Panel on Welfare Services. The Committee asked:

- what the 17 items of performance information were;

- why only nine items were published whereas the remaining eight items were left out; and

- about the follow-up actions taken by the CIIF to publish more performance information, as recommended by Audit in paragraph 2.16(g) of the Audit Report.

41. The Secretary for Labour and Welfare replied at the public hearing and in his letter of 29 November 2010 that:

- the 17 items of performance information of the CIIF, as at 25 November 2010, were as follows:

(a) 213 approved projects in the 16 batches of applications;

(b) over $210 million allocated to the 16 batches of applications;

(c) engaged over 560 000 participants;

(d) transformed 21 000 people from service recipients to providers of assistance;

(e) helped over 5 000 people re-enter the labour market with enhanced confidence and capabilities;

(f) supported over 14 500 families;

(g) formed over 450 mutual support networks;

(h) founded over 20 self-support groups;

(i) mobilised over 5 000 collaboration partners;

(j) geographical distribution of the projects: CIIF-funded projects covered all the 18 districts in Hong Kong, with the majority of
projects (i.e. 28 projects) implemented in Tin Shui Wai, followed by 23 projects in Sham Shui Po;

(k) project target groups: major target groups included "family and children network", "community capacity building", "youth development", "social integration (services for ethnic minorities and new immigrants)", "community health care network", "cross generation integration" and "elderly support and empowerment";

(l) classification of project performance: among the 213 approved projects, about 26% were well-performed flagship projects, 62% were able to meet the expected targets and the remaining 12% with unsatisfactory performance/rooms for improvement;

(m) quarterly reimbursement claims of each CIIF project;

(n) released over $120 million of funding;

(o) submission records of performance reports;

(p) submission records of annual audit reports; and

(q) attendance records of site visits and reasons for cancellation (if applicable); and

- the CIIF Secretariat did not deliberately leave out items (j) to (q) of the performance information which were not released to the public through various channels in the same way as items (a) to (i) above. In accordance with the recommendations of Audit, the CIIF Secretariat would upload all the 17 items of performance information onto the CIIF website and would regularly update them for public information.

42. The Committee further asked whether the 12% projects with unsatisfactory performance/rooms for improvement mentioned above were mostly implemented by small organisations.

43. In response, the Chairman of the CIIF Committee and the Secretary for Labour and Welfare said that, of the 12% projects with unsatisfactory performance/rooms for improvement, some of them were run by large organisations and some by small organisations. The CIIF admitted that small organisations might
have difficulties in implementing the projects due to their limited financial capability. For example, one of the projects was run by a small organisation in Tai O. As it turned out, some project initiatives were suspended because of change of personnel and other factors. The CIIF Committee had assisted the reorganisation of the project so as to facilitate other organisations to continue implementing it.

**Reporting achievements on social capital development**

44. As revealed in Cases 1 to 3 in paragraph 3.19 of the Audit Report, the achievements reported by some grantees were inaccurate and not fully substantiated. For instance, in Case 1, the same volunteer was counted 13 times. In addition, some grantees had different interpretations of performance indicators such that the reported achievements were not comparable on a like-with-like basis. The Committee asked:

- apart from the three cases mentioned in the Audit Report, whether the CIIF Committee had examined if there were any other similar cases in the past and what actions the CIIF Committee would take to prevent the recurrences of such problem; and

- whether the CIIF had set a definition for "volunteers".

45. The Chairman of the CIIF Committee, and the Secretary for Labour and Welfare stated that:

- due to insufficient manpower, the CIIF had not examined whether there were similar cases. However, it would test check the accuracy of information included in the grantees' project achievement reports as recommended by Audit; and

- there had not been a definition of "volunteers" provided by the CIIF. To prevent grantees from mixing up the numbers of participants with attendances of participants again, the CIIF had provided a clear instruction on this in the revised quarterly progress report form.

**Declaration of interests by committee members**

46. The Committee asked whether the CIIF Committee had adopted the two-tier reporting system for declaration of interests by committee members, as
recommended by Audit in paragraph 2.16(a) of the Audit Report. The Secretary for Labour and Welfare replied that it had been done.

Use of funds by grantees

Expenditure on "one-off" activities

47. According to paragraph 5.16(a) of the Audit Report, one-off activities might still be approved by the CIIF Secretariat if they had long-lasting effect on social capital development. The Committee asked:

- what the long-lasting effect of the one-off activities was; and

- apart from the six projects examined by the Audit, whether the CIIF Secretariat had rejected other applications for one-off activities and what the reasons for the rejection were.

48. In his letter of 29 November 2010, the Secretary for Labour and Welfare replied that CIIF funding was paid quarterly to grantees on a reimbursement basis. The CIIF application form stated that "one-off large-scale events, which are not in line with the rationale of social capital building and without continuous impact, will generally not be supported (such as banquets, carnivals and tours). If the one-off event is regarded as crucial in the project, please elaborate on its cost-effectiveness and how it can help build social capital. Please also provide the budgeted expenses and income of the one-off event". In considering whether to reimburse expenditure on individual activities, the CIIF Secretariat would mainly consider whether the nature of the activities was in line with the project objectives and how the activities would facilitate social capital development. When applying for reimbursements, grantees were required to provide justifications regarding the nature of the activities, attendance records, effectiveness and expenditure of the activities.

Asset management

49. The Committee asked:

- whether the assets procured under the projects, such as computer equipment, would be returned to the CIIF upon their completion;

- how the CIIF managed the returned assets from grantees; and
whether the current establishment of the CIIF Secretariat was sufficient for properly carrying out its asset management duties, including the implementation of Audit's recommendations in paragraph 5.23 of the Audit Report.

50. In his letter of 17 December 2010, the Secretary for Labour and Welfare stated that:

- the requirements on procurement and asset management for the grantees had been set out in the Conditions of Grant of the CIIF. The LWB and the CIIF Committee accepted the recommendations on asset management in paragraph 5.23 of the Audit Report and would further enhance the asset management mechanism; and

- when the CIIF was established in 2002, the relevant paper of the LegCo Finance Committee indicated that the then Health and Wealth Bureau (known as the Labour and Welfare Bureau since July 2007) would provide secretariat service for the CIIF. Having regard to the increasing number of projects and the development of the CIIF, the Administration had allocated additional resources over the past few years to strengthen the manpower of the Secretariat. The strength of the Secretariat had increased from five at the inception of the CIIF in 2002 to 11 at present. The Administration would continue to closely keep in view the manpower situation and requirements of the Secretariat in the light of the future development of the CIIF.

51. The Committee referred to paragraphs 5.18 and 5.24 of the Audit Report and asked about the latest progress made by the CIIF in developing guidelines on:

- approval of claims for expenditure on "one-off" activities not having long-lasting effects on social capital development; and

- the monetary value above which assets had to be recorded in an asset register.

52. In his letter of 7 January 2011 (in Appendix 31), the Secretary for Labour and Welfare replied that:

- the CIIF Secretariat had issued to staff a set of internal guidelines on the handling of applications for reimbursement of funds for activities in
January 2011, so as to provide them with clearer guidelines and consistent standards for approving claims for expenditure on "one-off" activities. The internal guidelines clearly set out that the CIIF would not subsidise "one-off" activities lacking long-lasting effects on social capital development. The conditions to be met for approval of claims for expenditure on activities were also specified; and

- the CIIF Secretariat had completed the amendments to the "Notes to Grantees" and issued the amended Notes to the organisations/groups receiving subsidies under the CIIF in January 2011 to remind them of the need to conduct procurement in accordance with the approved list of furniture and equipment items included in the Conditions of Grant for the CIIF. All furniture and equipment items valued HK$1,000 or above should be registered on the Fixed Asset Register for submission to the Secretariat quarterly. Funded organisations/groups were also required to appoint an asset manager to manage the project assets. The Secretariat would send staff to conduct inspections as and when necessary.

E. Conclusions and recommendations

53. The Committee:

- expresses concern that:

(a) although the Community Investment and Inclusion Fund ("CIIF") has operated for more than eight years since its establishment in 2002, the pace of fund disbursement has been slow and the number of successful applications small. As at June 2010, the CIIF had an uncommitted balance of $88 million, which is 29% of its total funding of $300 million;

(b) it is not ascertainable how successful the projects funded by the CIIF have been able to promote and build social capital as follow-up reviews have not been conducted on completed projects to assess their effectiveness, including their social and financial sustainability; and

(c) the operation and requirements of the CIIF, such as its funding arrangements under which funds are disbursed in the form of reimbursement while requests for advance payment of
disbursements are discouraged, the need to submit quarterly project progress reports, and the emphasis on project sustainability beyond the CIIF funding period, may not be conducive to encouraging smaller organisations to apply for CIIF funding;

- acknowledges that:
  
  (a) the Labour and Welfare Bureau ("LWB") has commissioned independent consultants to launch the second external review in October 2010 to assess the achievement of the CIIF objectives and the need for planning new funding injection to sustain the CIIF’s social function, and the review is expected to be completed in early 2012; and

  (b) the LWB will, in consultation with the CIIF Committee, consider and work out the way forward for the CIIF with reference to the outcome of the 2010 external review;

- urges that the Secretary for Labour and Welfare and the CIIF Committee should, before completion of the above external review, critically review the overall achievement of the CIIF objectives and work out the way forward for the CIIF, taking into account the availability of other sources of funding that support the development of social capital, and consult the Panel on Welfare Services;

**Development of social capital**

- expresses concern that:

  (a) there have been inadequate efforts made by the Secretary for Labour and Welfare and the CIIF Committee to publicise the social capital concept and the CIIF’s objectives to the community;

  (b) from April 2002 to June 2010, the CIIF only received 943 applications which were significantly fewer than the estimated number of about 3,200 applications in eight years (i.e. 400 applications a year);

  (c) some grantees have expressed difficulties in applying for CIIF funding and might not apply for funding again due to the heavy administrative workload and high administrative cost involved in implementing CIIF projects;
(d) while the CIIF has placed emphasis on the sustainability of projects beyond the funding period, project sustainability has only been given a weighting of 10% in the marking scheme used for assessing CIIF applications;

(e) the CIIF Secretariat has not made it a practice to conduct follow-up reviews on completed projects to ascertain whether the objectives of promoting and building social capital have been achieved and whether the projects have sustained. Neither could the CIIF Secretariat provide evidence to support some reported information on project sustainability;

(f) a number of completed projects cannot sustain financially after the funding period;

(g) there have been cases of omission or inaccuracy in reporting project achievements by some grantees. For example, some grantees adopted different definitions for "volunteers" in different projects, resulting in difficulties in making a fair comparison of project achievements; and

(h) the requirement on grantees themselves to provide project participants' feedback for sharing, such as positive changes, touching stories, commendations or complaints of participants, in the quarterly project progress report form may be problematic as the grantees may be self-serving in selecting the kind of feedback for sharing;

- acknowledges that:

(a) the Secretary for Labour and Welfare and the CIIF Committee have:

   (i) agreed with the audit recommendations in paragraphs 3.7, 3.16, 3.21 and 3.27 of the Director of Audit's Report ("Audit Report"); and

   (ii) stepped up publicity efforts to promote the CIIF through various means; and
(b) "political consideration" has not been a criterion for vetting project applications ever since the CIIF processed its first batch of applications in December 2002;

- urges the Secretary for Labour and Welfare and the CIIF Committee to:
  
  (a) publicise the social capital concept and the objectives of the CIIF to the community more vigorously and encourage more eligible organisations to apply for CIIF funding, especially organisations that have the capability of building social capital, such as professional groups and middle class groups;

  (b) explore the feasibility of simplifying the administrative procedures, such as reducing the frequency of submitting progress reports, and consider grantees' requests for advance payment of disbursements more favourably, so as to encourage more applications;

  (c) continue to make sure that "political consideration" will not be one of the criteria for vetting project applications;

  (d) establish effective assessment tools to measure the qualitative and quantitative aspects of project outcomes and enlist the assistance of academics in developing such tools;

  (e) make it a priority to provide clear definitions of performance indicators, such as defining the meaning of "volunteers" and following up on whether the "volunteers" have participated in other projects, so as to ensure that project achievements are reported fairly and consistently; and

  (f) facilitate the sharing of the good practices and experiences of successful projects with other grantees and potential applicants;

Assessment and monitoring of projects

- expresses concern that:

  (a) the CIIF Secretariat has not sought clarifications from some bureaux/departments which have provided "no comment" responses to its questionnaires for identifying resource duplication between proposed CIIF projects and other government-funded projects; and
(b) there were cases of late submission of audited accounts by some grantees;

- acknowledges that the Secretary for Labour and Welfare and the CIIF Committee have agreed with the audit recommendations in paragraphs 4.5, 4.10 and 4.14 of the Audit Report;

- urges the Secretary for Labour and Welfare and the CIIF Committee to proactively assist project applicants in implementing projects jointly with local stakeholders, including government departments, and where necessary, to help reduce implementation costs;

Governance of the Community Investment and Inclusion Fund and use of funds by grantees

- expresses concern that:

(a) the CIIF has adopted a one-tier reporting system for declaration of interests, although a two-tier reporting system is more appropriate given the CIIF Committee's high degree of autonomy in disbursing the $300 million Fund and that its members often have affiliation with the applicant organisations;

(b) there were cases of inconsistent declaration of interests by some CIIF Committee members, but the CIIF Secretariat has not sought clarification from the members concerned;

(c) the CIIF Secretariat has not compiled performance information measuring the efficiency and effectiveness of the operation of the CIIF;

(d) there were cases of appointment of project staff without open recruitment or with limited publicity on job vacancies by some grantees;

(e) there were no laid-down guidelines for the CIIF Secretariat to follow in approving claims for expenditure on "one-off" activities not having long-lasting effects on social capital development; and

(f) there were cases of purchase of goods/services without obtaining quotations and there were no guidelines on the monetary value above which assets have to be recorded in an asset register;
acknowledges that:

(a) the Secretary for Labour and Welfare and the CIIF Committee have agreed with the audit recommendations in paragraphs 2.16, 5.5, 5.9, 5.13 and 5.27 of the Audit Report; and

(b) in January 2011, the CIIF Secretariat has issued:

(i) a set of internal guidelines on the handling of applications for reimbursement of funds for activities; and

(ii) the amended "Notes to Grantees" to provide guidelines on the monetary value above which assets have to be recorded in an asset register;

- urges the Secretary for Labour and Welfare and the CIIF Committee to expeditiously implement the above audit recommendations;

Follow-up actions

- wishes to be kept informed of:

(a) the decision of the Secretary for Labour and Welfare and the CIIF Committee on whether to review the overall achievement of the CIIF objectives and work out the way forward for the CIIF before completion of the external review;

(b) the outcome of the second external review conducted by independent consultants to assess the achievement of the CIIF objectives and the need for planning new funding injection to sustain the CIIF's social function;

(c) the measures taken to simplify the administrative procedures to encourage more applications;

(d) the actions taken to publicise the social capital concept and objectives of the CIIF to the community and encourage more eligible organisations to apply for CIIF funding;

(e) the measures taken to establish effective assessment tools to measure the qualitative and quantitative aspects of project outcomes;
(f) the progress made in providing clear definitions of performance indicators to ensure that project achievements are reported fairly and consistently;

(g) the measures taken to facilitate the sharing of good practices and experiences of successful projects with other grantees and potential applicants;

(h) the actions taken to assist project applicants in implementing projects jointly with local stakeholders to help reduce implementation costs; and

(i) the progress made in implementing the various audit recommendations.
SIGNATURES OF THE CHAIRMAN, DEPUTY CHAIRMAN AND MEMBERS OF THE COMMITTEE

Philip WONG Yu-hong
(Chairman)

Paul CHAN Mo-po
(Deputy Chairman)

Andrew CHENG Kar-foo

Abraham SHEK Lai-him

Ronny TONG Ka-wah

Cyd HO Sau-lan

Starry LEE Wai-king

26 January 2011
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RULES OF PROCEDURE OF
THE LEGISLATIVE COUNCIL OF
THE HONG KONG SPECIAL ADMINISTRATIVE REGION

72. Public Accounts Committee

(1) There shall be a standing committee, to be called the Public Accounts Committee, to consider reports of the Director of Audit –

(a) on the accounts of the Government;

(b) on such other accounts required to be laid before the Council as the committee may think fit; and

(c) on any matter incidental to the performance of his duties or the exercise of his powers as the committee may think fit.

(2) The committee shall also consider any report of the Director of Audit laid on the Table of the Council which deals with examinations (value for money audit) carried out by the Director relating to the economy, efficiency and effectiveness of any Government department or public body or any organization to which his functions as Director of Audit extend by virtue of any Ordinance or which receives public moneys by way of subvention.

(3) The committee shall consist of a chairman, deputy chairman and 5 members who shall be Members appointed by the President in accordance with an election procedure determined by the House Committee. (L.N. 214 of 2005)

(3A) The chairman and 2 other members shall constitute a quorum of the committee. (L.N. 214 of 2005)

(3B) In the event of the temporary absence of the chairman and deputy chairman, the committee may elect a chairman to act during such absence. (L.N. 214 of 2005)

(3C) All matters before the committee shall be decided by a majority of the members voting. Neither the chairman nor any other member presiding shall vote, unless the votes of the other members are equally divided, in which case he shall give a casting vote. (L.N. 214 of 2005)

(4) A report mentioned in subrules (1) and (2) shall be deemed to have been referred by the Council to the committee when it is laid on the Table of the Council.
(5) Unless the chairman otherwise orders, members of the press and of the public shall be admitted as spectators at meetings of the committee attended by any person invited by the committee under subrule (8).

(6) The committee shall meet at the time and the place determined by the chairman. Written notice of every meeting shall be given to the members and to any person invited to attend a meeting at least 5 clear days before the day of the meeting but shorter notice may be given in any case where the chairman so directs.

(7) (Repealed L.N. 214 of 2005)

(8) The chairman or the committee may invite any public officer, or, in the case of a report on the accounts of or relating to a non-government body or organization, any member or employee of that body or organization, to give information or any explanation or to produce any records or documents which the committee may require in the performance of its duties; and the committee may also invite any other person to assist the committee in relation to any such information, explanation, records or documents.

(9) The committee shall make their report upon the report of the Director of Audit on the accounts of the Government within 3 months (or such longer period as may be determined under section 12 of the Audit Ordinance (Cap. 122)) of the date on which the Director's report is laid on the Table of the Council.

(10) The committee shall make their report upon the report of the Director of Audit mentioned in subrule (2) within 3 months (or such longer period as may be determined by the Council) of the date on which the Director's report is laid on the Table of the Council.

(11) Subject to these Rules of Procedure, the practice and procedure of the committee shall be determined by the committee.
SCOPE OF WORK

1. The Director of Audit may carry out examinations into the economy, efficiency and effectiveness with which any bureau, department, agency, other public body, public office, or audited organisation has discharged its functions.

2. The term "audited organisation" shall include -

   (i) any person, body corporate or other body whose accounts the Director of Audit is empowered under any Ordinance to audit;

   (ii) any organisation which receives more than half its income from public moneys (this should not preclude the Director from carrying out similar examinations in any organisation which receives less than half its income from public moneys by virtue of an agreement made as a condition of subvention); and

   (iii) any organisation the accounts and records of which the Director is authorised in writing by the Chief Executive to audit in the public interest under section 15 of the Audit Ordinance (Cap. 122).

3. This definition of scope of work shall not be construed as entitling the Director of Audit to question the merits of the policy objectives of any bureau, department, agency, other public body, public office, or audited organisation in respect of which an examination is being carried out or, subject to the following 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.

GUIDELINES

4. 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 these Guidelines, he will not comment on policy decisions of the Executive Council and the Legislative Council, save from the point of view of their effect on the public purse.

5. 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.

6. The Director of Audit may also -

(i) consider as to whether policy objectives have been determined, and policy decisions taken, with appropriate authority;

(ii) consider whether there are satisfactory arrangements for considering alternative options in the implementation of policy, including the identification, selection and evaluation of such options;

(iii) 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;

(iv) consider as to whether there is conflict or potential conflict between different policy aims or objectives, or between the means chosen to implement them;

(v) 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

(vi) be entitled to exercise the powers given to him under section 9 of the Audit Ordinance (Cap. 122).

**PROCEDURES**

7. The Director of Audit shall report his findings on value for money audits in the Legislative Council twice each year. The first report shall be submitted to the President of the Legislative Council within seven months of the end of the financial year, or such longer period as the Chief Executive may determine. Within one month, or such longer period as the President may determine, copies shall be laid before the Legislative Council. The second report shall be submitted to the President of the Legislative Council by the 7th of April each year, or such date as the Chief Executive may determine. By the 30th April, or such date as the President may determine, copies shall be laid before the Legislative Council.

8. The Director's report shall be referred to the Public Accounts Committee for consideration when it is laid on the table of the Legislative Council. The Public Accounts Committee shall follow the rules governing the procedures of the Legislative Council in considering the Director's reports.

9. A Government minute commenting on the action Government proposes to take in respect of the Public Accounts Committee's report shall be laid on the table of the Legislative Council within three months of the laying of the report of the Committee to which it relates.
10. In this paper, reference to the Legislative Council shall, during the existence of the Provisional Legislative Council, be construed as the Provisional Legislative Council.
Ms Macy Ng
Legislative Council Secretariat
Legislative Council Building
8 Jackson Road
Central

Dear Ms Ng,

Follow-up to Public Accounts Committee Report No. 45
Development of a Site at Sai Wan Ho

Thank you for your letter dated 11 January 2011 to the Secretary for Development. I am authorized to reply.

In his Policy Address 2010-11, the Chief Executive (CE) reaffirmed that the Government is committed to enhancing the design standard of new buildings to foster a quality and sustainable built environment for our next generation. The CE announced that the Government will introduce a series of measures formulated in light of the recommendations of the Council for Sustainable Development, requiring the incorporation of such design elements as building separation or enhancement of building permeability, setback and greenery in new buildings. To widely promote green building in Hong Kong, we will raise the building energy efficiency standards and require developers to provide environmental and energy consumption information of buildings for the reference of potential users.
The series of measures also include the tightening up of policy on granting gross floor area concessions for private buildings. Major changes include doing away with concessions for certain features, lowering the level of concessions for car parks, balconies, utility platforms and clubhouse facilities, and imposing an overall cap of 10% for a number of features which still qualify for concession. We will also reduce the maximum permissible projection of bay windows.

The details of the proposal and implementation plan have been set out in the Legislative Council brief issued on 13 October 2010 (at Annex). The revised practice notes stipulating the details of the proposals would come into effect on 1 April 2011.

We believe that the new package of measures will strike a proper balance between fulfilling environment performance and comfort requirements of buildings on the one hand, and minimising the impact on the surrounding environment as far as possible on the other. It will also ensure room for creativity in Hong Kong's building designs.

Yours sincerely,

Daniel Fong
for Secretary for Development

cc
Director of Audit
Director of Buildings

*Note by Clerk, PAC: Annex not attached.*
## APPENDIX 4

### Control of western medicines

**Updated progress of implementing audit recommendations**

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<th>Audit report para.</th>
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<tr>
<td><strong>Part 1 : Introduction</strong></td>
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<tr>
<td>1.17</td>
<td><strong>Review of existing regulatory control of medicines</strong></td>
<td>The Food and Health Bureau (FHB) attaches great importance to enhancing the regime for the regulation and control of medicines in Hong Kong. In formulating the Government’s strategy and preparing legislative amendments to tighten up control, the FHB would take into serious consideration the observations and recommendations of Audit.</td>
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<td></td>
<td>Audit recommends that the Secretary for Food and Health should take into account the audit observations and recommendations in this report in formulating the Government’s strategy for building up an effective regime for the regulation and control of medicines in Hong Kong.</td>
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<tr>
<td><strong>Part 2 : Importation of unregistered medicines</strong></td>
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<td>2.20</td>
<td><strong>Importation of medicines for re-export</strong></td>
<td>(a) Regarding the control of the unregistered pharmaceutical products purported for re-export, the Department of Health (DH) has convened a Task Force on Import and Export Control of Pharmaceutical Products with representatives from the FHB, the Commerce and Economic Development Bureau, the Efficiency Unit (EU), the Customs and Excise Department (C&amp;ED), and the Trade and Industry Department (TID) to formulate strategies based on risk assessment.</td>
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<td></td>
<td>Audit recommends that the Secretary for Food and Health should take the lead and, in collaboration with the Board, the Director of Health, the Director-General of Trade and Industry, and the Commissioner of Customs and Excise:</td>
<td>(a) work out a proper strategy to plug the control loophole in the importation of unregistered medicines for re-export purposes and implement the strategy without delay;</td>
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<tr>
<td></td>
<td>(a) work out a proper strategy to plug the control loophole in the importation of unregistered medicines for re-export purposes and implement the strategy without delay;</td>
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<td>(b)</td>
<td>explore, in consultation with the pharmaceutical trade, the feasibility of developing a computer system to track the import and re-export of medicines, including the more effective flow of shipment and medicine information among the DH, the C&amp;ED and the TID;</td>
<td>(b) &amp; (c) With the assistance of the EU, the Task Force is exploring the feasibility of developing a computer system to track the import and re-export of unregistered medicine and the sharing of information among the DH, the C&amp;ED and the TID. Trade consultation is an integral process in the exercise. The Administration would strike a balance between strengthening control and avoiding unnecessary inconvenience to the trade.</td>
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<td>(c)</td>
<td>in devising measures to strengthen import control, take care not to create cumbersome procedures which may cause inconvenience to the trade and discourage business; and</td>
<td>(d) The Administration will keep the Legislative Council Panel on Health Services informed in due course.</td>
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<td>(d)</td>
<td>keep the Health Panel informed of subsequent developments.</td>
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### 2.31 Importation of medicines without licences

Audit recommends that the Commissioner of Customs and Excise, the Director of Health and the Director-General of Trade and Industry need to work closely together to explore ways to step up controls over the importation of medicines.

The Task Force is also exploring ways to step up control over the importation of medicines. The DH has implemented measures such as providing more training to the C&ED front-line staff to enhance their capability in detecting medicines among imported goods; providing the C&ED with an updated list of registered medicines on a regular basis to assist the C&ED in enforcing import and export control at the boundary; and increasing the weekly quota of consignment checking from 18 to 36.

### Part 3: Inspection of dealers’ activities and other enforcement actions

#### 3.14 Inspections of manufacturers’ licensed premises

Audit recommends that the Director of Health should:

(a) uphold the DH efforts in conducting surprise inspections of manufacturers’ premises;

(a) Since March 2009, the DH has introduced unannounced inspections to manufacturers and will uphold the practice. Between March 2009 and June 2010, the DH has conducted 94 unannounced Good Manufacturing Practices (GMP) inspections against licensed manufacturers.
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<td>(b)</td>
<td>for manufacturing processes that have been outsourced to contractors outside Hong Kong, consider conducting inspections of the contractors’ premises; and</td>
<td>(b) As recommended by the Review Committee on Regulation of Pharmaceutical Products in Hong Kong, the DH will enhance the standard of local drug manufacturing in phases and plans to adopt the latest international GMP standards promulgated by the World Health Organisation (WHO) and the Pharmaceutical Inspection Co-operation Scheme (PIC/S). According to the WHO and PIC/S requirements, the DH should conduct inspections of the overseas contractors who take up the outsourced manufacturing process.</td>
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<td>(c)</td>
<td>improve the effectiveness and quality of the DH inspections, including the conduct of more frequent inspections (particularly on manufacturers with conviction records or poor performance) and adequate documentation of inspection work, taking into account the consultant’s recommendations on the GMP system in Hong Kong.</td>
<td>(c) On a consultant’s advice, the DH will enhance in phases its regulatory functions including the GMP inspections and reporting.</td>
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<td>3.25</td>
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<td><strong>Inspections of wholesalers’ and importers/exporters’ (I/E)s licensed premises</strong></td>
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<td>Audit recommends that the Director of Health should improve the effectiveness and quality of the DH inspections on wholesalers’ and I/E’s premises, including the conduct of more frequent and more comprehensive inspections (particularly on those wholesalers with high risk).</td>
<td>The DH conducts inspections on wholesalers and I/Es, and regularly reviews the frequency and the extent of such inspections adopting a risk-based approach. Inspection forms have been revised to strengthen monitoring. Relevant documents are checked before inspection to monitor the import/export status of their medicines.</td>
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<td>3.35</td>
<td><strong>Inspections of authorised sellers of poisons (ASPs) and listed sellers of poisons (LSPs)</strong></td>
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<td>Audit recommends that the Director of Health should:</td>
<td>(a) The DH conducts inspections on ASPs and regularly reviews the frequency and the extent of such inspections according to the conviction records and risk profiles of ASPs.</td>
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<td>(a)</td>
<td>take steps to strengthen the DH regulatory controls to prevent illegal sales of medicines, including, for example, inspecting convicted ASPs more frequently;</td>
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<td>(b)</td>
<td>conduct more publicity programmes to enhance the public’s knowledge of medicines;</td>
<td>(b) The DH has already enhanced public health education on slimming products and virility drugs through Announcements of Public Interest, pamphlets and thematic websites. The DH will work with other professional bodies and consumer associations to update drug information on the DH’s website on a regular basis.</td>
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<td>(c)</td>
<td>explore the desirability of imposing a requirement for ASPs/LSPs to display their licences at the entrance of their retail shops;</td>
<td>(c) The DH will, in collaboration with the Pharmacy and Poisons Board (PPB), explore measures such as requiring ASPs/LSPs to display their licences at the entrance of their retail shops.</td>
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<td>(d)</td>
<td>explore additional measures, such as publication on the DH website of the removal of retailers from the LSP list, and the conduct of surprise inspections and test purchases, to effectively deter improper retail sale of Part II poisons by former LSPs; and</td>
<td>(d) The DH has already enhanced inspections and test purchases at the removed LSPs and will, in collaboration with the PPB, explore measures such as publishing the removal of LSPs on the DH’s website.</td>
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<td>(e)</td>
<td>review how the quality of the DH routine inspections of ASPs and LSPs can be enhanced.</td>
<td>(e) The DH conducts inspections on ASPs and LSPs and regularly reviews the frequency and the extent of such inspections adopting a risk-based approach.</td>
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3.40 **Market surveillance**

Audit recommends that as a good management practice, the Director of Health should document the DH market surveillance strategy and regularly review and update it to meet changing circumstances.

The current market surveillance strategy and follow up action are based on risk assessment and are reviewed from time to time having regard to market changes, new product information and intelligence. The strategy has been reviewed and documented.

3.46 **Test purchase**

Audit recommends that the Director of Health should review and improve the existing mode of conducting test purchases. In particular, he should consider:

(a) conducting test purchases during weekends and night-time; and

(a) The DH has increased test purchases, and started to conduct test purchases during weekends and night-time either on its own or jointly with other law enforcement agencies. Since
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<td>(b)</td>
<td>purchasing different medicine items (based on risk assessment) at different times and different places.</td>
<td>June 2010, apart from 1,292 test-buy operations conducted during office hour, 94 additional test-buy operations have also been conducted after office hours. (b) The current strategy of test purchases is based on risk assessment taking into consideration of nature of medicines, which include their potential of abuse and harmfulness, and the location and time of purchase.</td>
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**Part 4: Medicine testing, recalls and public alerts**

4.15 *Collection of medicine samples for testing*

Audit recommends that the Director of Health should:

(a) as regards samples taken from different sources for analysis, review the DH’s sample testing requirements each year and, if necessary, liaise with the Government Laboratory (GL) with a view to increasing the agreed test workload;

(b) for testing of samples collected for medicine registration, conduct a post-implementation review to assess whether the streamlined procedures are effective; and

(c) for testing of samples collected from manufacturers’ premises, in collaboration with the Government Chemist, make sustained efforts to further improve the sample testing procedures; and explore the feasibility of using information technology (IT) to improve the DH’s information sharing (such as information relating to the movements of samples and dissemination of the test results) with the GL.

(a) The DH is working closely with the GL and has initiated an annual review of the number of test samples based on the risk assessment of medicines selected from the market surveillance system. The DH and the GL are exploring the feasibility of increasing the number of samples for testing by 700.

(b) The DH has reviewed the streamlined procedures post-implementation and found them effective.

(c) The DH and the GL are working closely with each other and regularly review testing procedures collected from the manufacturers’ premises. The DH and the GL have already used IT to streamline the dissemination of test results and conduct regular reviews to identify room for further improvement.
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| **4.29** Medicine recalls and public alerts  
Audit recommends that the Director of Health should:  
(a) remind the DH staff of the need to request the manufacturers/wholesalers to take recall actions when defective/sub-standard medicines are found, even if the registration of the medicines concerned has not been renewed;  
(b) remind manufacturers/wholesalers to recall medicines with expired registration; and  
(c) sustain the DH’s enhanced efforts to monitor the recall actions taken by manufacturers/wholesalers.  
(a) & (b) The DH has already reviewed the renewal of registration of medicines. Product licence holders are required to submit a detailed disposal plan to ensure all non-renewed products are removed from the market before the expiry of the product licence.  
(c) The DH has enhanced the monitoring system on recall. The manufacturers and wholesalers have to submit a distribution list and a detailed recall report of any recalled product. The DH will follow up with post-recall surveillance. The DH will sustain these enhancement efforts. |

### Part 5: Licence–refusal criteria, prosecutions and disciplinary actions

| Enforcement of disciplinary actions  
Audit recommends that the Director of Health should, in collaboration with the Board:  
(a) step up the DH regulatory controls over dealers, including the enforcement of disciplinary decisions made by the Board and its committees and taking into account the measures Audit suggested in paragraphs 5.14 and 5.18; and  
(b) follow up on the irregularities identified in paragraph 5.12, including investigations, in collaboration with the C&ED, into Case 8 to find out if there are any illegal/improper trading activities.  
(a) The DH has obtained legal advice from the Department of Justice (DoJ) that the PPB should take into account circumstances and merits of the particular case in question. The DH will take into account the measures suggested by Audit in the context of the overall review of the regulatory regime and related legislative amendments.  
(b) The DH and the C&ED followed up on Case 8, Facts 1, 2 and 3 and completed investigation on any illegal/improper trading activities. The DoJ advised no prosecution for Fact 1. For Fact 2, the company concerned was convicted of offences under the Import and Export |

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<td>5.31</td>
<td><strong>Effectiveness of licence-refusal criteria and disciplinary actions</strong>&lt;br&gt; Audit recommends that the Director of Health should, in collaboration with the Board:&lt;br&gt; (a) monitor closely the effectiveness of the expanded licence-refusal criteria newly adopted for manufacturers, wholesalers, I/Es and LSPs;&lt;br&gt; (b) critically review whether the licence-refusal criteria for ASP should be expanded to cover all drug-related convictions;&lt;br&gt; (c) in processing ASP registration applications, step up the DH checking of ASPs’ conviction records, particularly checking to determine whether convictions in related ASPs should also be taken into account; and&lt;br&gt; (d) review the desirability of imposing heavier penalties (such as the removal of ASPs) in appropriate ASP cases, to increase the deterrent effect.</td>
<td>(a) The DH agrees to closely monitor the effectiveness of the expanded licence-refusal criteria newly adopted for manufacturers, wholesalers, I/Es and LSPs.&lt;br&gt; (b) The PPB has established a working group to critically review the criteria.&lt;br&gt; (c) The PPB has revised the protocol to include the checking of conviction records of the related ASPs when considering applications for ASP registration.&lt;br&gt; (d) The Disciplinary Committee of the PPB has already imposed heavier penalty on ASPs. Legislative amendments are being prepared to enable the removal of ASP licences.</td>
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<td>5.37</td>
<td><strong>Instigation of disciplinary actions</strong>&lt;br&gt; Audit recommends that the Director of Health should explore, in collaboration with the Board, ways to expedite disciplinary actions, and to clear the backlog of disciplinary cases as early as possible.</td>
<td>The PPB and its Disciplinary Committee have cleared the backlog of disciplinary cases.</td>
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## Part 6: Public information and internal support

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<td><strong>6.6</strong> Public information on medicines and dealers</td>
<td>Audit recommends that the Director of Health should, in collaboration with the Board: &lt;br&gt; (a) enrich the information on medicines and dealers on the DH website and ensure that the website information is always kept up-to-date; and&lt;br&gt; (b) consider setting up a website for the Board and upload the register of pharmacists onto the website.</td>
<td>(a) The DH is working closely with different stakeholders to enrich the information on medicines and dealers on the DH website and ensure the information is up-to-date. &lt;br&gt; (b) The PPB will set up a website to promulgate the register of pharmacists.</td>
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<td><strong>6.12</strong> Internal support for regulatory work</td>
<td>Audit recommends that the Director of Health should: &lt;br&gt; (a) conduct an overall review of the DH systems with a view to enhancing them to effectively support its regulatory work; &lt;br&gt; (b) ensure that, once a computer system has been developed, it is properly put into use to reap the expected benefits (such as improving operational efficiency and effectiveness); and &lt;br&gt; (c) seek support and assistance from the EU, if appropriate, to explore for instance the use of IT to support the DH inspection work.</td>
<td>(a), (b) &amp; (c) The DH is reviewing the existing IT systems of the Pharmaceutical Service and will seek support and assistance from the EU to enhance its regulatory work.</td>
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<td>Witness Name</td>
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<tr>
<td>Mr Michael SUEN</td>
<td>Secretary for Education</td>
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<td>Mr Raymond WONG</td>
<td>Permanent Secretary for Education</td>
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<tr>
<td>Mrs Michelle WONG</td>
<td>Deputy Secretary for Education (4), Education Bureau</td>
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<tr>
<td>Miss WU Po-ling</td>
<td>Principal Assistant Secretary for Education (School Administration and Support), Education Bureau</td>
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<tr>
<td>Mr Steve LEE</td>
<td>Principal Assistant Secretary for Education (School Development), Education Bureau</td>
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<td>Mr Matthew CHEUNG Kin-chung</td>
<td>Secretary for Labour and Welfare</td>
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<tr>
<td>Ms Karyn CHAN Ching-yuen</td>
<td>Principal Assistant Secretary (Welfare)1, Labour and Welfare Bureau</td>
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<tr>
<td>Mr YEUNG Ka-sing</td>
<td>Chairman of the Community Investment and Inclusion Fund Committee</td>
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<td>Miss Winnie YING Fung-sau</td>
<td>Project Management Officer, The Community Investment and Inclusion Fund Secretariat</td>
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<tr>
<td>Mr Kenneth CHEN</td>
<td>Under Secretary for Education</td>
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<tr>
<td>Mrs Lily TSANG</td>
<td>Principal Assistant Secretary for Education (Finance), Education Bureau</td>
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<td>Mr Ambrose LEE Siu-kwong</td>
<td>Secretary for Security</td>
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<td>Mr LAI Tung-kwok</td>
<td>Under Secretary for Security</td>
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<td>Ms Sally WONG Pik-yee</td>
<td>Commissioner for Narcotics</td>
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<tr>
<td>Mr David WONG</td>
<td>Principal Assistant Secretary for Security (Narcotics)1, Security Bureau</td>
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<tr>
<td>Mr Patrick NIP Tak-kuen</td>
<td>Director of Social Welfare</td>
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<td>Mr FUNG Man-lok</td>
<td>Assistant Director (Youth and Corrections), Social Welfare Department</td>
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<tr>
<td>Miss Annie TAM</td>
<td>Director of Lands</td>
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<tr>
<td>Dr Cindy LAI Kit-lim</td>
<td>Assistant Director of Health (Health Administration and Planning), Department of Health</td>
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Good afternoon, ladies and gentlemen. Welcome to the Public Accounts Committee's public hearing relating to Report No. 55 of the Director of Audit on the results of value for money audits, which was tabled in the Legislative Council on 17 November 2010.

2. The Public Accounts Committee is a standing committee of the Legislative Council. It plays the role of a watchdog over public expenditure through consideration of the reports of the Director of Audit laid before the Council on the Government's accounts and the results of value for money audits of the Government and those organisations which receive funding from the Government. The consideration by the Committee of the Director's reports involves gathering evidence relevant to the facts contained in the Director's reports, so that the Committee may draw conclusions and make recommendations in a constructive spirit and forward-looking manner. I also wish to stress that the objective of the whole exercise is such that the lessons learned from past experience and our comments on the performance of the public officers or other personnel concerned will enable the Government to improve its control over the expenditure of public funds, with due regard to economy, efficiency and effectiveness.

3. The consideration of the Director's reports follows an established process of public hearings where necessary, internal deliberations and publication of the Committee's report. The Committee has an established procedure for ensuring that the parties concerned have a reasonable opportunity to be heard. After the Committee is satisfied that it has ascertained the relevant facts, it will proceed to form its views on those facts, followed by a process of formulating its conclusions and recommendations to be included in its report. In accordance with Rule 72 of the Rules of Procedure of the Legislative Council, the Committee is required to make its report on the Director's report to the Legislative Council within three months of the date at which the Director's report is laid on the Table of the Council. Before then, we will not, as a committee or individually, be making any public comments.

4. Following a preliminary study of Report No. 55, the Committee has decided, in respect of four chapters in the Report, to invite the relevant public officers and other personnel concerned to appear before the Committee and answer our questions. We have, apart from this afternoon's hearing, also set aside 30 November and 7 December 2010 for public hearings on the other chapters.
5. The public hearing this afternoon is on Chapter 1 and Chapter 2 of Report No. 55 on the subjects of "Administration of the Direct Subsidy Scheme" and "Governance and Administration of Direct Subsidy Scheme Schools". The witnesses are: Mr Michael SUEN (Secretary for Education), Mr Raymond WONG (Permanent Secretary for Education), Mrs Michelle WONG (Deputy Secretary for Education), Miss WU Po-ling (Principal Assistant Secretary for Education (School Administration and Support)) and Mr Steve LEE (Principal Assistant Secretary for Education (School Development)).

6. I now proceed to the public hearing.
10 January 2011

Ms Miranda HON  
Clerk, Public Accounts Committee  
Legislative Council  
Legislative Council Building  
8 Jackson Road  
Central, Hong Kong

Dear Ms HON,

Accounts of the Government for the year ended 31 March 2010

I refer to the two written questions of the Honourable CHAN Mo-po tabled at the Public Accounts Committee meeting held on 6 January 2011 on the above subject. The information requested is set out below.

Question 1:

Consistent with the practice in the private sector, the Audit Commission has issued management letters (in the form of memorandum) to the Administration on the audit of the government accounts. A specimen of one management letter issued in 2009-10 (with the names of the auditees concealed) is attached at Annex for your reference.

Question 2:

The amount of $131 million (shown as estimated revenue in the 2009-10 accounts of the Capital Works Reserve Fund) was the estimated amount receivable from the MTR Corporation Limited in respect of construction works carried out by the Government on its behalf. Up to 2009-10, no payments had been received from the MTR Corporation because the Administration and the Corporation had not yet agreed on the outstanding amount payable by the Corporation. According to the Administration, $131 million represents the Government’s best estimation of the amount that can be received from the Corporation.
A Chinese translation of this letter will be forwarded to you shortly.

Yours sincerely,

(Philip LAU)
for Director of Audit
Annual Return of Arrears of Revenue

We (and the undersigned) spoke. I should be grateful for your comments on the following audit observations and recommendations by 8 February 2010.

Background

2. According to Standing Accounting Instruction 1020, Controlling Officers are required to produce each year a statement showing all debts and charges which were due but were not paid by 31 March and those that were still outstanding by 30 June. If a demand note has been raised, the due date of the debt or charge is the date specified in the demand note. If it has been agreed that a debt or charge may be collected by instalments, each instalment should be considered as a debt falling due on the date that the instalment is due to be paid.

Audit observations

3. Government bureaux and departments were required to submit the annual return of arrears of revenue for the year ended 31 March 2009 in electronic forms and in the manner specified in Treasury Circular Memorandum No. 6/2009. A general review of the Appendices of this memorandum indicated that, for debts and charges to be collected by instalments, the total amount of instalments which were not due on 31 March 2009 was required to be:

(a) included in the annual return of arrears of revenue as outstanding as at 31 March 2009; and

(b) excluded from the annual return of arrears of revenue as still outstanding as at 30 June 2009.

These accounting arrangements have the effect of overstating the total amount of arrears of revenue as at 31 March 2009. For example, in the case of the annual return of arrears of revenue submitted by the Department, the total amount of arrears of revenue as at 31 March 2009 was overstated by $144 million as a result of including those instalments which were not due on 31 March 2009.
Audit recommendations

4. Audit recommends that the Director of [redacted] should consider:

(a) including specific guidelines in the Treasury Circular Memorandum for the correct reporting of the amount of arrears of revenue as at 31 March 2010; and

(b) revising the format of the annual return of arrears of revenue to eliminate the effect of overstating the amount of arrears of revenue as at 31 March 2010.

[Signature]
for Director of Audit

c.c. [redacted]
Dear Ms Hon,

Report of the Director of Audit on the Accounts of the Government of the Hong Kong Special Administrative Region for the year ended 31 March 2010

I refer to your letter of 12.1.2011. Our reply is set out in the following paragraphs.

Question 1

The Government Accounts provide variance analyses for the General Revenue Account (GRA) as GRA expenditure is subject to statutory control on an annual basis. Besides, the bulk of Government’s expenditure is met directly from the GRA.

As requested, the variance analyses for individual funds for 2009-10 are enclosed at the Appendix.
Question 2

The cash-based financial statements for the GRA and the individual funds are audited by the Director of Audit pursuant to the Audit Ordinance (Cap. 122) (except the Lotteries Fund which is governed by the Government Lotteries Ordinance (Cap. 334)). In addition to the statutory accounts, for the purpose of giving an overview of the financial position and cash resources of the Government of the Hong Kong Special Administrative Region, the GRA and the individual funds, excluding the Bond Fund, are aggregated, with adjustments for inter-fund transfers, to form the cash-based Consolidated Account. As the consolidation process is relatively straightforward, the Administration sees no need for the cash-based Consolidated Account to be audited by the Director of Audit.

In addition to the cash-based Consolidated Account, the Administration started to prepare accrual-based financial statements from 2002-03 to provide additional information. Since then, we have been making improvements to our accrual accounting policies as well as the relevant computer systems to enable better compliance with generally accepted accounting principles and to streamline the compilation work. We will continue to review and introduce improvements to the accrual-based accounts, and will examine the need for statutory audit in due course.

Yours sincerely,

(Ms Shirley Lau)
for Secretary for Financial Services and the Treasury

c.c. D of Audit

Encl.
### Appendix

**Revenue and Expenditure Variance Analyses**
for Funds Established under Section 29 of Public Finance Ordinance

<table>
<thead>
<tr>
<th>Fund</th>
<th>Original Estimate</th>
<th>Actual</th>
<th>Over/(Under) the Estimate</th>
<th>Variance</th>
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<td></td>
<td>$'000</td>
<td>$'000</td>
<td>$'000</td>
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<td>Innovation and Technology Fund</td>
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<tr>
<td>Revenue</td>
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<td>323,259</td>
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</table>
Capital Works Reserve Fund
The increase of $8,515.9 million in revenue was mainly due to the higher than expected receipts from land premium ($23,132.1 million) and investment income ($489.7 million), partly offset by the lower than expected transfer from the General Revenue Account ($15,000 million).

The increase of $3,555.5 million in expenditure was mainly due to the higher than expected payment for funding support to West Island Line ($3,089 million) and better progress of various on-going capital works projects.

Capital Investment Fund
The increase of $303.7 million in revenue was mainly due to the higher than expected dividends and interests from investment/loans ($335.5 million), partly offset by the lower than expected loan repayments from the Hong Kong Science and Technology Park Corporation ($30.3 million).

The decrease of $980.5 million in expenditure was due to the deferred drawdown of loan to the Hong Kong Science and Technology Park Corporation for the development of Science Park Phase 2 ($380.5 million) and the lower than expected transfer to the General Revenue Account ($600 million).

Disaster Relief Fund
The increase of $58.2 million in revenue was mainly due to the approved supplementary provision of $50 million to the Fund to cater for a grant of $50 million to the Taiwanese authorities for the disaster relief and rehabilitation work in Taiwan resulting from the damage brought by Typhoon Morakot in August 2009.

No estimate of payment was made for the year as calls on the Fund in relief of disasters cannot be predicted.

Innovation and Technology Fund
The increase of $72.3 million in revenue was mainly due to the higher than expected amount of refund of grants ($46.6 million) and investment income ($25.6 million).

The decrease of $556.3 million in expenditure was mainly due to the lower than expected cash flow requirement for projects undertaken by research and development centres ($323.5 million) and other recipients ($243.4 million).

Loan Fund
The decrease of $426.4 million in revenue was mainly due to the lower than expected transfer from the General Revenue Account ($400 million) and loan repayments from education loans ($92.9 million), partly offset by the higher than expected proceeds from sale of loans ($86.6 million).
The decrease of $443 million in expenditure was mainly due to the lower than expected education loan payments to students and schools ($536.3 million), partly offset by the higher than expected housing loan payments ($124.4 million).

**Lotteries Fund**
The increase of $47.6 million in revenue was mainly due to the higher than expected receipts from auction of vehicle registration marks ($54.2 million) and investment income ($45.2 million), partly offset by the lower than expected receipts from Mark Six Lottery ($54.5 million).

The decrease of $1,071 million in expenditure was mainly due to the lower than expected cash flow requirements for various social welfare projects.

**Bond Fund**
The Bond Fund was established by the Resolution of the Legislative Council on 8 July 2009. The provision of Original Estimates for the Fund commenced from 2010-11.
Ms Miranda HON  
Clerk to Public Accounts Committee  
Legislative Council  
8 Jackson Road  
Central  
Hong Kong  

23 November 2010  

Dear Ms Hon,

The Director of Audit’s Report on the  
Results of Value for Money Audits (Report No. 55)

I refer to your letter dated 19 November 2010 on the above matter.

In your letter, we are asked to provide information on the names and respective irregularities of the four Direct Subsidy Scheme (DSS) schools which were visited by the Audit Commission and reported in Chapters 1 and 2 of the Audit Report (the Report) to have irregularities. It was also stated in your letter that in view of the public concern over the matter, the Public Accounts Committee (PAC) does not have any objection to our making public the information sought by the Committee.

In responding to your letter, we are mindful of the agreement between the PAC and the Administration with respect to the disclosure of information as set out in the Financial Circular No. 2/2010 that “during the
period between the tabling of the report in the Legislative Council and the public hearings, any public debate on the issues to be further investigated should be avoided by both sides as far as possible so as to ensure that the PAC can carry out public hearings smoothly and in a fair manner and that we should refrain from initiating any publicity to counter the Audit findings.”

With the above understanding, we have set out the information sought by PAC, on the basis of the information provided by the Audit Commission, in Annex A for your internal reference before the public hearings commence on 29 November 2010.

In order to facilitate PAC’s consideration of the matter, we would like to point out that the Report involved not only the four schools visited by the Audit Commission but also all DSS schools in general. As we are not in a position to comment on how and why the Director of Audit has selected the four schools, we consider it more appropriate to provide information relating to all DSS schools covered in the Report, rather than singling out the four schools concerned. We believe that the availability of such information would facilitate a comprehensive and fair discussion of the issues involved. The information covering all DSS schools studied in the Report, on the basis of the details provided by the Audit Commission, is in Annex B.

As EDB is the subject of the audit, we would respond to issues relating to the findings of the Report at the public hearings of the PAC. We are therefore of the view that the disclosure of the sought information on individual DSS schools to the public at this juncture might undermine the previous agreement between the PAC and the Administration (as set out in the Financial Circular No. 2/2010) and inevitably encourage public debate on issues relating to the four schools highlighted in the Report. This would also not be just and fair to the schools concerned. However, if the PAC is of the view that the sought information could be disclosed to the public, we are prepared to do so accordingly.
The following officers would attend the public hearings on the above subject –

(a) Mr Michael Suen, Secretary for Education;
(b) Mr Raymond Wong, Permanent Secretary for Education;
(c) Mrs Michelle Wong, Deputy Secretary for Education;
(d) Miss Wu Po-ling, Principal Assistant Secretary for Education (School Administration and Support); and
(e) Mr Steve Lee, Principal Assistant Secretary for Education (School Development)

We look forward to your further views on the above. Thank you.

Yours sincerely,

(Miss Grace Kwok)
for Secretary for Education

c.c. Secretary for Financial Services and the Treasury (Fax no.: 2147 5239)
Director of Audit (Fax no.: 2583 9063)
(1) HKCCC Union Logos Academy / 香港華人基督教聯會真道書院

(2) Good Hope School / 德望學校

(3) Tak Sun Secondary School / 德信中學

(4) Tai Po Sam Yuk Secondary School / 大埔三育中學

(Note: please refer to Annex B for details of the irregularities.)

(註: 有關不符合規定情況的詳情，請參閱附件 B。)
Annex B - Chapter 1
附件B - 第一章

Director of Audit's Report No. 55
Chapter 1 - Administration of the Direct Subsidy Scheme
School list by paragraph number
審計署署長第五十五號報告書
第1章 - 直接資助計劃的管理
學校名單（按段落排序）

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<th>學校名稱</th>
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<td>HH Ctrl Hang Fong Memorial Primary School</td>
<td>坑口中心成杏芳紀念小學</td>
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<tr>
<td>2.5(b)</td>
<td>1 Chinese YMCA Secondary School</td>
<td>中華基督教青年會中學</td>
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<td></td>
<td>2 Ying Wa Primary School</td>
<td>華華小學</td>
</tr>
<tr>
<td></td>
<td>3 YCH Law Chan Chor Si College</td>
<td>仁濟醫院羅陳楚思中學</td>
</tr>
<tr>
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<td>4 Ying Wa College</td>
<td>華華書院</td>
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<td>2.10, 2.11</td>
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<td>1999/00</td>
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<td>香港修女紀念學校 (百老匯)</td>
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<tr>
<td></td>
<td>2 Delia Memorial School (Glee Path)</td>
<td>香港修女紀念學校 (吉利徑)</td>
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<td>3 Delia Memorial School (Hip Wo)</td>
<td>香港修女紀念學校 (協和)</td>
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<td>4 Delia Memorial School (Yuet Wah)</td>
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<td>香港聖瑪加利女書院</td>
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<td>中華基督教會公理高中書院</td>
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<td>3.5</td>
<td>B China Holiness College</td>
<td>中聖書院</td>
</tr>
<tr>
<td>3.5</td>
<td>C St. Paul's College</td>
<td>聖保羅書院</td>
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<td>3.5</td>
<td>D St. Paul's Convent School</td>
<td>聖保祿學校</td>
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<td>E Diocesan Boys' School</td>
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<td>1年以上至3年</td>
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<td>8 United Christian College (Kowloon East)</td>
<td>匯基書院 (東九龍)</td>
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* The above information is provided by the Audit Commission.
* 上述資料由審計署提供。
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<td>School of Creativity</td>
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3.17(b)  
1.  Ying Wa Primary School   | 英華小學   |
2.  St. Stephen's College    | 聖士提反書院   |
3.  Stewards Pooi Kei College | 香港神託會培基書院   |

3.19  
1.  Ying Wa Primary School   | 英華小學   |
2.  St. Stephen's College    | 聖士提反書院   |
3.  Stewards Pooi Kei College | 香港神託會培基書院   |

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1.  Lam Tai Fai College         | 林大輝中學   |
2.  Stewards Pooi Kei College   | 香港神託會培基書院   |
| **2006/07** | **2006/07** |
3.  Evangel College              | 播道書院   |
4.  HKICC Lee Shau Kee School of Creativity | 香港兆基創意書院   |

* The above information is provided by the Audit Commission.  
* 上述資料由審計署提供。

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### Annex B - Chapter 1

<table>
<thead>
<tr>
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<th>SCHOOL NAME</th>
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<td>基督教崇真中學</td>
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| within 1 year | 1. Chinese Y.M.C.A. Secondary School | 中華基督教青年會中學 |
|              | 2. Creative Secondary School | 啟思中學 |
|              | 3. Heung To Middle School (Tin Shui Wai) | 天水圍香島中學 |
|              | 4. HKFYG Lee Shau Kee College | 香港青年協會李兆基書院 |
|              | 5. HKUGA College | 港大同學會書院 |
|              | 6. Kowloon Sam Yuk Secondary School | 九龍三育中學 |
|              | 7. Yeo Chei Man Senior Secondary School | 棹子文高中學校 |
|              | 8. Ying Wa College | 英華書院 |

| exceeding 1 year to 3 years | 1. Delia (Man Kiu) English Primary School | 地利亞(閩僑)英文小學 |
|                            | 2. Lingnan University Hong Kong Alumni DSS | 聯南大學香港同學會直資小學 |
|                            | 3. PLK HKTA Yuen Yuen Primary School | 保良局香港道教聯合會圓玄小學 |
|                            | 4. PLK Lam Man Chan English Primary School | 保良局林文燦英文小學 |
|                            | 5. PLK Luk Hing Too Primary School | 保良局陸慶濤小學 |
|                            | 6. W F Joseph Lee Primary School | 和富慈善基金李宗德小學 |
|                            | 7. Heung To Secondary School (Tseung Kwan O) | 將軍澳香島中學 |
|                            | 8. HKICC Lee Shau Kee School of Creativity | 香港兆基創意書院 |
|                            | 9. United Christian College (Kowloon East) | 萬基書院(東九龍) |
|                            | 10. YMCA of Hong Kong Christian College | 港青基信書院 |
|                            | 11. Evangel College | 播道書院 |
|                            | 12. Hon Wah College | 漢華中學 |
|                            | 13. Hong Kong Baptist University Affiliated School | 香港浸會大學附屬學校王錦輝中小學 |
|                            | 14. Pui Kiu College | 培僑書院 |

| exceeding 3 years to 5 years | 3.以上至 5年 |

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<td>Lam Tai Fai College</td>
<td>林大輝中學</td>
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<td>保良局顏寶鈞書院</td>
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<td>The Chinese Foundation Secondary School</td>
<td>中華基金中學</td>
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4.12 (a) 1 Creative Secondary School 啓思中學

4.12 (b) 1 Lingnan University Hong Kong Alumni DSS 習南大學香港同學會直資小學
2 Creative Secondary School 啓思中學
3 Good Hope School 德望學校
4 HKFYG Lee Shau Kee College 香港青年協會李兆基書院
5 The Chinese Foundation Secondary School 中華基金中學
6 Evangel College 播道書院
7 Hon Wah College 漢華中學

4.12 (c) 1 Lingnan University Hong Kong Alumni DSS 習南大學香港同學會直資小學
2 Creative Secondary School 啓思中學
3 Good Hope School 德望學校
4 HKFYG Lee Shau Kee College 香港青年協會李兆基書院
5 HKICC Lee Shau Kee School of Creativity 香港兆基創意書院
6 The Chinese Foundation Secondary School 中華基金中學
7 Evangel College 播道書院
8 Hon Wah College 漢華中學
9 Hong Kong Baptist University Affiliated School 香港浸會大學附屬學校王錦輝中小學

4.12 (d) 1 Lingnan University Hong Kong Alumni DSS 習南大學香港同學會直資小學
2 HKFYG Lee Shau Kee College 香港青年協會李兆基書院
3 The Chinese Foundation Secondary School 中華基金中學
4 Evangel College 播道書院

4.12 (e) 1 Good Hope School 德望學校
2 The Chinese Foundation Secondary School 中華基金中學
3 Hon Wah College 漢華中學

4.13 (a) (i) 1 Buddhist Fat Ho Memorial College 佛教慈可紀念中學
2 HKMA David Li Kwok Po College 香港管理專業協會李國寶中學

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* The above information is provided by the Audit Commission.  
＊上述資料由審計署提供。
### Annex B - Chapter 2

**Director of Audit's Report No. 55**

**Chapter 2 - Governance and Administration of Direct Subsidy Scheme Schools**

**School list by paragraph number**

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### Annex B - Chapter 2

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#### 5.26 Table 7 (2007-08)

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<th>13 months (1 school)</th>
<th>13 個月 (1所學校)</th>
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<th>兩個月以上至三個月 (4所學校)</th>
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### Annex B - Chapter 2

#### 附件B - 第二章

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<td>新法書院</td>
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<td>林大輝中學</td>
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<tr>
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<td>頓南大學香港同學會直資小學</td>
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<td>和富慈善基金李宗德小學</td>
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<td>6.8</td>
<td>The HKCCC Union Logos Academy</td>
<td>香港華人基督教聯會真道書院</td>
</tr>
<tr>
<td>6.9</td>
<td>Good Hope School</td>
<td>德望學校</td>
</tr>
<tr>
<td>6.10</td>
<td>1 Good Hope School</td>
<td>德望學校</td>
</tr>
<tr>
<td>6.24</td>
<td>Tai Po Sam Yuk Secondary School</td>
<td>大埔三育中學</td>
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<td>6.11</td>
<td>Tai Po Sam Yuk Secondary School</td>
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<tr>
<td>6.16</td>
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<td>香港華人基督教聯會真道書院</td>
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<tr>
<td>6.20(a)</td>
<td>The HKCCC Union Logos Academy</td>
<td>香港華人基督教聯會真道書院</td>
</tr>
<tr>
<td>6.20(b)</td>
<td>Good Hope School</td>
<td>德望學校</td>
</tr>
<tr>
<td>6.20(c)</td>
<td>Tak Sun Secondary School</td>
<td>德信中學</td>
</tr>
<tr>
<td>6.20(d)</td>
<td>Tai Po Sam Yuk Secondary School</td>
<td>大埔三育中學</td>
</tr>
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<td>6.24</td>
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<td>大埔三育中學</td>
</tr>
<tr>
<td>7.3(a)</td>
<td>Tak Sun Secondary School</td>
<td>徳信中學</td>
</tr>
<tr>
<td>7.3(b)</td>
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</tr>
<tr>
<td>7.4-7.6</td>
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<td>7.7</td>
<td>1 The HKCCC Union Logos Academy</td>
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<td>Good Hope School</td>
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<td>7.16(c)</td>
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<td>大埔三育中學</td>
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<tr>
<td>7.18</td>
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<td>德望學校</td>
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<td>7.20(b)</td>
<td>Tak Sun Secondary School</td>
<td>德信中學</td>
</tr>
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<td>7.22(a)</td>
<td>Tak Sun Secondary School</td>
<td>德信中學</td>
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<tr>
<td>7.22(b)</td>
<td>Tai Po Sam Yuk Secondary School</td>
<td>大埔三育中學</td>
</tr>
</tbody>
</table>

* The above information is provided by the Audit Commission.  
＊上述資料由審計署提供。
Chairman and Honourable Members,

The Audit Commission (Audit) has recently conducted a value for money audit on the Direct Subsidy Scheme (DSS) covering the administration of the Scheme and the governance and administrative matters of the DSS schools. In response to public concerns over Chapter 1 “Administration of the Direct Subsidy Scheme” and Chapter 2 “Governance and administration of Direct Subsidy Scheme schools” of Report No. 55 of the Director of Audit, I would like to take this opportunity to provide the following supplementary information.

**Auditee**

The auditee in this audit is the Education Bureau (EDB) instead of individual DSS schools. The objectives of the audit are: (a) to identify room for improvement in the EDB’s administration of the DSS; and (b) to explore how the EDB can enhance its monitoring role on the governance and administration of DSS schools and facilitate DSS schools to strengthen their governance and accountability.

**Audit visits to four DSS schools**

To obtain a better understanding of the operation of the DSS schools with a view to making sound recommendations to the EDB for improvement, Audit selected four DSS schools for field audits. The schools were selected on a judgemental basis to ascertain whether follow-up action had been taken on the EDB’s findings during its school audits. Audit staff carried out fieldwork for one to two weeks at each of the four schools. The four schools had been informed of the audit observations and invited to provide their response. Whether the observations made in the four schools are common to the other DSS schools needs to be ascertained by the EDB.

**Other DSS schools**

Apart from visiting four DSS schools, Audit reviewed all the EDB’s records on DSS schools. These records included the register of school managers, school annual plans, development plans, audited financial statements, service agreements, tenancy agreements, etc. The review carried out by Audit at the EDB covered all DSS schools. Since the audit
observations were derived from our examination of the EDB’s records and the objective was to inform the EDB of the areas for improvement, the EDB, instead of the individual schools, was invited to comment on such observations. The EDB’s comments were included in Chapters 1 and 2 of Report No. 55.

The way forward

This audit revealed that there is room for improvement in the EDB’s administration of the DSS and its monitoring role on the governance and administration of DSS schools. Audit is pleased to note that the EDB agrees with the audit recommendations and has commenced action to enhance its administration of the DSS and facilitate DSS schools to strengthen transparency and accountability of their operation.

29 November 2010
Audit Commission
2. The auditee in this audit is the Education Bureau (EDB). This audit aims to improve the governance and administration of schools under the Direct Subsidy Scheme (DSS). In responding to the audit recommendations, the EDB adopts a positive attitude and will observe the principles of acting in accordance with the law and focusing on areas that warrant EDB’s regulation. Before answering questions from the Honourable Members, I would like to address some crucial points.

3. In its audit review of the DSS, the Audit Commission (Audit) obtained information mainly through scrutinizing the relevant files and records kept by the EDB, including the financial reports submitted to us by all DSS schools and the findings of our school audit inspections on 27 DSS schools. The Audit then integrated it with the school information it gathered from other sources, such as the Internet and annual school plans. It also visited four DSS schools to obtain information for compiling the report. We are neither aware of nor in a position to comment on its criteria and reasons for selecting the four schools. As far as I know, the Audit did not visit any other schools to collect information.

4. Following the publication of the Audit Report, there have been views that information of the four schools should be disclosed to the public immediately. The Public Accounts Committee (PAC) of the Legislative Council also wrote to me on 19 November to request the relevant information. In my reply of 23 November to the PAC, I highlighted the long-standing agreement between the PAC and the Administration that “during the period between the tabling of the report in the Legislative Council and the public
hearings, any public debate on the issues to be further investigated should be avoided by both sides as far as possible so as to ensure that the PAC can carry out public hearings smoothly and in a fair manner, and that we should refrain from initiating any publicity to counter the Audit findings.” Since the Audit Report involved not only the four schools visited by the Audit but all DSS schools, I provided the PAC in the letter of 23 November with the names of all DSS schools reported to have irregularities for PAC’s internal reference with a view to ensuring smooth and fair public hearings by the PAC. However, as the PAC still considered that the information should be disclosed to the public after taking into account the above, the EDB released the information to the public accordingly in the evening of 24 November.

5. Since the release of the information, public attention and comments have been focused on individual schools concerned, making the schools the auditee of this audit review. Yet they are deprived of the opportunity to address and explain the issues involved before the publication of the Audit Report, which is extremely unfair to them. This is indeed why at first we adhered to the agreement and did not disclose the relevant information before the hearings by the PAC. It had nothing to do with any information being withheld. Since the school heads concerned are not the auditee of this audit review, to demand that they come forward to explain the incidents and admit their mistakes before today’s hearing is, as we can see now, not conducive to resolving any problem. The disclosure of information in similar incidents is worthy of further consideration and discussion in future.

6. Basically, DSS schools are similar to private schools in nature. They provide parents with a viable alternative to government and aided schools. When the DSS was first introduced, a more lenient and flexible approach was adopted to encourage schools to join the DSS by allowing some schools which had initially met the admission criteria to join the Scheme first and then fulfill the relevant requirements gradually. As a matter of fact, from 2007 onwards, schools intending to join the DSS must have met all the criteria before they are formally admitted to the DSS.

7. To meet their operational and developmental needs, DSS schools are allowed greater flexibility in various areas, including school management, resources deployment, staff appointment, curriculum design, student admission and fees collection, etc. so that they can cater for the diverse needs of their students in a more speedy and responsive manner. In this connection, the EDB and DSS schools have their respective roles to play in the governance and administration of the schools. We must be careful in maintaining a balance between control and flexibility for DSS schools.
8. We are of the view that the current DSS school system and its monitoring mechanism are working well. The majority of the issues raised in the Audit Report are operational and technical in nature. The EDB will continue to maintain communication with all DSS schools to assist them in strengthening their governance structure and internal control mechanism as well as increasing their transparency. We will also ensure effective implementation of our monitoring measures on the basis of the existing premises and take timely and proper follow up measures with individual schools found to have irregularities.

9. My colleagues and I will be happy to take questions from the Honourable Members. Thank you, Chairman.
Ms Miranda HON
Clerk to Public Accounts Committee
Legislative Council
8 Jackson Road
Central
Hong Kong

Urgent by post and fax
(Fax No. 2537 1204)

Dear Ms Hon,

The Director of Audit’s Report on the
Results of Value for Money Audits (Report No. 55)

Administration of the Direct Subsidy Scheme (Chapter 1)
And Governance and administration of Direct Subsidy Scheme schools
(Chapter 2)

I refer to your letters dated 13 and 14 December 2010 and our reply earlier today. We are now enclosing Annexes A, D, H, I and L.

Yours sincerely,

(Mrs. Michelle WONG)
for Secretary for Education

c.c. Secretary for Financial Services and the Treasury (Fax no.: 2147 5239)
Director of Audit (Fax no.: 2583 9063)
Annex A

Response to the letter of 13 December 2010 from Public Accounts Committee regarding paragraph 1(a)

(a) according to paragraph 7 in Annex A of your letter dated 11 December 2010, three schools had not set aside the required amount for fee remission/scholarship scheme in 2006/07, 2007/08 and 2008/09. Please provide a copy of the EDB’s letters to these schools concerning the under-provision for fee remission/scholarship schemes and their replies to the EDB, the actual amounts set aside by these schools for fee remission/scholarship schemes and the amounts of under-provision in 2006/07, 2007/08 and 2008/09, as well as the latest situation.

Copies of EDB’s letters to the three schools not setting aside the required amount for fee remission / scholarship scheme in 2006/07, 2007/08 and 2008/09 and schools’ replies are provided as Appendices to this Annex. The parts relating to fee remission/scholarship schemes are sidelined for Members’ ease of reference. A summary table of the appendices is as follows:

<table>
<thead>
<tr>
<th>School</th>
<th>School Year</th>
<th>EDB’s Letter to School</th>
<th>Schools’ Reply to EDB</th>
</tr>
</thead>
<tbody>
<tr>
<td>17</td>
<td>2007/08</td>
<td>Appendix 1</td>
<td>Appendix 3</td>
</tr>
<tr>
<td></td>
<td>2008/09</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>2009/10 and onwards</td>
<td>Appendix 2</td>
<td>Appendix 4</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Appendix 5</td>
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<tr>
<td></td>
<td></td>
<td></td>
<td>Appendix 6</td>
</tr>
<tr>
<td>21</td>
<td>2007/08</td>
<td>Appendix 7</td>
<td>Appendix 11</td>
</tr>
<tr>
<td></td>
<td>2008/09</td>
<td>Appendix 8</td>
<td>Appendix 12</td>
</tr>
<tr>
<td></td>
<td>2009/10 and onwards</td>
<td>Appendix 9</td>
<td>Appendix 13</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Appendix 10</td>
<td>Appendix 14</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Appendix 15</td>
</tr>
<tr>
<td>School</td>
<td>School Year</td>
<td>EDB’s Letter to School</td>
<td>Schools’ Reply to EDB</td>
</tr>
<tr>
<td>--------</td>
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<td>-----------------------</td>
</tr>
<tr>
<td>22</td>
<td>2007/08</td>
<td>Appendix 16</td>
<td>Appendix 22</td>
</tr>
<tr>
<td></td>
<td>2008/09</td>
<td>Appendix 17</td>
<td>Appendix 23</td>
</tr>
<tr>
<td></td>
<td>2009/10 and onwards</td>
<td>Appendix 18</td>
<td>Appendix 22</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Appendix 19</td>
<td>Appendix 23</td>
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<tr>
<td></td>
<td></td>
<td>Appendix 20</td>
<td>Appendix 22</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Appendix 21</td>
<td>Appendix 23</td>
</tr>
</tbody>
</table>

The actual amounts set aside by these three schools for fee remission / scholarship schemes and the amounts of under-provision in 2006/07, 2007/08 and 2008/09 are as follows:

*Note by Clerk, PAC: Appendices 1 to 23 not attached.*
<table>
<thead>
<tr>
<th>School Year</th>
<th>Actual amount set aside per audited accounts</th>
<th>Amount of under-provision</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$</td>
<td>$</td>
</tr>
<tr>
<td><strong>School 17</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2006/07</td>
<td>811,789.00</td>
<td>218,902.00</td>
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<tr>
<td>2007/08</td>
<td>674,550.00</td>
<td>559,210.00</td>
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<tr>
<td>2008/09</td>
<td>1,022,475.00</td>
<td>381,130.00</td>
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<tr>
<td><strong>School 21</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2006/07</td>
<td>655,900.02</td>
<td>563,039.98</td>
</tr>
<tr>
<td>2007/08</td>
<td>1,057,893.60</td>
<td>675,896.40</td>
</tr>
<tr>
<td>2008/09</td>
<td>1,017,551.00</td>
<td>931,490.60</td>
</tr>
<tr>
<td><strong>School 22</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2006/07</td>
<td>421,400.00</td>
<td>2,457,250.00</td>
</tr>
<tr>
<td>2007/08</td>
<td>696,250.00</td>
<td>2,640,262.50</td>
</tr>
<tr>
<td>2008/09</td>
<td>945,850.00</td>
<td>3,056,950.00</td>
</tr>
</tbody>
</table>

Note 1: Amount of under-provision is based on the minimum requirement of 10% of school fee income.

Note 2: All schools have agreed to top up funding in their 2009/10 accounts to make good the shortfall.

The latest situation of the 3 schools is as follows:

**School 17**

- The school confirmed compliance by submitting a copy of its auditor's report (draft) for information on 14.12.2010.

**School 21**

- The school submitted a letter dated 19.8.2010 to EDB confirming that the school had designated 10% of the school fee collected in separate ledger and provided fee remission for student with financial needs and scholarship for students with excellent achievement. The balance is reflected in the annual school account.
• Upon receipt of our letter of 8.12.2010 regarding the inadequate position of fee remission reserve, the school confirmed in its letter on 14.12.2010 that it would set aside the required amount for fee remission and scholarship scheme in the 2008/09 and 2009/10 school years. We will follow up with the school to check if it has actually complied with the requirement in due course.

School 22

• Upon our repeated urge, the school responded on 14.9.2010, and subsequently provided us on 3 December 2010 a balance sheet showing as at 31.8.2010 the amount of fee remission reserve set aside. EDB is following up with the school to check if it has actually complied with the requirement.
Annex D

Response to the letter of 13 December 2010 from Public Accounts Committee regarding paragraph 1(d)

(d) regarding each of the 22 schools listed out in Table 1 in paragraph 3.3(b) of Chapter 2:

(i) what the schools’ accumulated reserve for fee remission/scholarship schemes are; and

(ii) whether the schools had applied for school fee increase in the past and the rate of increase approved by the EDB.

• Please refer to the Appendix.
# Accumulated Reserves for Fee Remission/Scholarship Schemes in 2008/09 and Approved Fee Increase Details of 22 DSS Schools in 2008/09 and 2009/10 School Year

<table>
<thead>
<tr>
<th>No</th>
<th>School Number</th>
<th>Level</th>
<th>2008/09 Accumulated Reserve for fee remission/scholarship schemes as at 31 August 2009 per audited accounts ($)</th>
<th>Utilization Rate per EDB's calculations (Note 1) (%)</th>
<th>Annual School Fee Income per audited accounts ($)</th>
<th>Application Submitted</th>
<th>Applied for Fee Increase (2008/09) Level</th>
<th>Approved Increase Rate (%)</th>
<th>Approved Increase Amount ($)</th>
<th>2009/10 Application Submitted</th>
<th>Level</th>
<th>Approved Increase Rate (%)</th>
<th>Approved Increase Amount ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>School 1</td>
<td>Sec</td>
<td>715,623</td>
<td>90%</td>
<td>2,666,610</td>
<td>No</td>
<td>P1-P6</td>
<td>S1-S3</td>
<td>S4-S7</td>
<td>Yes</td>
<td>P1-P6</td>
<td>S1-S3</td>
<td>S4-S7</td>
</tr>
<tr>
<td>2</td>
<td>School 2</td>
<td>Pri/Sec</td>
<td>17,663,841</td>
<td>6%</td>
<td>37,108,900</td>
<td>No</td>
<td>P1-P6</td>
<td>S1-S3</td>
<td>S4-S7</td>
<td>No</td>
<td>P1-P6</td>
<td>S1-S3</td>
<td>S4-S7</td>
</tr>
<tr>
<td>3</td>
<td>School 3</td>
<td>Sec</td>
<td>298,244</td>
<td>88%</td>
<td>12,110,994</td>
<td>Yes</td>
<td>P1-P6</td>
<td>S1-S3</td>
<td>66.7</td>
<td>Yes</td>
<td>P1-P6</td>
<td>S1-S3</td>
<td>25 (Note 2)</td>
</tr>
<tr>
<td>4</td>
<td>School 4</td>
<td>Sec</td>
<td>3,468,270</td>
<td>23%</td>
<td>16,741,700</td>
<td>Yes</td>
<td>P1-P6</td>
<td>S1-S3</td>
<td>18.05</td>
<td>Yes</td>
<td>P1-P6</td>
<td>S1-S3</td>
<td>S4-S7</td>
</tr>
<tr>
<td>5</td>
<td>School 5</td>
<td>Pri</td>
<td>49,700</td>
<td>63%</td>
<td>1,353,000</td>
<td>No</td>
<td>P1-P6</td>
<td>S1-S3</td>
<td>S4-S7</td>
<td>Yes</td>
<td>P1-P6</td>
<td>S1-S3</td>
<td>S4-S7</td>
</tr>
<tr>
<td>6</td>
<td>School 6</td>
<td>Sec</td>
<td>3,975,270</td>
<td>46%</td>
<td>28,004,700</td>
<td>No</td>
<td>P1-P6</td>
<td>S1-S3</td>
<td>S4-S7</td>
<td>No</td>
<td>P1-P6</td>
<td>S1-S3</td>
<td>S4-S7</td>
</tr>
<tr>
<td>7</td>
<td>School 7</td>
<td>Sec</td>
<td>0</td>
<td>90%</td>
<td>4,654,975</td>
<td>Yes</td>
<td>P1-P6</td>
<td>S1-S3</td>
<td>28.57</td>
<td>No</td>
<td>P1-P6</td>
<td>S1-S3</td>
<td>S4-S7</td>
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<tr>
<td>8</td>
<td>School 8</td>
<td>Pri/Sec</td>
<td>0</td>
<td>100%</td>
<td>22,130,414</td>
<td>Yes</td>
<td>P1-P6</td>
<td>S1-S3</td>
<td>17.9</td>
<td>No</td>
<td>P1-P6</td>
<td>S1-S3</td>
<td>S4-S7</td>
</tr>
<tr>
<td>9</td>
<td>School 9</td>
<td>Sec</td>
<td>33,308</td>
<td>96%</td>
<td>6,539,454</td>
<td>Yes</td>
<td>P1-P6</td>
<td>S1-S3</td>
<td>5.9 (Note 2)</td>
<td>No</td>
<td>P1-P6</td>
<td>S1-S3</td>
<td>S4-S7</td>
</tr>
<tr>
<td>10</td>
<td>School 10</td>
<td>Sec</td>
<td>0</td>
<td>100%</td>
<td>1,612,687</td>
<td>No</td>
<td>P1-P6</td>
<td>S1-S3</td>
<td>7.8</td>
<td>Yes</td>
<td>P1-P6</td>
<td>S1-S3</td>
<td>S4-S7</td>
</tr>
<tr>
<td>11</td>
<td>School 11</td>
<td>Pri/Sec</td>
<td>15,465,326</td>
<td>35%</td>
<td>26,588,557</td>
<td>Yes</td>
<td>P1-P6</td>
<td>S1-S3</td>
<td>8.33</td>
<td>No</td>
<td>P1-P6</td>
<td>S1-S3</td>
<td>S4-S7</td>
</tr>
<tr>
<td>No</td>
<td>School Number</td>
<td>Level</td>
<td>Accumulated Reserve for fee remission/scholarship schemes as at 31 August 2009 per audited accounts ($)</td>
<td>Utilization Rate per EDB's calculations (Note 1) (%)</td>
<td>Annual School Fee Income per audited accounts ($)</td>
<td>Application Submitted</td>
<td>Approved Increase (2008/09) Level</td>
<td>Approved Increase Rate (%)</td>
<td>Approved Increase Amount ($)</td>
<td>Application Submitted</td>
<td>Approved Increase (2009/10) Level</td>
<td>Approved Increase Rate (%)</td>
<td>Approved Increase Amount ($)</td>
</tr>
<tr>
<td>----</td>
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</tr>
<tr>
<td>12</td>
<td>School 12</td>
<td>Sec</td>
<td>13,880,682</td>
<td>60%</td>
<td>51,760,150</td>
<td>No</td>
<td>P1-P6</td>
<td>S1-S3</td>
<td>S1-S3</td>
<td>No</td>
<td>P1-P6</td>
<td>S1-S3</td>
<td>S1-S3</td>
</tr>
<tr>
<td>13</td>
<td>School 13</td>
<td>Sec</td>
<td>15,515,429</td>
<td>67%</td>
<td>40,413,650</td>
<td>No</td>
<td>P1-P6</td>
<td>S1-S3</td>
<td>S1-S3</td>
<td>No</td>
<td>P1-P6</td>
<td>S1-S3</td>
<td>S1-S3</td>
</tr>
<tr>
<td>14</td>
<td>School 14</td>
<td>Pri</td>
<td>9,338,940</td>
<td>20%</td>
<td>16,125,900</td>
<td>No</td>
<td>P1-P6</td>
<td>S1-S3</td>
<td>S1-S3</td>
<td>No</td>
<td>P1-P6</td>
<td>S1-S3</td>
<td>S1-S3</td>
</tr>
<tr>
<td>15</td>
<td>School 15</td>
<td>Sec</td>
<td>0</td>
<td>100%</td>
<td>11,403,540</td>
<td>No</td>
<td>P1-P6</td>
<td>S1-S3</td>
<td>S1-S3</td>
<td>No</td>
<td>P1-P6</td>
<td>S1-S3</td>
<td>S1-S3</td>
</tr>
<tr>
<td>16</td>
<td>School 16</td>
<td>Pri</td>
<td>30,933,220</td>
<td>44%</td>
<td>36,034,000</td>
<td>No</td>
<td>P1-P6</td>
<td>S1-S3</td>
<td>S1-S3</td>
<td>Yes</td>
<td>P1-P6</td>
<td>S1-S3</td>
<td>25</td>
</tr>
<tr>
<td>17</td>
<td>School 17</td>
<td>Sec</td>
<td>0</td>
<td>73%</td>
<td>14,036,050</td>
<td>No</td>
<td>P1-P6</td>
<td>S1-S3</td>
<td>S1-S3</td>
<td>No</td>
<td>P1-P6</td>
<td>S1-S3</td>
<td>S1-S3</td>
</tr>
<tr>
<td>18</td>
<td>School 18</td>
<td>Sec</td>
<td>4,334,661</td>
<td>53%</td>
<td>15,259,825</td>
<td>Yes</td>
<td>P1-P6</td>
<td>S1-S3</td>
<td>5.6</td>
<td>2,500</td>
<td>Yes</td>
<td>S1-S3</td>
<td>5.1</td>
</tr>
<tr>
<td>19</td>
<td>School 19</td>
<td>Sec</td>
<td>5,167,614</td>
<td>100%</td>
<td>58,002,000</td>
<td>No</td>
<td>P1-P6</td>
<td>S1-S3</td>
<td>8.3</td>
<td>4,000</td>
<td>Yes</td>
<td>S1-S3</td>
<td>8.3</td>
</tr>
<tr>
<td>20</td>
<td>School 20</td>
<td>Sec</td>
<td>0</td>
<td>100%</td>
<td>4,244,400</td>
<td>No</td>
<td>P1-P6</td>
<td>S1-S3</td>
<td>8.3</td>
<td>4,000</td>
<td>No</td>
<td>S1-S3</td>
<td>8.3</td>
</tr>
<tr>
<td>21</td>
<td>School 21</td>
<td>Sec</td>
<td>0</td>
<td>52%</td>
<td>19,490,416</td>
<td>Yes</td>
<td>P1-P6</td>
<td>S1-S3</td>
<td>25</td>
<td>5,000</td>
<td>Yes</td>
<td>S1-S3</td>
<td>7</td>
</tr>
<tr>
<td>22</td>
<td>School 22</td>
<td>Pri/Sec</td>
<td>0</td>
<td>24%</td>
<td>40,028,000</td>
<td>Yes</td>
<td>P1-P6</td>
<td>S1-S3</td>
<td>8.7</td>
<td>2,000</td>
<td>Yes</td>
<td>S1-S3</td>
<td>4</td>
</tr>
</tbody>
</table>

Note:
1. The utilization rate is arrived at by comparing the fee remission/scholarship paid during the year with the amount required to be set aside in accordance with EDB's requirement, or with the amount actually set aside by the school(s) concerned if this amount is higher -- applicable to School nos. 8, 10, 15 and 20.
2. School's application for reduction of fees at particular levels of S4 to S7 was also approved.
3. Other than the ordinary S6/7 classes, this DSS Senior Secondary School has been approved to operate one-year practical vocational-oriented programmes before the full implementation of the New Senior Secondary Curriculum catering for S5 graduates of different aptitudes. The fee revision is applicable to this programme.
Response to the letter of 13 December 2010 from Public Accounts Committee regarding paragraph 1(h)

(h) please explain the EDB’s existing policy towards DSS schools using their operating reserves to fund large-scale capital works, such as construction of school premises; and whether such policy will be revised.

DSS schools are given the flexibility in using their operating reserves of non-government funds to finance capital projects and maintenance works of above-standard facilities such as construction of additional floors, swimming pool, etc that would benefit the students. Apart from the operating reserves accumulated from fee incomes, some DSS schools have raised funds separately for large-scale capital projects.

To facilitate future monitoring of the operating reserves, we will discuss with DSS schools on the need for setting aside separate reserve with designated account for large-scale capital works and their related maintenance, as well as rules of setting aside separate reserves. Moreover, we will make it more explicit that DSS schools should consider the following factors when planning large-scale capital works:

(i) the capital works should meet educational and school needs, and in the interests of students; and

(ii) there should be due regard to the parents’ affordability and appropriate measures should be adopted to ease out the increase which may include spreading out the expenses of works over a longer period of time.

We will also request DSS schools that when planning to carry out large-scale capital works, they should consult parents and during the process, they should provide parents with sufficient information including the possible impact of the capital works on school fees and financial information of schools.
Annex I

Response to the letter of 13 December 2010 from Public Accounts Committee regarding paragraph 1(i)

(i) regarding the eight schools mentioned in Table 4 in paragraph 4.10(a) of Chapter 2, the percentage of their operating reserves which is used to fund the expenses of non-recurrent capital works.

Based on the 2008/09 audited accounts and information provided by schools concerned, six out of the eight schools did not have non-recurrent capital works expenses charged to their income and expenditure accounts or accumulated operating reserves in the year. The remaining two schools had charged non-recurrent capital works expenses to the accounts which amount to 2.4% and 15.1% of their operating reserves respectively.
Response to the letter of 14 December 2010 from Public Accounts Committee regarding the following:

Although Schools C, D and E were admitted to the DSS in 2002/03 to 2004/05, no SSB Service Agreement had been signed by them up to June 2010. It was mentioned at the public hearing on 29 November 2010 that there were disagreements between the schools and the EDB over some terms and conditions of the draft SSB Service Agreements. The committee would like to know the details of the terms and conditions which had been disagreed by the three schools and the main point of contention, the actions that have been taken by the EDB to expedite the signing of the agreements, as well as the latest position of the matter.

Schools C, D and E were aided schools with their own incorporation ordinances before joining the DSS. The three schools did not accept the terms in the draft SSB Service Agreement1 relating to the school governance structure. The draft Agreement stipulates that the School Management Committee shall comprise the principal, representatives from the SSB, parents and teachers, other community members or professionals and, where appropriate, alumni. The schools did not agree that they should modify their governance structure which is already stipulated in their respective ordinances following their admission to the DSS. They considered that they should be allowed to follow their proposed governance composition at the time of their application and approval for joining DSS. Having regard to the unique circumstances, the EDB has, having sought the advice of the Department of Justice, agreed to revise the draft Agreement allowing them to be managed and operated under their original governing framework.

Two of the above three schools were also concerned about a clause in the School Management Committee (SMC) Service Agreement that they are required to transfer to the Government at the SMC’s own cost and expense all assets and inventories purchased with government subsidies or funds generated by the School upon termination of the Service Agreement. They disagree with the clause because owing to their long history, they have many assets and

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1 From the 2000/01 school year onwards, each school joining DSS is required to sign both the SSB Service Agreement and the SMC Service Agreement.
inventories acquired prior to their turning to DSS, which, in their view, should not be transferred to the Government upon termination of the SMC Service Agreement. The EDB has been liaising with and reminding the schools to expedite the signing of the Agreements by sending reminders and holding meetings. In September 2010, the EDB agreed to take into account their unique historical circumstances and intends to refine the related clause on the transfer of assets to the Government upon the termination of the SMC Service Agreement. Legal advice from the Department of Justice is being sought. Once the relevant revision of the SMC Service Agreement is agreed by both parties, the SSB Service Agreements will be signed.

As for the remaining school, its SSB agreed in August 2010 to sign the SSB Service Agreement subject to some minor amendments to a few clauses. Legal advice from the Department of Justice on the SSB’s proposed revisions is being sought and the Service Agreement will be signed as soon as practicable.
Dear Ms Hon,

The Director of Audit’s Report on the
Results of Value for Money Audits (Report No. 55)

Administration of the Direct Subsidy Scheme (Chapter 1)
And Governance and administration of Direct Subsidy
Scheme schools (Chapter 2)

I refer to your letters dated 1, 3 and 6 December 2010 on the above matter and our replies dated 7 and 8 December 2010.

The information requested in the above-mentioned letters will be grouped as follows and provided at Annex A to Annex E:

Annex A: Fee remission and related matters
- Items (e) and (f) in letter of 1 December 2010
- Items (a) and (b) in letter of 3 December 2010
- Items (a) to (d) in letter of 6 December 2010
Annex B:  Fee revision and related matters  
• Items (c) to (e) in letter of 3 December 2010

Annex C:  School audit and related matters  
• Item (f) in letter of 3 December 2010

Annex D:  Handling of irregularities and related matters  
• Items (g) and (h) in letter of 1 December 2010  
• Item (g) in letter of 3 December 2010

Annex E:  Measures taken and to be taken to follow up the Audit recommendation  
• Item (h) in letter of 3 December 2010

We are now enclosing Annexes D & E. The remaining Annexes will be available by noon tomorrow.

Yours sincerely,

(Mrs. Michelle WONG)  
for Secretary for Education

cc. Secretary for Financial Services and the Treasury (Fax no.: 2147 5239)  
Director of Audit (Fax no.: 2583 9063)
Handling of irregularities and related matters

Response to the letter of 1 December 2010 from Public Accounts Committee regarding paragraph 1(g)

(g) it was mentioned at the hearing that the EDB had so far issued two warning letters to DSS schools. Please provide a copy of the two warning letters

**Warning letter 1**

X X X X X X X

**Warning letter 2**

X X X X X X X

*Note by Clerk, PAC: Warning letters 1 and 2 not attached.*
Response to the letter of 1 December 2010 from Public Accounts Committee regarding paragraph 1(h)

(h) the number of advisory letters that had been issued to DSS schools so far and the relevant malpractices or non-compliance, and whether they fell under the areas examined in Chapters 1 and 2 of the Audit Report.

Number of advisory letters issued to DSS schools by the Education Bureau in the past three years from 2007/08 to 2009/10

<table>
<thead>
<tr>
<th>Major Content of Advisory Letters</th>
<th>Relevant Chapter of Audit Report</th>
<th>Number of Advisory Letters Issued</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 School Sponsoring Body Service Agreement should be entered with Education Bureau</td>
<td>Chapter 1 - Part 3: Service Agreement with School Sponsoring Body</td>
<td>23</td>
</tr>
<tr>
<td>2 School Management Committee/Incorporated Management Committee Service Agreement should be entered with Education Bureau</td>
<td>Chapter 1 - Part 4: Service Agreement with Incorporated School Governing Body</td>
<td>41</td>
</tr>
<tr>
<td>3 The amounts of school fee income set aside for fee remission/scholarship schemes less than those required according to the levels of school fees</td>
<td>Chapter 2 - Part 3: School Fee Remission / Scholarship Schemes</td>
<td>31</td>
</tr>
<tr>
<td>4 Reserve for fee remission accumulated to an amount exceeding half of the annual school fee income</td>
<td>Chapter 2 - Part 3: School Fee Remission / Scholarship Schemes</td>
<td>7</td>
</tr>
<tr>
<td>5 School financial issues (including financial arrangements for follow up after inspection of the schools’ audited accounts*, fees collection, set-up funds arrangement, etc)</td>
<td>Chapter 2 - Part 5: Financial Management</td>
<td>88</td>
</tr>
<tr>
<td>6 Improper trading operation and procurement activities in schools</td>
<td>Chapter 2 - Part 7: General Administration</td>
<td>9</td>
</tr>
<tr>
<td>7 Others (student matters, personnel and administration affairs, etc)</td>
<td>---</td>
<td>27</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>226</strong></td>
<td><strong>226</strong></td>
</tr>
</tbody>
</table>

* Major items include (i) insufficient reserve to meet the “2-month operating expenses” requirement; (ii) the accumulated surplus of non-government funds exceeded one-year operating expenses; (iii) no proper separation of income/expenditure under government and non-government funds, etc.
Response to the letter of 3 December 2010 from Public Accounts Committee regarding paragraph 1(g)

(g) according to paragraph 1.18(c) of Chapter 1, if non-compliance of requirements is identified or malpractices are substantiated, the EDB would issue advisory or warning letters to the responsible persons demanding rectification within a specified time. Please explain in detail the EDB’s mechanism on the issuance of advisory letters and warning letters, including the differences between the two types of letters, and the different circumstances under which the two types of letters will be issued. Please also provide a sample/samples of advisory letters

**Mechanism for Issuance of Advisory and Warning Letters**

1. On detecting any irregularities or non-compliances committed by the schools through EDB’s audit inspections or examination of the audited accounts to be submitted by the schools annually, EDB will issue advisory letters to the schools concerned demanding rectification of the irregularities or non-compliance.

2. Advisory letters will also be issued to schools which fail to follow other requirements of EDB such as those concerning the submission of audited accounts, signing of the SSB/SMC/IMC Service Agreements, etc.

3. For schools with serious management problems which fail to rectify the non-compliance and irregularities despite repeated advice or reminders, a warning letter will be issued demanding the schools to rectify the non-compliance and irregularities. The warning letter will state clearly the relevant consequences as prescribed in the Education Ordinance (Cap. 279) (e.g. appointing school managers to the SMC by EDB) in the event that the school fails to rectify the situation within the specified period.

**Sample Advisory Letter 1**

| X | X | X | X | X | X | X | X |

**Sample Advisory Letter 2**

| X | X | X | X | X | X | X | X |

*Note by Clerk, PAC: Sample Advisory Letters 1 and 2 not attached.*
Response to the letter of 3 December 2010 from Public Accounts Committee regarding paragraph 1(h)

(h) the measures that the EDB has taken/will take to ensure the following, including the detailed work plan of the working group to be set up to follow up the Audit recommendations:

(i) the irregularities identified in Chapters 1 and 2 of the Audit Report will be rectified;

(ii) the Education Ordinance (Cap. 279), Education Regulations, other related legislations and other requirements as specified by the Government will be complied with by the DSS schools; and

(iii) the EDB’s monitoring of DSS schools will be stepped up.

To enhance the monitoring of DSS schools, we have taken the following measures and issued the circulars and guidelines as mentioned below to schools for action in the past three years:

(i) Since July 2007, we have developed in collaboration with the Hong Kong DSS Schools Council the “Reference Document on Administration and Management of DSS Schools” to collect circulars and guidelines on different areas of the operation of DSS schools such as personnel appointment, remuneration, resources deployment, financial management. It aims to help DSS schools strengthen their governance and daily operations. The Reference Document was completed in December 2008, and uploaded to the EDB and Hong Kong DSS Schools Council websites for schools’ reference. EDB will update the Reference Document together with Hong Kong DSS Schools Council in February each year.

(ii) Since 2009, the DSS Task Force of EDB has been introducing measures to enhance the monitoring of the operation of DSS schools. EDB takes forward various measures to strengthen communication and coordination among different divisions, including streamlining the process of vetting fee increase applications, strengthening the mechanism for following up outstanding audited accounts, etc.

(iii) We recapitulate in the EDB Circular No. 4/2010 on “Use of Government Funds in Direct Subsidy Scheme (DSS) Schools” issued on 29 April 2010 the prevailing rules and regulations as well
as guidelines for compliance or reference of DSS schools as appropriate in this regard and remind DSS schools their responsibilities to use government funds and other resources;

(iv) We conducted briefing session for DSS schools in June 2010 with a view to enhancing the daily operation and management of the schools;

(v) We recapitulate in the EDB Circular No. 12/2010 on “Use of Non-government Funds in Direct Subsidy Scheme (DSS) Schools” issued on 5 November 2010 the prevailing rules and regulations as well as guidelines on the proper use of non-government funds for compliance or reference of DSS schools as appropriate and remind DSS schools their responsibilities to use non-government funds and other resources; and

(vi) We strengthened the communication with the DSS Schools Council and provided support for their working group on enhancement of internal control in DSS schools, which was newly established in August 2010.

In addition, we have made use of the audited financial information submitted by DSS schools each year to keep in view the financial performance and relevant practice of the schools. More extensive checking would be conducted through the audits of selected schools by the School Audit Section. In fact, we have progressively conducted more school audits for DSS schools since 2007/08 (from 2 in 2006/07 to 6 in 2007/08, 6 in 2008/09, and 8 in 2009/10). We expect that the number of schools to be selected for school audits will be further increased to 12 in 2010/11.

We have been issuing management letters, advisory letters or warning letters to DSS schools found to be involved in irregularities or malpractices of different kinds and magnitude. Noting the observations and recommendations of the Public Accounts Committee (PAC) and Audit Commission, we undertake to enhance and step up efforts to improve the governance of the DSS schools. To this end, the Secretary for Education has tasked the Permanent Secretary for Education to consider a review of the governance framework, internal control and enforcement mechanism and financial management of DSS schools. A Working Group will be set up under EDB with inputs from the DSS and academic sector as well as those from relevant professionals experienced in governance, financial management and related areas to take forward the review and address the issues raised by PAC and the Audit Commission.
8 December 2010

Ms Miranda HON
Clerk to Public Accounts Committee
Legislative Council
8 Jackson Road
Central
Hong Kong

Urgent by post and fax
(Fax No. 2537 1204)

Dear Ms Hon,

The Director of Audit’s Report on the
Results of Value for Money Audits (Report No. 55)
Administration of the Direct Subsidy Scheme (Chapter 1)
And Governance and administration of Direct Subsidy Scheme schools
(Chapter 2)

With reference to your letter dated 1 December 2010, please find enclosed information pertaining to items (a) to (d) set out in your letter at Annex A to Annex D.

As mentioned in our reply letter of 7 December, responses to items (e) to (h) will be provided together with other related information in one go on 10 December 2010.

Yours sincerely,

(Mrs. Michelle WONG)
for Secretary for Education

c.c. Secretary for Financial Services and the Treasury (Fax no.: 2147 5239)
Director of Audit (Fax no.: 2583 9063)
Response to the letter of 1 December 2010 from Public Accounts Committee regarding paragraph 1(a)

(a) regarding the five schools mentioned in para. 2.11 of Chapter 1, the detailed reasons for the long time taken since January 2006 to sort out the issues relating to their change to the non-profit-making status, and in particular, how the internal guidelines issued by the EDB in 2008 concerning the change of operation right of schools had affected the process, and the date of issuing the internal guidelines.

1. The five schools mentioned in the Report are ex-Bought Place Scheme (BPS) schools operated by two profit-making companies limited respectively. The two school operators borrowed BPS loan from the government at a total amount of HK$247M for purchasing the five school premises in the 90s and in this connection five Loan Agreements and Legal Charges were signed and registered with the Lands Department. As the two school operators are registered under Company Limited by Shares, they set up five Companies with non-profit-making status to serve as the school sponsoring bodies (SSB) of the schools and suggested to process the change of operation right from the existing school operators to the new SSBs by way of the signing of “novation agreement”.

2. Due to the uniqueness and complexity of the case, which involves not only the transfer of school operation right, but also the transfer of property ownership (Legal Charge) and the liability under the Loan Agreement, the Education Bureau (EDB) has adopted a prudent approach and sought legal advice from the Department of Justice (DoJ) and Legal Advisory and Conveyancing Office (LACO) from time to time so as to ensure that the interest of the government is properly protected.

3. In early 2007, EDB started a review of the Standard Clauses and Articles of Memorandum and Articles of Association (M&AA) for SSB under the Company Registration. At the same time, the Bureau was preparing a Procedural Guide on Transfer of SSB of Aided Schools for internal reference. It was considered that in handling of these five cases, EDB
should take the former into consideration and make reference to the latter to ensure consistency. Relevant Standard Clauses and Articles of M&AA were updated and made available for school use in 2007. The compilation of the Procedural Guide on Transfer of SSB of Aided Schools was completed in 2008.

4. In 2009, EDB devised a workflow for processing the transfer of operation right between the old and new SSBs of these five schools with reference to the Procedural Guide on Transfer of SSB of Aided Schools. At the same time, we requested the new SSBs to provide their existing M&AA for our checking. We received the M&AA in January 2010. The new SSBs were requested in June 2010 to revise their M&AA in order to meet the latest requirements. The schools submitted the revised M&AA to EDB for comment in September 2010. Subject to further amendments by the SSBs, they would submit the amended M&AA to the Companies Registry and Inland Revenue for endorsement.

5. This case that involves complex legal issues is unprecedented. As the Direct Subsidy Scheme (DSS) is a comparatively new system and some of the implementation details have to be fine tuned in the process to cater for different scenarios in practice, we have taken much time in resolving the matter. We admit that the progress has not been satisfactory. On 22 November 2010, EDB held a meeting with representatives of the five schools to discuss the content of the Assignment. Once the Deed of Novation and Assignment were agreed by the schools, DoJ, LACO and EDB, EDB will proceed with the task according to the relevant procedure.
Response to the letter of 1 December 2010 from Public Accounts Committee regarding paragraph 1(b)

(b) the detailed reasons why the SMC/IMCs of the 3 schools mentioned in paragraph 3.19 of Chapter 1 had not yet acquired the tax exemption status under the Inland Revenue Ordinance up to 30 June 2010, including when the EDB became aware that they had not acquired the tax exemption status and the actions that had been taken by EDB to ensure that they would acquire the status without delay

Paragraph 3.19 of Chapter 1 mentions that up to 30 June 2010, the SMCs/IMCs of three schools had not yet acquired the tax exemption status under the Inland Revenue Ordinance. The updated situation of their application for tax exemption status is as follows:

School A

- The School turned into a DSS school in September 2008. The person who assisted in drafting the M&AA of the SMC worked on a voluntary basis and thus, spent a long time studying and revising the related documents. Also, the SMC had spent much time on discussing and amending the M&AA in its meetings. EDB had all along maintained dialogue with the school, reiterating the requirement for the SMC to conclude the SMC SA by 31 August 2009.

- EDB has also been communicating with the School with regard to its establishment of an incorporated SMC and acquisition of the tax exemption status. According to the information provided by the School to EDB in August 2010, the SMC of the School had acquired the tax exemption status with effect from 7 June 2010. The SMC subsequently signed the SMC SA with the Bureau on 10 September 2010.

School B

- The School (a primary school) turned from an aided school to a DSS school on 1 September 2008.
• EDB has all along maintained close contact with the School with regard to the establishment of an incorporated management committee, signing of the SA and application for the tax exemption status.

• Regarding the SMC Service Agreement (SA), the SSB requested that the alumni manager(s) of the (primary) School be nominated by the Alumni Association of the secondary section of the School, instead of by the Alumni Association of the (primary) School. EDB and the SSB had quite a number of discussions on the issue and hence, the progress of completing the drafting of the Memorandum and Articles of Association (M&AA) and acquiring tax exemption status by its SMC was delayed.

• The SSB finally accepted EDB’s suggestion that the alumni manager must be an alumnus of the School and submitted in August 2010 the M&AA to IRD to apply for tax exemption status for the SMC. The M&AA was further revised in November 2010. Upon obtaining the tax exemption status, the SSB will submit the M&AA to the Companies Registry to incorporate the SMC.

School C

• The School commenced operation on 1 September 2004. Consensus could not be reached on the draft SSB SA since the School had reservation about the conditions related to the SMC therein. After series of communication and negotiation, the School executed the SSB SA with the Government on 15 July 2009.

• In the course of the negotiation on the SSB SA, EDB had maintained contact with the SSB for the signing of the SMC SA. EDB has also urged it to complete the preparation of the M&AA for incorporation and application for tax exemption status.

• After the conclusion of the SSB SA, the School indicated that it was drafting the M&AA and committed to completing the task within the 2009/10 school year. EDB had liaised with the school many times and urged it to expedite.

• Finally, the SMC was incorporated under the Companies Ordinance on 9 November 2010. The SMC has also submitted an application to IRD for tax exemption status. The School anticipated that approval would be granted in December 2010.
Education Bureau Circular No. 12/2010

Use of Non-government Funds in Direct Subsidy Scheme (DSS) Schools

[Note: This circular should be read by –
(a) Supervisors and Heads of Direct Subsidy Scheme Schools – for action; and
(b) Heads of Sections – for information.]

SUMMARY

This circular recapitulates and elaborates on, where necessary, the prevailing rules and regulations as well as guidelines on the proper use of non-government funds for compliance or reference of DSS schools as appropriate.

DETAILS

Fundamental Principles

2. The non-government funds, which include school fee income, donations, proceeds of trading operations and any other incomes derived from other non-government sources, constitute an integral part of DSS schools’ available resources. DSS schools are required to exercise their professional judgement to deploy the non-government funds flexibly and diligently for educational and school needs only in the best interest of their students. DSS schools should also ensure that the use of non-government funds complies with the Education Ordinance, the Education Regulations, the School Sponsoring Body and School Management Committee Service Agreements signed between the schools and the Education Bureau where applicable, other relevant legislations and such other requirements as specified from time to time by the Education Bureau (EDB).

3. The basic principles and implementation mechanisms on the use of non-government funds are the same as those on the use of government funds. DSS schools should therefore read this circular in conjunction with the Education Bureau Circular (EDBC) No. 4/2010 on Use of Government Funds in Direct Subsidy Scheme (DSS) Schools dated 29 April 2010. In gist, the Government considers it essential that subvented organisations attain, and maintain, high standards of corporate governance. To this end, DSS schools are required to
strengthen their governance structure by including all key stakeholders as members of the School Management Committees (SMC) / Incorporated Management Committees (IMC), to have sound financial planning and good budgeting, and to put in place a proper internal control and reporting mechanism with rigorous checks and balances in order to ensure that the government and non-government funds are used in a prudent, cost-effective, timely and value-for-money manner. For establishing a good governance structure and adopting effective internal control measures, DSS schools are strongly advised to adapt the recommended measures set out in the document issued by the Independent Commission Against Corruption on “Best Practice Checklist: Governance and Internal Control in Schools”; and the “Guide to Corporate Governance for Subvented Organisations” published by the Efficiency Unit of the HKSAR Government to suit their respective organizational structure, resource capability and operational needs.

4. In view of the public expectation for increased accountability and transparency, there is absolute merit and need for DSS schools to disclose information regarding the SMC/IMC for public information, including the number of school managers in each category (i.e. sponsoring body manager, teacher manager, parent manager, alumni manager and independent manager as appropriate) and where the managers’ consent is available, their name and tenure of office. The SMC/IMC should also ensure that the use of non-government funds is justified and publicly defensible through a mechanism with adequate built-in control measures to avert any possible abuses. To avoid any actual or perceived conflict of interest, DSS schools should draw up guidelines on declaration of conflict of interest, including examples of conflict of interest situations, the procedures for making declarations and the follow-up action to take upon receipt of any declarations. For guidelines on handling conflict of interest, DSS schools should refer to Appendix 2 of EDBC No. 4/2010 on Use of Government Funds in Direct Subsidy Scheme (DSS) Schools. As subvented organizations, DSS schools should keep proper administrative and financial records and provide them for the examination of the EDB and the Director of Audit when required.

5. As non-government funds should be used directly benefiting the students of the schools, under no circumstances should DSS schools distribute surplus to the school sponsoring body (SSB) or third parties in any forms, including donations or loans to the SSB or any third parties. DSS schools are reminded that they should publish the School Reports with a financial summary annually for reference of the SMC/IMC as well as members of the public. The financial summary should include the major items funded by government and non-government funds, the value and purpose of the donations received, etc. DSS schools should refer to the guidelines on compiling the School Reports posted on the EDB’s Homepage via the path below and adapt the template of the School Report to suit their own needs:

\[ EDB \text{ Homepage} > \text{Kindergarten, Primary and Secondary Education} > \text{Quality Assurance for Schools} > \text{School Development and Accountability (SDA)} \]
Sources of Non-Government Funds

School Fees and Other Collections

6. DSS schools are required to comply with the relevant Education Regulations and circulars issued by the EDB regarding school fees and other collections. Prior approval must be sought from the EDB for any fee adjustment or new charges. Unless with the EDB’s prior approval, DSS schools shall not charge or accept fees other than the inclusive fees.

7. DSS schools should formulate an appropriate mechanism to examine and review their level of school fees and other collections as well as to communicate well with parents on the matters. When adjusting the level of school fees and other collections, schools should take into consideration the affordability of their students and make efforts to address any genuine hardship possibly caused to their existing students. The financial projections made by DSS schools in their applications for school fee increases should be justified and reasonable. In projecting their operating reserves or deficits for applications for fee increase, DSS schools should exercise due care to ensure that each and every income / expenditure item is justifiable to avoid overestimate of their deficits or underestimate of their reserves that lead to unnecessary fee increase. If schools with a large surplus / reserve intend to apply for school fee increase or that a drastic increase in school fees is required, consultation with parents should be conducted through established means. During the consultation, parents’ concerns should be properly addressed. For specific arrangements and procedures on annual school fee revision including parent consultation, DSS schools should refer to the call letter on fee revision issued by the EDB around March every year.

Trading Operations

8. DSS schools are required to follow the principles as set out in EDBC No. 24/2008 on Trading Operations in Schools in operating trading activities. Schools’ attention is drawn in particular to the following:

(a) the profits or net income generated from the trading operations should be applied for the purpose directly benefitting the students of the school;

(b) proper procedures to obtain competitive tenders / quotations for trading operation should be followed;

(c) no SMC/IMC member, school head or member of staff of any school should derive any advantage, financial or otherwise, from the purchase by students, either on the school premises or elsewhere, of any item needed by students to pursue the school curriculum;
(d) no purchase should be compulsory and parents should be informed accordingly;

(e) the costs of items needed by students to pursue their course of study should be kept as low as possible;

(f) prices should be negotiated with suppliers annually, where appropriate, and items should be sold at the minimum feasible price;

(g) the profit from the sale of exercise books and other items should not exceed a maximum of 15% of the cost price, except for sale of textbooks which should not generate any profit;

(h) the selection of an operator or supplier must be conducted on a fair and competitive basis, through proper tendering procedures;

(i) appropriate action should be taken to avoid any conflict of interest; and

(j) a fair and transparent mechanism should be in place to monitor and steer all business or trading activities in schools.

Hire of Accommodation

9. In hiring out their premises to support meaningful events, DSS schools should ensure that the hire of accommodation does not affect school operation and undermine its educational services for students. Schools should formulate their school-based policy on hire of accommodation with reference to EDBC No. 9/2005 on Hire of Accommodation in Aided Schools.

10. DSS schools should credit the hire charges levied from accommodation and relevant overhead expenses to the non-government fund accounts.

Fund-raising Activities

11. DSS schools should ensure that fund-raising activities held are lawful and in compliance with the requirements stipulated by the EDB or other government departments. Donations and participation by students in all fund-raising activities must be on an entirely free and voluntary basis. The intended purposes of the fund-raising activity should be explicitly specified and parents should be informed accordingly. DSS schools should prepare a financial statement for each fund-raising activity and display the statement for a reasonable period of time on the schools’ notice board for the information of teachers, parents and students. Financial statements for fund-raising activities should be retained for audit purposes. Written permission from the EDB should be sought for fund-raising activities held for other organisations which are not approved charitable
institutions, or not specifically approved by the EDB. A school-based fund-raising policy with proper procedural guidelines should be formulated for the compliance of their staff. In this regard, DSS schools should refer to the guidelines on conducting fund-raising activities uploaded onto the EDB’s Homepage via the path below:

EDB Homepage > School Administration > Administration > Fund-raising Activities in Schools

Donations and Sponsorships

12. DSS schools are required to comply with the principles of acceptance of donations as promulgated in EDBC No. 14/2003 on Acceptance of Advantages and Donations by Schools and their Staff. Schools’ attention is drawn in particular to the following:

(a) all donations to the school should be expended on the school and for educational purposes only;
(b) the acceptance of donations by schools should be approved by the SMC/IMC;
(c) schools should maintain a register of all donations received; and
(d) in no circumstances may a school suggest to the suppliers and contractors that the school will provide an advantage in return for their donations. Donations from suppliers and contractors should only be accepted in exceptional circumstances with compelling reasons, with proper documentation and approval by the SMC/IMC in advance.

13. Acceptance of donations, especially from those parties who have business dealings with the school (e.g. suppliers), may easily give rise to perception of favouritism or “friendly deals”. DSS schools should:

(a) establish a mechanism to handle donations with reference to the guidelines issued by the EDB, including the principles of accepting donations and the mechanism for disbursement of funds; and
(b) make transparent the donations they have received and disclose the value and purpose of the donations received in the School Reports.

Use of Non-government Funds
Student Financial Assistance

14. It is of paramount importance that DSS schools draw up clear and open criteria for awarding the needy students fee remission and sufficient financial assistance (e.g. the eligibility criteria and the maximum percentage of fee remission) so that students will not be deprived of the option of attending DSS schools solely because of their inability to pay fees. DSS schools are required to offer to parents a fee remission / scholarship scheme with a set of eligibility benchmarks no less favourable than the government financial assistance schemes. It should be noted that in assessing the students’ eligibility for fee remission, no factors except the parents’ financial situation should be taken into consideration. At least 10% of the school’s total school fee income should be set aside to provide fee remission / scholarship for deserving students. If a DSS school charges a school fee between 2/3 (two-third) and 2 1/3 (two and one-third) of the DSS unit subsidy rate, then for every additional dollar charged over and above 2/3 (two-third) of the DSS unit subsidy rate, the school should set aside 50 cents for the scholarship/financial assistance scheme. Details of the fee remission / scholarship scheme should be shown in the school’s prospectus and uploaded onto the school’s website.

15. When the reserve for scholarship / financial assistance has reached a cumulative amount which exceeds the school’s half-year total fee income due to low utilisation of the fee remission / scholarship scheme, the school should forward to the EDB a plan on how this specific reserve could be effectively deployed. Acceptable options or usages of these excessive reserve include but not limit to: (i) extending the scholarships/fee assistance schemes by relaxing the awarding criteria; (ii) reducing the school fees; (iii) subsidizing eligible students in their purchase of textbooks / reference books / stationery; and (iv) funding students’ extra-curricular activities, including the expenses for their joining overseas educational visits and exchange study programmes, etc.

Above-standard Educational Services and Facilities

16. DSS schools may use non-government funds to provide additional and high quality support services for students, such as employing more teachers to improve the teacher to student ratio, organizing more student enrichment programmes, designing more diversified curricula to develop the multiple intelligence of students and to cater for their needs, etc.

17. DSS schools may also use non-government funds to finance above-standard facilities for the purpose of enhancing the quality of education, having regard to the benefits for the students, impact on the school’s financial situation and key stakeholders’ concerns. No virement of surplus of government funds, if any, should be arranged to finance any above-standard projects/facilities/services.

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1 Taking reference to the standard provisions of the aided schools, any facilities which are normally not provided in an aided school are treated as above-standard facilities, e.g. swimming pool, school bus, etc.
18. As no additional recurrent or non-recurrent government funds will be provided for the above-standard services and facilities, DSS schools should have a comprehensive budgeting on all running costs including maintenance and repair costs incurred by the facilities in the long run and should charge such recurrent costs to non-government funds. Undue pressure on the schools’ finance caused by the provision of above-standard services and facilities, which may induce an increase in the school fees, should be avoided.

**Investment**

19. To protect the interest of schools, all incomes derived by schools should be kept in a manner that involves the minimum risk regardless of whether such income is derived from the government or any other sources. Surplus funds which are not immediately required for use by schools may be put in time deposits or savings account with banks licensed under the Banking Ordinance. Any other form of speculative investment (e.g. local equities) is not recommended because of the risk of financial loss. Any such financial loss will not be allowed to be charged to any of the school’s accounts. This is because the income of a school must be kept intact and utilised fully for educational purposes and school facilities. Accordingly, the liability for any financial loss arising from other cause shall strictly fall on the school management responsible for incurring such a loss and shall not be allowed to be recovered as a charge against the income of the school. DSS schools should refer to EDBC No. 2/2003 on *The Choice of Bank Counterparties in the Investment of Public Asset* for details.

20. It is noteworthy that DSS schools are dissuaded from making speculative investment because of the risk of financial loss. Those intending to invest by using non-government funds must have compelling and well-justified reasons which are solely for meeting educational and school needs. Moreover, they must consult the schools’ key stakeholders and seek prior approval of their SSB as well as their SMC/IMC. A school-based mechanism should be devised and followed. For instance, should DSS schools have compelling justifications for purchasing properties for educational and school needs (e.g. for accommodating expatriate teachers or providing accommodation for school staff in lieu of housing allowances, etc.), they are required to devise a school-based mechanism by adopting the guidelines in Appendix 1 for regulating the practice. If the purchase of properties involves borrowing or mortgage loan, the schools should justify the stream of income available for loan repayments. The basic principles and implementation mechanisms of the said guidelines are also applicable to other well-justified investment activities.

21. To ensure that the school fees of DSS schools would not be unduly affected by the schools’ investment activities, the EDB would strengthen the vetting procedures for approving their school fee increase applications. For instance, expenditures on or relating to the purchase of properties including monthly repayments of mortgage loans and those arising from the depreciation or
interest loss, if any, of the properties purchased as well as repair and maintenance expenses would be excluded when the EDB considers schools’ applications for fee increase. In no circumstances should the purchase or sale of properties lead to an increase of school fees.

Reduction of School Fees

22. When DSS schools have accumulated an excessive surplus, provided that there would be no adverse impact on the schools’ finance, they should consider the feasibility of reducing their schools fees so that parents and students can benefit directly and immediately. Reduction of school fees should be accorded higher priority than any other considerations, e.g. provision of unnecessary above-standard facilities.

Accumulated Surplus / Reserve

23. Since school funds should be used primarily to provide quality education services to incumbent students, DSS schools are advised not to accumulate excessive surplus of both government and non-government funds, or to maintain large amount in other reserves without good reasons. Surplus\(^2\), taking both government fund and non-government fund accounts together, should be used to enhance educational services and/or to alleviate the pressure for school fee increase. If a DSS school is found to have maintained excessive surplus or large reserve, i.e. with accumulated surplus of government and non-government funds exceeding the annual total expenditure or with accumulated surplus of government funds equal to 30% or more of the total annual expenditure, the EDB will request the school to submit a development plan in three months for the former or a written explanation in two months for the latter setting out how the operating surplus would be used for school development.

24. The development plan for using non-government funds and other reserves should be endorsed by the SMC/IMC and accepted by the EDB. It should set out the use of the accumulated surplus of non-government funds for school development, either immediate or long-term. DSS schools would be given the maximum discretion and flexibility in deploying their operating surplus for school development as long as this fund is spent on educational purposes. Some examples are: (i) enhancing operational efficiency and school management; (ii) improving teaching and learning, pastoral care, and enriching the curriculum of the school; (iii) upgrading school facilities and environment; (iv) developing enhanced programmes of student extra-curricular activities, organizing education related overseas visits and student exchange programmes, etc.

\(^2\) The “surplus” in schools should refer to the amount after offsetting the operating deficit in the government fund account, instead of the entire amount of gross surplus in the non-government fund account. In other words, the accounting arrangement should reflect the policy intention that any deficit in the government fund account should be offset by the surplus in the non-government fund account in each financial year, such that there should not be any cumulative deficit in the government fund account.
Making Donations to Other Parties

25. DSS schools should always put students’ interest on top priority in the use of their resources. They should also ensure that all the expenditures from non-government funds are necessary for educational or school purposes. To this end, DSS schools are reminded not to make donations out of non-government funds to other parties. If there are strong justifications relating to the educational needs of their own students, such intended donation should be deliberated and approved by the SMC/IMC with proper documentation and disclosure of information to the stakeholders including parents.

Internal Control and Reporting Mechanism

26. To enhance internal control of schools, DSS schools are encouraged to establish an independent committee with auditing roles to assist the SMC/IMC in monitoring the effectiveness of the internal check and balance mechanisms for major administration policies and financial controls, e.g. staff remuneration, the use of non-government funds for investment, etc. For effective operation of the committee, the terms of reference and responsibilities of the committee should be clearly defined and endorsed by the SMC/IMC. The committee should meet as frequently as necessary to carry out its responsibilities, and submit reports to the SMC/IMC on a regular basis.

27. DSS schools should keep a Fixed Assets Register to record the existing items of fixed assets under schools’ control, showing separately where the fixed assets are purchased through government or non-government funds. The register should clearly state description of items, date of purchase, quantity, location, date and reasons of write-off, the approval signature of write off, etc. Proper arrangements for the safe custody of school assets, cash and other valuables under schools’ control are also required. DSS schools should conduct physical stocktake at least once a year and investigate any discrepancies found, and report the results of the stocktake to the SMC/IMC.

Accounting Arrangements

28. DSS schools are required to keep proper accounts in respect of all their income and expenditure. Separate bank accounts for government and non-government funds should be maintained in the name of the school. Only approved expenditure under the ambits of government funds should be paid from the government fund accounts. The non-government fund accounts should be used for meeting educational and school needs. Accounts in respect of transactions (income and expenditure) relating to government funds, e.g. interests derived from government funds, and transactions (income and expenditure) relating to non-government funds, e.g. proceeds arising from trading operations, should be recorded and kept separately.
29. To safeguard the proper use of public funds, proper accounting arrangements should be taken to avoid cross-subsidisation of any self-financing activities without government subventions. For any DSS schools that are approved to operate private classes on individual merits, they should keep separate accounts for their private classes and ensure that there is no cross-subsidisation of the private classes by the DSS classes in money or in kind.

30. With a view to further enhancing the transparency of the financial information related to investment, schools are required to keep additional subsidiary ledgers to record detailed transactions of each type of investment activities including purchase of properties, such as date of purchase, cost of acquisition, annual mortgage loan repayment, annual mortgage interest payment, annual depreciation, revaluation, disposal, income and expenses other than the accounts as set out in paragraph 28 above. In view of the huge amount of money involved in purchasing property, individual subsidiary ledger is required for each purchase. For the template of audited accounts, DSS schools should refer to the latest version attached to the relevant circular memorandum on submission of annual audited accounts issued in December every year.

31. While DSS schools enjoy great flexibility in charging their expenditure to either government or non-government funds subject to the nature and requirements of different subsidies/grants, the year-end balances of government funds should be either a surplus or zero. Any spending in excess of the government funds should be covered by the non-government funds. For proper accounting arrangements, DSS schools should refer to the relevant circular memorandum on submission of annual audited accounts issued in December every year. For reference of the SMC/IMC as well as independent committee(s) with auditing roles under the SMC/IMC, a list highlighting the tips on proper handling and use of non-government funds is prepared in Appendix 2. Schools, however, should note that the list is by no means exhaustive. It will be uploaded onto the EDB website and updated as and when appropriate.

ENQUIRY

32. For enquiries, please contact the respective Senior School Development Officers.

Miss P L WU
for Permanent Secretary for Education
Appendix 1

Guidelines for Devising a School-based Mechanism
on Investment by Using Non-government Funds

According to EDBC No. 2/2003 on The Choice of Bank Counterparties in the Investment of Public Asset, any form of speculative investment is not recommended because of the risk of financial loss. Therefore, DSS schools are dissuaded from making any speculative investment. All incomes derived by DSS schools should be kept in a manner that involves the minimum risk regardless of whether such income is derived from the government or any other sources.

Notwithstanding that, DSS schools may find themselves fully justified to make certain investment by using non-government funds. In this connection, DSS schools are hereby reminded that there must be compelling and well-justified reasons for their intended investment(s) and they are required to ensure that such investment is for meeting educational and school needs. To minimize financial risks and to forestall possible malpractices, DSS schools should put in place a proper and sound school-based mechanism to regulate and monitor their investment activities. With a view to facilitating DSS schools in devising a proper school-based mechanism, a set of guidelines on purchasing properties is compiled below as an illustration for schools’ reference and necessary action. In other words, the basic principles and implementation mechanisms of this set of guidelines are also applicable to other well-justified investment activities.

Guidelines on Purchase of Properties

Purchase of properties by using non-government funds in general is disapproved as it carries substantial financial implications and the risk of financial loss. Charging any loss to the school’s accounts is not allowed. This is because the income of a school must be kept intact and utilised fully for educational purposes and school facilities. Accordingly, the liability for any financial loss arising from any other cause shall strictly fall on the school management responsible for incurring such a loss and shall not be allowed to be recovered as a charge against the income of the school. Should a DSS school have compelling and well-justified reasons for purchasing properties and demonstrate suffice financial viability, the School Management Committee (SMC) /Incorporated Management Committee (IMC) should devise a school-based mechanism for regulating the practice by following the principles and procedures set out below:

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3 As DSS schools managed by management committee formed by school managers registered under the Education Ordinance, Cap. 279 do not have a separate legal personality to own property, they should not purchase properties. These guidelines are only applicable to DSS schools managed by IMC established under the Education Ordinance, Cap. 279 and SMC incorporated under the Companies Ordinance, Cap. 32.
A. Basic Principles

1. Prudence
   DSS schools should only purchase properties for compelling and well-
   justified reasons (e.g. for accommodating expatriate teachers or providing
   accommodation for school staff in lieu of housing allowances, etc.) and with
   the prior approval of their SSB as well as their SMC/IMC. Purchase of
   properties for speculative purpose is disapproved. If purchase of properties
   involves borrowing or mortgage loan, the school should justify the stream of
   income which is available for loan repayments. The SMC/IMC should fully
   assess and deliberate on the impact of the purchase of properties on school’s
   development and finance in a prudent manner with proper documentation.

2. Genuine Necessity
   The SMC/IMC should ensure that the purchase of properties is for meeting
   genuine educational and school needs in the best interest of the students.

3. Involvement of Key Stakeholders
   To enhance school’s accountability and transparency, the SMC/IMC should
   put in place a proper consultative and reporting mechanism to engage key
   stakeholders, including parents and alumni where appropriate, in making the
   decision to purchase or sell properties. Details of the properties, financial
   situations of the school before and after the purchase/sale of properties, and
   the risk that the value of the properties may be worth substantially less than
   the original amount the school has invested should be made known to all
   stakeholders.

4. Value for Money
   The SMC/IMC should ensure that properties are purchased in a cost-effective
   and value-for-money manner to the benefit of the students.

5. Sustainability of School Development
   a. The SMC/IMC should ensure that the financial situation of the school
      will remain sound and healthy after the purchase of properties, e.g. with
      accumulated surplus to cover six months’ operating expenses (including
      those on the properties concerned) and no deficit in all funds. Before
      the purchase, the school should critically assess and evaluate its short to
      long term financial position and prepare cashflow forecast for
      stakeholders’ consideration.

   b. In no circumstances should the purchase or sale of properties lead to an
      increase of school fees.

6. Transparency
   DSS schools should make transparent the decisions to purchase or sell
   properties and details of the properties purchased for the information of key
   stakeholders regularly as far as possible. There must be proper declaration of
interest among the SMC/IMC members throughout all processes.

B. Procedures

1. Formulation of Policy

   a. The SMC/IMC should formulate a school-based policy on purchase of properties in accordance with the school vision and mission and the general educational policies and principles set by the SSB. The policy should set out the principles, considerations including risk assessment and procedures to be observed in the purchase of properties, and the management and sale of properties thereafter.

   b. The policy should also include a contingency plan (e.g. selling the properties) for dealing with situations such as stringent financial situations, low utilization rate of the properties or other situations which warrant selling of the properties.

   c. The policy has to be approved by the SSB as well as the SMC/IMC with proper deliberation and documentation.

2. Implementation of Policy

   Purchase or Sale of Properties

   a. The SMC/IMC should deliberate on the purchase or sale of properties in accordance with the principles, considerations and procedures as set out in the school-based policy. The purchase or sale of the properties has to be approved by the SSB and the SMC/IMC with proper documentation.

   b. Before endorsement, the SMC/IMC should formally consult stakeholders, parents in particular, about the purchase or sale of the properties and address their concerns. Details of the properties including usage of the properties, source of funding, cost of acquisition/selling price and financial situations of the school before and after the purchase/sale of properties should be made known to all the stakeholders. The SMC/IMC should ensure that the purchase or sale of the properties is justified and publicly defensible.

   c. Members of the SMC/IMC and the school should be required to report any situations where they or their immediate family or personal friends have an interest, financial or otherwise, in the purchase of the properties. The SMC/IMC should properly record any declarations (with the use of a standard form) or disclosures made and necessary action taken to avoid any actual or perceived conflict of interest. The SMC/IMC should ensure that the purchase/sale is at arm’s length transaction.
d. The legal and beneficial ownership of any property purchased using non-government funds must vest in the SMC/IMC of the school. Under no circumstances should the property be legally or beneficially held by or in the name of a natural person or persons.

e. When there is suspicion of corruption or other criminal offence, the SMC/IMC should refer the case to relevant law enforcement agencies for further investigation.

Management of Properties

f. The SMC/IMC should ensure that the contingency plan as set out in the school-based policy is implemented at all times and monitor its proper implementation.

g. The SMC/IMC should conduct continuous assessment on the cost-effectiveness of the properties purchased, for instance, whether the utilization rate of the properties is well justified.

h. There should be no cross-subsidization from government subsidy on the properties purchased. Charging recurrent expenditure of the properties, including government rent and rates, utility charges, revaluation charge, depreciation charge, loan interest, etc. and mortgage loan repayments as well as its non-recurrent expenditure to government funds is not allowed.

C. Accounting Arrangement

1. Schools are required to keep additional subsidiary ledgers to record detailed transactions of each purchase of property. The information includes date of purchase, cost of acquisition, annual mortgage loan repayment, annual mortgage interest payment, annual depreciation, revaluation, disposal, income and expenses, etc. Any “deficit” for a year (i.e. annual income less expenditure) in operating the property should not be borne by the school. The gain or loss on revaluation of the property, if any, should be reflected in the school’s non-government fund account⁴.

2. In addition to the disclosure requirements as required by the relevant Hong Kong Accounting Standards, the details of each property purchased including date of purchase/sale, usage of the property, source of funding used (exact items under non-government funds), cost of acquisition and subsequent changes in carrying amount (i.e. revaluation and depreciation) should also be disclosed in the audited accounts.

⁴ The revaluation gain/loss is an unrealised gain/loss as the gain/loss will only be realized after sale of the property. Hence, the unrealized revaluation gain/loss would not be considered in the assessment of the school’s financial performance during the fee revision exercise.
3. The gains derived from the sale of properties should be reflected in the school’s non-government fund account.

4. The loss arising from the sale of properties should not be charged to any of the school’s accounts and should not be borne by the school.

Notes:
1. In handling donation designated by the donor for purchase of properties, the above guidelines should still be followed in principle.
2. The SMC/IMC shall immediately upon closure of schools transfer to the Government at the SMC/IMC’s own cost and expense all properties purchased with non-government funds or other funds generated by the schools, unless otherwise approved by the Education Bureau.
### Appendix 2

**Tips on Handling and Use of Non-government Funds in DSS Schools**

For facilitating DSS schools’ proper use of non-government funds, a list of common concerns, highlighting the tips on proper handling and use of non-government funds, is compiled for schools’ reference. DSS schools should note that the list is by no means exhaustive. It will be uploaded onto the EDB website and updated as and when appropriate.

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<th>Hypothetical Cases</th>
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| **1 Fees and Collection**  
A school collected fees other than the inclusive fees without prior approval from the EDB, including air-conditioning fees and administrative charges for issuing student cards and parent cards. | Unless with the EDB’s prior approval, DSS schools shall not charge or accept fees other than the inclusive fees. Also, for any adjustment of approved fees, prior approval from the EDB must be sought. DSS schools should comply with regulation 61 of the Education Regulations, Cap 279A in this regard. |
| **2 Trading Operations**  
A school operated and permitted to operate on school premises business or trading undertaking without the prior approval from the EDB, including provision of school bus and lunch box services, supply of school uniforms, textbooks, exercise books and school ties at the school bookstore and operation of school tuckshop. The profit margin of some items had exceeded the allowed profit ceiling. | According to EDBC No. 24/2008 on Trading Operations in Schools, unless with the EDB’s prior approval, DSS schools without incorporated management committees (IMC) shall not -  
(a) operate or permit to operate on school premises any business or trading undertaking; or  
(b) enter into any business or trading arrangement, directly or indirectly, with any person for the supply of food, drinks, books, stationery, uniforms or any other thing that is required by such school to be possessed or used by students of the school.  
For IMC schools, trading operations should be approved by the IMC and the tendering procedures for acquisition of services as stipulated in the EDBC No.15/2007 on Tendering and Purchasing Procedures in Aided Schools should be followed. |

DSS schools should follow the principles...
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<td>as set out in EDBC No. 24/2008 on <em>Trading Operations in Schools</em> in conducting trading activities.</td>
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3 **Hire of Accommodation**
A school sub-let the school premises to another school sponsoring body for operating evening courses. The rental income received was not recorded in the school’s bank and books of accounts and electricity charges relevant to the hiring of accommodation were charged to the government fund account.

DSS schools should formulate their school-based policy on hire of accommodation with reference to EDBC No. 9/2005 on *Hire of Accommodation in Aided Schools*. DSS schools should ensure that the hire of accommodation does not affect school operation and undermine its educational services for students. The hire charges levied from accommodation and relevant overhead expenses should be reflected in the non-government fund accounts.

4 **Fund-raising Activities**
A school did not prepare and display financial statement for each and every fund-raising activity. The income and expenditure of each fund-raising activity were not properly recorded.

DSS schools should ensure that fund-raising activities held are lawful and in compliance with the requirements stipulated by the EDB or other Government departments. Donations and participation of students in all fund-raising activities must be on an entirely free and voluntary basis. The financial statement recording the income and expenditure of each fund-raising activity should be displayed for a reasonable period of time for the information of teachers, parents and students and then be retained for audit purposes. DSS schools should refer to the guidelines on conducting fund-raising activities uploaded onto the EDB’s Homepage in organizing fund-raising activities.

5 **Donations**
A school received donations from its suppliers. The school had not set out any criteria on the acceptance of advantages and donations to regulate the practice.

Receiving donations from suppliers may give rise to actual or perceived conflict of interest, and may be subject to criticism from the public. It may also unduly affect the price of the goods/services provided by suppliers. DSS schools should establish a mechanism to handle donations with reference to the guidelines issued by the
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</thead>
<tbody>
<tr>
<td><strong>EDB, including the principles of accepting donations and the mechanism for disbursement of the funds. The principles of acceptance of donations as promulgated in EDBC No. 14/2003 on <em>Acceptance of Advantages and Donations by Schools and their Staff</em> should be complied with. The acceptance of donations by schools should be approved by the SMC/IMC.</strong></td>
<td></td>
</tr>
</tbody>
</table>

| 6 **Investment**  
A school invested part of its non-government funds in high risk investments without thorough risk assessment and prior approval from the SMC/IMC. | Under SBM, the SMC/IMC is accountable for the use of the school funds and should ensure that the investment is justifiable and publicly defensible. Surplus funds which are not immediately required for use by the school may be placed in time deposits or savings accounts with banks licensed under the Banking Ordinance (Cap.155). Any other forms of speculative investment (e.g. local equities) are not recommended because of the risk of financial loss and charging any loss to the school’s accounts is not allowed. DSS schools should refer to EDBC No. 2/2003 on *The Choice of Bank Counterparties in the Investment of Public Assets* in this regard. Schools should follow the guidelines as set out in Appendix 1 of EDBC No. 12/2010 on *Use of Non-government Funds in DSS Schools* for considering investments for educational and school needs. |

| 7 **Staff Remuneration**  
A school provided exceptionally high salary and generous medical insurance to some of its staff. | Under SBM, DSS schools are held accountable to their stakeholders and the community for the use of public funds. They should establish a proper and transparent mechanism to determine the staff’s remuneration packages and ensure that the mechanism is implemented properly with sufficient checks and balances. They should also ensure that the remuneration packages are fair and justifiable. The criteria such as qualifications, experience, performance and |
<table>
<thead>
<tr>
<th>Hypothetical Cases</th>
<th>Tips</th>
</tr>
</thead>
<tbody>
<tr>
<td>expertise, and the approval authority for determining the remuneration package of an appointee and any subsequent salary adjustment should be clearly set out. DSS schools should refer to EDBC No. 4/2010 on <em>Use of Government Funds in Direct Subsidy Scheme (DSS) Schools</em> in this regard. As staff remuneration constitutes a major part of school’s expenses, comparison with the remuneration of civil servants at comparable ranks should be made when determining the appropriateness of remuneration packages for senior positions. It is advisable to observe the “modest and conservative” principle at all times.</td>
<td></td>
</tr>
<tr>
<td><strong>8</strong> Expenses on Meals and Presents for Staff</td>
<td>Expenditure on items such as meal and presents and other fringe benefits for staff is sensitive in the eyes of the public. DSS schools are advised to adopt a conservative and modest approach to such matters. DSS schools need to ensure that such expenses fall within the scope of expenses of non-government funds as set by the SMC/IMC. Moreover, the SMC/IMC should approve such expenses according to the needs and policy priorities of the schools. The SMC/IMC should also consider setting limit of such expenses per occasion and/or per head. The tips as mentioned in point 7 are also applicable.</td>
</tr>
<tr>
<td><strong>9</strong> Loan</td>
<td>Non-government funds should be used for educational purposes benefited directly by students. DSS schools should not provide a loan to any third parties using non-government funds in any circumstances.</td>
</tr>
<tr>
<td>A school charged the expenses of the school’s anniversary dinner for all of its staff as well as the expenses for the presents given to some of the staff on the same occasion to its non-government fund account.</td>
<td></td>
</tr>
<tr>
<td>A school provided a loan to the operator/supplier providing services or supplying commodities to students using non-government funds.</td>
<td></td>
</tr>
</tbody>
</table>
Annex D

Response to the letter of 1 December 2010 from Public Accounts Committee regarding paragraph 1(d)

• The Secretary for Education and Manpower who was involved in dealing with the matter of allowing School I to remain in the DSS in 1999 was Mr. WONG Wing-ping (Part 7 of Chapter 1 refers).
Ms Miranda HON
Clerk, Public Accounts Committee
Legislative Council
Room 1006, 10/F
Murray Road Multi-storey Carpark Building
Admiralty
Hong Kong

Dear Ms HON,

The Director of Audit’s Report on the results value for money audits (Report No. 55)

Administration of the Direct Subsidy Scheme (Chapter 1)
and Governance and administration of Direct Subsidy Scheme schools (Chapter 2)

Thank you for your letter of 27 January 2011 requesting the Audit Commission (Audit) to provide information on the actual situation and the reason for the inconsistency between:

(a) the statement in the Secretary for Education’s letter dated 8 December 2010 (R55/1&2/GEN8) to the Public Accounts Committee that “According to the information provided by the School (i.e. School A) to EDB in August 2010, the SMC of the School had acquired the tax exemption status with effect from 7 June 2010.”; and

(b) the situation reported in paragraph 3.19 of Chapter 1 of the Audit Report that “Up to 30 June 2010, the SMCs/IMCs of three DSS schools that commenced operation in 2004/05 to 2008/09 (including School A) had not yet acquired the tax exemption status under the Inland Revenue Ordinance.”.

We would like to inform the Committee that the actual situation and the reason for the inconsistency were as follows:
(a) on 16 July 2010, the Education Bureau (EDB) informed Audit via an e-mail that, as at 30 June 2010, the governing bodies of three Direct Subsidy Scheme schools (including School A) had not yet acquired the tax exemption status under the Inland Revenue Ordinance;

(b) in a letter of 29 July 2010, School A was informed of the granting of the tax exemption status with effect from 7 June 2010 by the Inland Revenue Department; and

(c) on 9 August 2010, School A informed the EDB of the exemption obtained from the Inland Revenue Department. However, the EDB had not relayed the updated information to Audit until December 2010.

We trust that the above facts have explained the reason for the inconsistency. A Chinese translation and a soft copy of this letter will be forwarded to you shortly.

Yours sincerely,

(S C POON)
for Director of Audit

c.c. Secretary for Financial Services and the Treasury (Fax No.: 2537 3210)
Secretary for Education (Attn: Mrs Michelle WONG) (Fax No.: 2834 7365)
Ms Miranda HON  
Room 1006, 10/F,  
Murray Road  
Multi-storey Carpark Building  
Admiralty  
Hong Kong

Urgent by post and fax  
(Fax No. 2840 0716)

28 January 2011

Dear Ms Hon,

The Director of Audit’s Report on the  
Results of Value for Money Audits (Report No. 55)  
Administration of the Direct Subsidy Scheme (Chapter 1)  
And Governance and administration of Direct Subsidy Scheme schools  
(Chapter 2)

I refer to the reply from the Director of Audit to your letter dated 27 January 2011 on the actual situation and the reason for the inconsistency of the acquisition of the tax exemption status in respect of School A.

We would like to supplement that when the EDB informed the Director of Audit on 16 July 2010 that School A was one of three schools that had not yet acquired the tax exemption status under the Inland Revenue Ordinance up to 30 June 2010, both the EDB and the School had no knowledge about the granting of tax exemption status with retrospective effect from 7 June 2010. This piece of information provided to the Director of Audit was correct at that juncture. School A informed the EDB of the latest position of tax exemption status on 9 August 2010. The PAC requested information on

[URL: http://www.edb.gov.hk  E-mail: edbinfo@edb.gov.hk]
related issues in December 2010 and in reply to which, EDB also took the opportunity to update this piece of information.

Yours sincerely,

(Mrs. Michelle WONG)
for Secretary for Education

c.c. Secretary for Financial Services and the Treasury (Fax no: 2147 5239)
Director of Audit (Fax no: 2583 9063)
Ms Miranda HON  
Clerk to Public Accounts Committee  
Legislative Council  
8 Jackson Road  
Central  
Hong Kong

Urgent by post and fax  
(Fax No. 2537 1204)

Dear Ms Hon,

The Director of Audit’s Report on the  
Results of Value for Money Audits (Report No. 55)

I refer to the letter dated 22 November 2010 to the Secretary for Education. The information requested pertaining to items (a) and (b) in your letter is at Annex A; item (c) at Annex B and item (d) at Annex C.

Yours sincerely,

(Miss Grace Kwok)  
for Secretary for Education

*Note by Clerk, PAC: Annex B not attached.*

c.c. Secretary for Financial Services and the Treasury  
(Fax no.: 2147 5239)  
Director of Audit  
(Fax no.: 2583 9063)
Response to PAC re Report No. 55 Administration of the Direct Subsidy Scheme (Chapter 1)

(a) Regarding the five schools which have yet to acquire non-profit-making status, as reported in paragraphs 2.9 to 2.12 of the Audit Report, how their operating surplus in the past five years were used.

Response:

Although the SSBs of the five schools have not acquired non-profit-making (NPM) status legally, they have been operating on a NPM basis. All the surplus accumulated would be retained in the school for use relating to the benefit of students, such as major repair and upgrading of school facilities, purchase of furniture and equipment, and hiring additional teachers, etc. In fact, these schools have seldomly applied for fee increase and their school fees, which are uniform among the five schools within the group, are comparatively low.

(b) Regarding the two schools that are operating in leased premises, as reported in paragraphs 2.13 and 2.14 of the Audit Report, whether or not they are paying rents at the market level.

Response:

As advised by the Rate and Valuation Department, the two schools that are operating in leased premises as reported in paragraph 2.13 and 2.14 of the Report are paying rents at market level.
Organization Chart of Education Bureau on Monitoring of DSS Schools

Secretary for Education

Permanent Secretary for Education

Deputy Secretary (Ed)2

Infrastructure and Research Support Division

Deputy Secretary (Ed)3

Education and Planning Division

Deputy Secretary (Ed)4

Principal Assistant Secretary (School Development)

Deputy Secretary (Ed)5

Professional Development and Training Division

Education Infrastructure Division

Deputy Secretary (Ed)6

Principal Assistant Secretary (School Administration & Support)

Curriculum Development Institute

Principal Assistant Secretary (Quality Assurance)

Principal Assistant Secretary (Finance)

Note: Direct Subsidy Scheme (DSS) schools have to comply with the Education Ordinance, Education Regulations, other related legislations and such other requirements as specified in circulars and documents. EDB’s divisions as shown above shoulder the responsibility to monitor schools, including DSS schools under their authority of office. For DSS schools’ administration and management, quality assurance, financial management and implementation of DSS, these aspects are mainly monitored by the Principal Assistant Secretaries of divisions highlighted in grey.
Dear Ms Hon,

The Director of Audit’s Report on the Results of Value for Money Audits (Report No. 55)

Administration of the Direct Subsidy Scheme (Chapter 1) and Governance and administration of Direct Subsidy Scheme Schools (Chapter 2)

I refer to your letter dated 30 November 2010 on the above.

2. Concerning the occasions on which Secretary for Education (SED) was informed of the irregularities of Direct Subsidy Scheme (DSS) schools, and details of the irregularities identified, please note that the irregularities identified of DSS schools are normally dealt with at the appropriate level without bringing to SED personally. However, SED would be informed and give steer in those cases with policy implications and public concern. Within the time slot available, we have checked through our records available for the past three years. I wish to confirm that SED was personally involved in the following two cases.
3. The case of which a school sponsoring body subsequently gave up the operation of the school the Pegasus Philip Wong Kin School (Pegasus) was brought to SED’s attention in May 2008. The sponsor indicated its wish of giving up the operation of the school. There were then several discussions held at the Senior Directorate Meetings of the Education Bureau from May to November 2009 focusing on the related follow-up actions. As the meetings, the discussions were on the follow up action pertaining to the case of Pegasus and the records are not relevant to the PAC’s public hearing, these are therefore not attached.

4. The other case brought to SED’s attention is a school covered in the Director of Audit’s Report on the results of value for money audits (Report No. 55). Since 10 November 2010 up to today, this case has been covered among others in a total of six working meetings with SED regarding this Audit’s Report. There are no minutes of the working meetings. SED was informed that a warning letter was issued to the school in question on 12 November 2010 and we were contemplating to appoint members to the School Management Committee of the school having regard to its irregularities and malpractices.

Yours sincerely,

(Miss Grace Kwok)
for Secretary for Education

c.c. Secretary for Financial Services and the Treasury (Fax no.: 2147 5239)
Director of Audit (Fax no.: 2583 9063)
Ms Miranda HON  
Clerk to Public Accounts Committee  
Legislative Council  
8 Jackson Road  
Central  
Hong Kong  

11 December 2010

By Fax (No. 2537 1204)

Dear Ms Hon,

The Director of Audit’s Report on the  
Results of Value for Money Audits (Report No. 55)  
Administration of the Direct Subsidy Scheme (Chapter 1)  
And Governance and administration of Direct Subsidy  
Scheme schools (Chapter 2)  

Further to my letter dated 10 December 2010 on the above matter,  
please find enclosed Annexes A to C.

Yours sincerely,

(Mrs. Michelle WONG)  
for Secretary for Education  

c.c. Secretary for Financial Services and the Treasury (Fax no.: 2147 5239)  
Director of Audit (Fax no.: 2583 9063)
Annex A

Fee Remission Related

Response to

- the letter of 1 December 2010 from Public Accounts Committee regarding paragraph 1(e) (ii)

  (e) regarding the 22 schools listed out in Table 1 in paragraph 3.3(b) of Chapter 2:

  (i) what the average monthly school fees received by each of the schools in 2008/09 were. Please break down the schools according to the ranges of “underprovided amount” set out in Table 1; and

  (ii) besides the school mentioned in paragraph 3.4, the number of years during which the remaining 21 schools did not set aside sufficient school fee income for running their fee remission/scholarship schemes;

- the letter of 3 December 2010 from Public Accounts Committee regarding paragraph 1(a)

  (a) Table 1 of Chapter 2 showed that the amounts of school fee income set aside by 22 schools for their fee remission/scholarship schemes were less than those required according to the levels of their school fees. It was mentioned at the hearing that although the Education Bureau ("EDB") had detected the problem of underprovision, it had applied flexibility in determining whether the schools concerned had set aside sufficient money for the purpose of running their fee remission/scholarship schemes, such as allowing the schools to fund the schemes from sources other than school fees.

  Please explain in detail the mechanism of and the criteria adopted by the EDB for determining whether or not Direct Subsidy Scheme ("DSS") schools have complied with the EDB's requirements on the funding of school fee remission/scholarship schemes, including those set out in paragraph 3.2 of Chapter 2. Please also explain the flexibility allowed and the relevant justifications
the letter of 6 December 2010 from Public Accounts Committee regarding paragraphs 4(a) to 4(d)

(a) in addition to the average monthly school fees received by the schools in 2008/09 (which was sought under item (e)(i) of my letter of 1 December 2010), please also provide the average annual school fees charged by the schools as well as their annual school fees (if they charge different amounts for different class levels, please list out the details);

(b) whether the schools should set aside their school fee income for their fee remission/scholarship schemes according to the criteria mentioned in paragraph 3.2(a) or 3.2(b) of Chapter 2;

(c) the actual amount of underprovision; and

(d) the utilization rate of the schools’ fee remission/scholarship schemes in 2008/09.

Mechanism of and criteria adopted by the Education Bureau (EDB) for determining whether or not Direct Subsidy Scheme (DSS) schools have complied with EDB’s requirement on the funding of school fee remission/scholarship schemes

1. For the purpose of running a fee remission / scholarship scheme, DSS schools are required to set aside-

   (a) 10% of the school fee income; or
   (b) 50% of the amount of school fee which exceeds two-third of the DSS subsidy rate if the school fee is between the range of 2/3 (two-third) and 2 1/3 (two and one-third) of the DSS subsidy rate,

whichever is the higher.

2. In the course of examining the annual audited accounts of DSS schools each year, EDB would check whether all schools have set aside in the year concerned a provision for fee remission/scholarship scheme not less than the minimum 10% of the school fee income. For those provisions above 10%, EDB counts on DSS schools’ external auditor to check if schools comply with the requirements. If there is any shortfall, EDB Regional Education Offices
(REO) would follow up with the schools concerned and request them to rectify and make good the shortfall. In fact, EDB has recently conducted a detailed check on the internal records of the ten schools which satisfied the criteria under paragraph 1(b) above and are among the 22 schools as identified by the Audit Commission (Audit) which have made inadequate provision for fee remission/scholarship scheme. Out of these ten schools, only one school has not complied with the requirement due to misinterpretation.

**Differences in the assessment between Audit and EDB regarding compliance with the above requirement**

3. We note that in applying criteria under paragraph 1(b) in its calculations, Audit has used 2008/09 projected DSS subsidy rate and the snapshot of enrolment figures as of 30 September 2008, whereas EDB assesses with reference to the 2008/09 finalized DSS subsidy rate and actual enrolment figures adopted by most schools as the basis.

4. Noting that different schools may have adopted, having regard to their unique circumstances, different accounting practices, we have adopted a practical approach to assessing whether the requirement of setting aside sufficient financial provision for the purpose of fee remission/scholarship scheme has been met. Nevertheless, in so doing, we bear in mind the objective of ensuring adequate provision for needy students. Hence, while ensuring compliance with the requirement, we allow some reasonable variation in respect of the account to which fee remission/scholarship scheme is charged. Specifically, apart from direct deduction of the required provision from the school fee income, we would also allow the school to make alternative arrangements to set aside the required amount from other funding sources, including but not limiting to accumulated reserve balance, bursaries as well as scholarship/fee remission expenses paid during the year from the Income & Expenditure Account. In addition, we also accept schools using actual school fees paid by students (i.e. after fee remission) for setting aside sufficient amount as required under the criteria under paragraphs 1(a) or 1(b) above.

5. The EDB also allows under-provision of an insignificant amount, say 0.01% (in one case the difference is only $10 and in another it is around $1,000 in 2008/09).
Differences in the assessment findings

6. According to the findings of the Audit in Table 1 of Chapter 2, 22 DSS schools have under-provided fee remission/scholarship scheme in their 2008-09 accounts in varying degrees ranging from $1 to above $1 million. Upon cross-checking with Audit’s findings, we have found that 16 out of the said 22 DSS schools were considered to have made adequate provisions for fee remission/scholarship scheme purpose in 2008/09 accounts. This difference in assessment is all but one due to the reasons listed in paragraphs 3 to 5 above. Specifically these 16 schools can be accounted for as follows:

(a) paragraph 3: eight schools;
(b) paragraph 4: five schools;
(c) paragraph 5: two schools;
(d) for the case of Hang Seng School of Commerce, EDB has only taken into account the tuition fee income for 2008/09 in respect of Form Six / Seven under DSS while Audit has used the total fee income which also covered tuition fee income from pre-associate/associate/top-up degrees as well, hence giving rise to a significant difference in the amount required for fee remission/scholarship scheme.

7. For the remaining six schools with under-provision of fee remission/scholarship scheme according to both EDB’s assessment and Audit’s observation in its report, we have already informed them and they have all agreed to top up funding in their 2009/10 accounts to make good the shortfall. Of these six schools with under-provision of fee remission/scholarship scheme, three had not set aside the required amount for fee remission/scholarship scheme in 2006/07, 2007/08 and 2008/09.

8. In response to the Public Accounts Committee Members’ request in paragraphs 4(a) to 4(d) of LegCo’s letter dated 6.12.2010, we provide in the Appendix to Annex A-1 the following information on the 22 schools which are mentioned in Table 1 of Chapter 2 –

(a) the criteria for setting aside fee remission/scholarship scheme;
(b) the annual school fee income in 2008/09;
(c) the actual amount of under-provision in 2008/09 per Audit’s calculations;
(d) the actual amount of under-provision in 2008/09 per EDB’s calculations;
(e) the utilisation rate in 2008/09 per EDB’s calculations; and
(f) the reasons for discrepancies between (c) and (d).

Way forward

9. To avoid misunderstanding arising from different interpretations of the requirements for fee remission/scholarship scheme, we undertake to refine the guidelines with a view to clarifying and standardising the practice.
Response to the letter of 1 December 2010 from Public Accounts Committee regarding paragraph 1(f)

(f) the actions that had been taken by the EDB since September 2005 to ensure that the school mentioned in paragraph 3.4 of Chapter 2 will set aside sufficient amount of school fee income for running its fee remission/scholarship scheme and the school’s response

1. The school is operated in a DSS through-train mode. Its primary and secondary sections started operation in September 2002 and September 2003 respectively.

2. Through checking of school’s 2002/03 audit accounts in the 2004/05 school year, EDB started to find out that the school did not set aside the required amount of school fee income for its fee remission/scholarship scheme. We advised the school for rectification on 8 September 2005 accordingly. However, we found the same mal-practice through checking of school’s audited accounts in the subsequent four years. Hence, EDB has written to school for a number of times in February 2007, October 2007, November 2008, September 2009 and August 2010 to request for necessary rectification. School finally replied in September 2010 saying that school has set aside the required amount of fee remission. Although the school has committed to set aside the required amount of fee remission, it has not made rectification for the other mal-practices identified. Hence, EDB issued a warning letter to school on 12 November 2010. In response, the school gave EDB a reply to EDB dated 23 November 2010. EDB is studying the school’s response and will continue to liaise closely with the school to follow up the issues.
Response to the letter of 3 December 2010 from Public Accounts Committee regarding paragraph 1(b)

(b) according to paragraph 3.14 of Chapter 2, only two of the schools visited by Audit had mentioned their fee remission/scholarship schemes in their prospectuses. Please provide a copy of the relevant parts in the service agreements signed by the school governing bodies of these two schools as well as the relevant parts in their school prospectuses showing details of their fee remission/scholarship schemes

• Please refer to Annexes A-2 to A-5 for School 1’s information and Annexes A-6 to A-9 for School 2’s information.

*Note by Clerk, PAC:  Annexes A-2 to A-5, and Annexes A-6, A-7 and A-9 not attached.*
Relevant Information of the 22 Direct Subsidy Schemes Schools mentioned in Table 1 of Chapter 2

<table>
<thead>
<tr>
<th>School No.</th>
<th>Criteria for setting aside fee remission / scholarship scheme</th>
<th>Annual school fee income in 2008/09</th>
<th>Actual amount of under-provision in 2008/09 per Audit Commission's classification / calculations:</th>
<th>Actual amount of under-provision in 2008/09 per EDB's calculations</th>
<th>Utilisation rate in 2008/09 per EDB's calculations</th>
<th>Reasons for discrepancies between columns (c) and (d) (Note)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>10% (paragraph 3.2(a))</td>
<td>2,666,610</td>
<td>26,021</td>
<td>Nil</td>
<td>90%</td>
<td>(ii)</td>
</tr>
<tr>
<td>2</td>
<td>more than 10% (paragraph 3.2(b))</td>
<td>37,108,900</td>
<td>46,395</td>
<td>Nil</td>
<td>6%</td>
<td>(i)</td>
</tr>
<tr>
<td>3</td>
<td>10% (paragraph 3.2(a))</td>
<td>12,110,994</td>
<td>1,099</td>
<td>Nil</td>
<td>88%</td>
<td>(iii)</td>
</tr>
<tr>
<td>4</td>
<td>more than 10% (paragraph 3.2(b))</td>
<td>16,741,700</td>
<td>37,952</td>
<td>Nil</td>
<td>23%</td>
<td>(i)</td>
</tr>
<tr>
<td>5</td>
<td>10% (paragraph 3.2(a))</td>
<td>1,353,000</td>
<td>43,800</td>
<td>Nil</td>
<td>63%</td>
<td>(ii)</td>
</tr>
<tr>
<td>6</td>
<td>10% (paragraph 3.2(a))</td>
<td>28,004,700</td>
<td>10</td>
<td>Nil</td>
<td>46%</td>
<td>(iii)</td>
</tr>
<tr>
<td>7</td>
<td>10% (paragraph 3.2(a))</td>
<td>4,654,975</td>
<td>48,828</td>
<td>48,828</td>
<td>90% Under-provided</td>
<td></td>
</tr>
<tr>
<td>8</td>
<td>more than 10% (paragraph 3.2(b))</td>
<td>22,130,414</td>
<td>13,690</td>
<td>Nil</td>
<td>100%</td>
<td>(i)</td>
</tr>
<tr>
<td>9</td>
<td>10% (paragraph 3.2(a))</td>
<td>6,539,454</td>
<td>27,365</td>
<td>27,365</td>
<td>96% Under-provided</td>
<td></td>
</tr>
<tr>
<td>10</td>
<td>10% (paragraph 3.2(a))</td>
<td>1,612,687</td>
<td>38,434</td>
<td>Nil</td>
<td>100%</td>
<td>(ii)</td>
</tr>
<tr>
<td>11</td>
<td>more than 10% (paragraph 3.2(b))</td>
<td>26,588,557</td>
<td>201,700</td>
<td>Nil</td>
<td>35%</td>
<td>(i)</td>
</tr>
<tr>
<td>12</td>
<td>more than 10% (paragraph 3.2(b))</td>
<td>51,760,150</td>
<td>51,448</td>
<td>Nil</td>
<td>60%</td>
<td>(i)</td>
</tr>
<tr>
<td>13</td>
<td>more than 10% (paragraph 3.2(b))</td>
<td>40,413,650</td>
<td>61,244</td>
<td>65,124</td>
<td>67% Under-provided</td>
<td></td>
</tr>
<tr>
<td>14</td>
<td>more than 10% (paragraph 3.2(b))</td>
<td>16,125,900</td>
<td>226,355</td>
<td>Nil</td>
<td>20%</td>
<td>(i)</td>
</tr>
<tr>
<td>15</td>
<td>10% (paragraph 3.2(a))</td>
<td>11,403,540</td>
<td>62,128</td>
<td>Nil</td>
<td>100%</td>
<td>(ii)</td>
</tr>
<tr>
<td>16</td>
<td>more than 10% (paragraph 3.2(b))</td>
<td>36,024,000</td>
<td>311,625</td>
<td>Nil</td>
<td>44%</td>
<td>(i)</td>
</tr>
<tr>
<td>17 *</td>
<td>10% (paragraph 3.2(a))</td>
<td>14,036,050</td>
<td>381,130</td>
<td>381,130</td>
<td>73% Under-provided</td>
<td></td>
</tr>
</tbody>
</table>
Relevant Information of the 22 Direct Subsidy Schemes Schools mentioned in Table 1 of Chapter 2

<table>
<thead>
<tr>
<th>School No.</th>
<th>Criteria for setting aside fee remission/scholarship scheme</th>
<th>Annual school fee income in 2008/09 $ (a)</th>
<th>Actual amount of under-provision in 2008/09 per Audit Commission's calculations $ (b)</th>
<th>Actual amount of under-provision in 2008/09 per EDB's calculations $ (c)</th>
<th>Utilisation rate in 2008/09 per EDB's calculations % (d)</th>
<th>Reasons for discrepancies between columns (c) and (d) (Note)</th>
</tr>
</thead>
<tbody>
<tr>
<td>18</td>
<td>more than 10% (paragraph 3.2(b))</td>
<td>15,259,825</td>
<td>578,473</td>
<td>Nil</td>
<td>53%</td>
<td>(i)</td>
</tr>
<tr>
<td>19</td>
<td>more than 10% (paragraph 3.2(b))</td>
<td>58,002,000</td>
<td>697,803</td>
<td>Nil</td>
<td>100%</td>
<td>(i)</td>
</tr>
<tr>
<td>20</td>
<td>10% (paragraph 3.2(a))</td>
<td>4,244,400</td>
<td>856,165</td>
<td>Nil</td>
<td>100%</td>
<td>(iv)</td>
</tr>
<tr>
<td>21 *</td>
<td>10% (paragraph 3.2(a))</td>
<td>19,490,416</td>
<td>931,491</td>
<td>931,491</td>
<td>52% Under-provided</td>
<td></td>
</tr>
<tr>
<td>22 *</td>
<td>10% (paragraph 3.2(a))</td>
<td>40,028,000</td>
<td>3,056,950</td>
<td>3,056,950</td>
<td>24% Under-provided</td>
<td></td>
</tr>
</tbody>
</table>

* Not meeting fee remission/scholarship scheme requirement in three consecutive years for 2006/07, 2007/08 and 2008/09.

**Note: Reasons for discrepancy**

(i) In its calculations when applying the criteria under paragraph 1(b) of Annex A, Audit has used 2008/09 projected DSS subsidy rate and the snapshot of enrolment figures as of 30 September 2008, whereas EDB assesses with reference to the 2008/09 finalized DSS subsidy rate and actual enrolment figures adopted by most schools as the basis.

(ii) Apart from direct deduction of the required provision from the school fee income, EDB would also allow the school to make alternative arrangements to set aside the required amount from other funding sources, including but not limited to accumulated reserve balance, bursaries as well as scholarship/fee remission expenses paid during the year from the Income & Expenditure Account. In addition, EDB also accepts schools using actual school fees received (i.e. after fee remission) for setting aside sufficient amount as required under the criteria under paragraphs 1(a) or 1(b) of Annex A.

(iii) Under-provision of an insignificant amount. The differences in school no. 3 and 6 are around $1,000 and $10 respectively.

(iv) EDB has only taken into account the tuition fee income for 2008/09 in respect of Form Six / Seven under DSS while Audit has used the total fee income which also covered tuition fee income from pre-associate / associate / top-up degrees as well, hence giving rise to a significant difference in the amount required for fee remission/scholarship scheme.
Fee Remission Scheme

To ensure that students will not be deprived of their opportunity to study at School because of financial difficulty, our school offers a fee remission scheme to those in need. Depending on the applicant’s financial situations, the scheme offers remissions from 25% up to 100% of the school fee.

Procedures for the application for Fee Remission
1. Application is open throughout the year. Parents who want to apply for Fee Remission have to write in for an application form.
2. An application form will be issued after the letter has been submitted to the office.
3. Applicant has to submit the completed application form with supporting documents within one week.

All cases are considered on an individual basis. Applicants should ensure that all information submitted is true and accurate.

Eligible applications are to be approved by the Supervisor. Successful applicants and the amount of remission will be notified individually in three to four weeks. Please note that remission, if granted, is only valid for the current academic year and a new submission must be made for any subsequent years.

On request, the applicant must provide proof of information for validation.
1. This Reckoner is adopted in assessing the eligibility of students for the 2010/2011 school year, points will be awarded on two aspects – family income and dependants.

2. (I) **Average Monthly Family Income from All Sources**

Average monthly family income means:
Applicant family’s total salary, allowances and other income (see Note 1) during the 12 months from April 2009 to March 2010 divided by 12.

<table>
<thead>
<tr>
<th>Average Monthly Income $</th>
<th>Point</th>
</tr>
</thead>
<tbody>
<tr>
<td>0 – 5,145</td>
<td>20</td>
</tr>
<tr>
<td>5,146 – 7,035</td>
<td>16</td>
</tr>
<tr>
<td>7,036 – 8,925</td>
<td>12</td>
</tr>
<tr>
<td>8,926 – 10,710</td>
<td>8</td>
</tr>
<tr>
<td>10,711 – 12,495</td>
<td>5</td>
</tr>
<tr>
<td>12,496 – 14,385</td>
<td>4</td>
</tr>
<tr>
<td>14,386 – 15,855</td>
<td>3</td>
</tr>
<tr>
<td>15,856 – 17,220</td>
<td>2</td>
</tr>
<tr>
<td>17,221 – 18,690</td>
<td>1</td>
</tr>
<tr>
<td>18,691 – 20,160</td>
<td>0</td>
</tr>
<tr>
<td>20,161 – 21,945</td>
<td>-1</td>
</tr>
<tr>
<td>21,946 – 23,835</td>
<td>-2</td>
</tr>
<tr>
<td>23,836 – 24,886</td>
<td>-3</td>
</tr>
<tr>
<td>Over 24,886</td>
<td>discretion</td>
</tr>
</tbody>
</table>
(II) Dependents

<table>
<thead>
<tr>
<th>Dependent #</th>
<th>Point Score for Each Dependent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Applicant’s Spouse</td>
<td>1</td>
</tr>
<tr>
<td>Dependent Parent</td>
<td>1</td>
</tr>
<tr>
<td>Dependent Children (including student-applicant):</td>
<td>Aided DSS</td>
</tr>
<tr>
<td>Attending full-time senior secondary course (S4-S7) and full-time Springboard Programme</td>
<td>1 4</td>
</tr>
<tr>
<td>Receiving full-time education up to first degree (including pre-primary education, primary to junior secondary education (P1-S3), VTC, IVE, post-secondary courses, etc) (see Note 2 &amp; 3)</td>
<td>1 3</td>
</tr>
<tr>
<td>Attending evening/part-time/special training courses OR not attending schools (see Note 4)</td>
<td>under 18 over 18</td>
</tr>
<tr>
<td></td>
<td>1 0</td>
</tr>
</tbody>
</table>

# Dependents in receipt of Comprehensive Social Security Assistance (excluding Old Age Allowance and Disability Allowance) are not eligible for any point score.

3. **Level of Assistance**

<table>
<thead>
<tr>
<th>Point Score</th>
<th>Fee Remission %</th>
</tr>
</thead>
<tbody>
<tr>
<td>18 or above</td>
<td>100%</td>
</tr>
<tr>
<td>12 - 17</td>
<td>75%</td>
</tr>
<tr>
<td>8 - 11</td>
<td>50%</td>
</tr>
<tr>
<td>5 - 7</td>
<td>25%</td>
</tr>
<tr>
<td>4 or below</td>
<td>0%</td>
</tr>
</tbody>
</table>
### Note 1: Income from All Sources

<table>
<thead>
<tr>
<th>A: Income that will be assessed</th>
<th>B: Income that will not be assessed</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Basic salary (including contributions to provident fund, e.g. MPF)</td>
<td>1. Old age allowance</td>
</tr>
<tr>
<td>2. Year-end double pay</td>
<td>2. Disability allowance</td>
</tr>
<tr>
<td>3. Allowance (including housing / travel / meals / education / shift allowance, etc)</td>
<td>3. One-off retirement gratuity / provident fund</td>
</tr>
<tr>
<td>4. Leave pay / pay in lieu of leave</td>
<td>4. Severance pay</td>
</tr>
<tr>
<td>5. Bonus</td>
<td>5. Traffic accident indemnity</td>
</tr>
<tr>
<td>7. Wages in lieu of notice of dismissal</td>
<td>7. Injury indemnity</td>
</tr>
<tr>
<td>8. Profit from business / investment</td>
<td>8. Long service payment / contract gratuity</td>
</tr>
<tr>
<td>9. Interest earned from bank deposits, stocks &amp; Shares, etc</td>
<td>9. Inheritance</td>
</tr>
<tr>
<td>10. Rent earned from property</td>
<td>10. Charity donations</td>
</tr>
<tr>
<td>12. Contribution from family members or relatives</td>
<td>12. Loans</td>
</tr>
<tr>
<td>13. Alimony/living expenses from ex-spouse</td>
<td></td>
</tr>
<tr>
<td>14. Retraining allowance</td>
<td></td>
</tr>
</tbody>
</table>

* Income drawn under column B, though not assessed, should be listed in the application form for reference.
Note 2: Full-time Education

Full time education is defined as day courses lasting for 1 year or more, with 5 meetings per week, each lasting more than 3 hours.

Note 3: Vocational, Technical and Post-secondary Institutes Operating Full-time Courses

Hong Kong Institute of Vocational Education (Formerly known as Technical Institutes/Technical Colleges)
Vocational Training Centre
Construction Industry Training Authority
Clothing Industry Training Authority
Skills Centre
The Hong Kong Academy for Performing Arts
Commercial schools
Hong Kong Institute of Education
Other post-secondary/tertiary institutions

Note 4: Vocational or Special Training Institutes Operating Part-time Courses

School of Education attached to universities
The Prince Philip Dental Hospital
Schools of nursing
Police Training School
Private organizations/schools offering apprenticeship
Seminary, etc.
Annex B

Fee Revision Related

Response to the letter of 3 December 2010 from Public Accounts Committee regarding paragraphs 1(c) and 1(e)

(c) regarding the revision of school fees:

(i) the criteria adopted by the EDB for approving or rejecting DSS schools’ applications for increasing school fees; and

(ii) the respective numbers of applications for increasing school fees which had been rejected and those with the level of increase reduced since the introduction of the DSS, as well as the reasons for rejecting the applications and requiring a reduced level of increase

(e) Please also explain the mechanism in place to ensure that the financial projections made by DSS schools in their applications to increase school fees were fair and reasonable

Regarding items (c) (i) & (e)

The major considerations for assessing the fee revision applications are:

(i) the financial situation of the school (e.g. the amount of operating reserve available and the budget for the coming year);

(ii) the reasons and justifications for the fee revision; and

(iii) the due process with regard to the consultation with parents.

2. To ensure consistency in vetting applications for fee revision, a set of internal guidelines with criteria for vetting fee revision applications has been devised. These criteria are summarised as follows:

(i) For schools intending to apply for fee increase and with total accumulated surplus more than one-year’s operating expenses, Regional Education Office (REO) would only approve the fee increase for schools having strong and reasonable justifications and satisfied the due process with respect to parent consultation;

(ii) In considering whether the applicant school has a large accumulated surplus, REO may take into consideration other factors, e.g. whether
(a) the surplus shown in the audited accounts for the preceding year has already been spent in the current school year; or (b) substantial portions of the surplus are in fact donations earmarked for specific purposes. REO would also examine if there is substantial increase in any expenditure items which would warrant an explanation;

(iii) For irregular items identified by the Finance Division (FD) of the Bureau during the fee assessment such as high bonus payments, REO would ask school to provide supporting materials and justifications. If schools are not able to provide justifiable reasons for such expenditure items, and the inclusion of such expenditure items will have substantial impact on the level of fee increase (e.g. inclusion of these expenditure items may lead to the situation whereby the school is unable to meet the 2-month operating expenses requirement), consideration should be given to whether such items should be excluded from the expenditure lists in assessing the justifications;

(iv) With regard to parent consultation, REO would assess, (a) whether the schools have sought consent from parents; and (b) whether they have properly addressed the concerns of the parents. Details of the consultation arrangements are as follows:

✧ For fee increase exceeding the percentage threshold set by the EDB (i.e. 7% for 2009 and 2010), the applicant is required to obtain consent from the majority of the parents, i.e. three-quarter or more of the total number of respondents in the survey or parents present in the meeting who agree to the proposed fee increase;

✧ For schools with total accumulated surplus exceeding one year’s operating expenses applying for fee increase, consent should be obtained from the majority of parents, i.e. three-quarter or more of the total number of respondents in the survey or parents present in the meeting who agree to the proposed fee increase; and

✧ For schools intending to apply for fee increase of not exceeding the threshold and with total accumulated surplus less than one year’s operating expenses, they should at least consult their Parent Teacher Associations/parent representatives.
3. Every year, before the annual fee revision exercise, a briefing session is organized for REO colleagues to help them get a better understanding of the internal guidelines. This would again help achieve consistency in vetting applications for fee revision by DSS schools. Where required, meetings are held between REO, the FD and the policy section of the DSS to consider complicated cases.

4. In sum, after REO’s initial vetting, all the fee applications are passed to FD for their professional comments. Based on REO’s initial vetting and the scrutiny of the schools’ audited accounts, FD would spot out irregular items such as high bonus payments for follow-up by REO (please refer to para.2(iii) above for elaboration of the follow-up action).
Regarding (e)(ii)

Table 1: Number of Schools under Direct Subsidy Scheme with Fee Increase Applications Rejected for 2008/09 to 2010/11 school years

<table>
<thead>
<tr>
<th>School Year</th>
<th>Number of Schools</th>
<th>Main Reasons for Rejection</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Applications for Fee Increase wholly Rejected</td>
<td></td>
</tr>
<tr>
<td>2008/09</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>2009/10</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>2010/11</td>
<td>2</td>
<td>0</td>
</tr>
<tr>
<td></td>
<td>Applications for Fee Increase Partially Rejected</td>
<td></td>
</tr>
</tbody>
</table>

- School failed to provide the relevant audited account for EDB to review the financial situation of the school;
- School possessed sufficient accumulated surplus and failed to provide strong justifications; and
- School failed to provide concrete evidence showing that parents had full understanding of the reasons for fee increase.

Table 2: Number of Schools under Dss that were Granted Approval Subject to Reduced Level of Fee Increase for 2008/09 to 2010/11 school years

<table>
<thead>
<tr>
<th>School Year</th>
<th>Number of Schools</th>
<th>Main Reasons for Requiring Schools to Reduce Level of Fee Increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008/09</td>
<td>0</td>
<td>• Taking into account the school's accumulated surplus and justifications, reduction of fee increase is necessary; and</td>
</tr>
<tr>
<td>2009/10</td>
<td>2</td>
<td>• School was requested to take into consideration parent's affordability for the proposed increase of fees.</td>
</tr>
<tr>
<td>2010/11</td>
<td>0</td>
<td></td>
</tr>
</tbody>
</table>
Response to the letter of 3 December 2010 from Public Accounts Committee regarding paragraph 1(d)

(d) according to paragraph 4.3 of Chapter 2, for 2008/09 and 2009/10, the EDB approved 30 and 18 applications respectively for school fee increases. In this regard:

(i) what the levels of operating reserves of each of the above schools at the time when they applied for school fee increases were;

(ii) whether the above schools included the ones referred to in Table 6 in paragraph 5.3(b); and

(iii) for the two schools with the highest levels of approved school fee increases (i.e. with an increase from $4,500 to $22,000 and from $48,000 to $60,000), please provide a copy of the documents issued by the schools to obtain consent from parents for increasing the school fees.

Regarding paragraph 1 (d) (i) & (ii)

EDB requires schools to maintain operating reserve sufficient to meet at least two months’ operating expenses all the time. We also consider that an operating reserve between two to 12 months of a school’s operating expenses is reasonable. The levels of operating reserves of the schools at the time when they applied for school fee increases are listed in table below:

<table>
<thead>
<tr>
<th>Fee Application cases</th>
<th>2008/09</th>
<th>2009/10</th>
</tr>
</thead>
<tbody>
<tr>
<td>30</td>
<td>18</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Operating reserve of schools*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Based on audited accounts</td>
</tr>
<tr>
<td>Reserve level (at equivalent no. of monthly expenditure)</td>
</tr>
<tr>
<td>Deficit</td>
</tr>
<tr>
<td>0 - 2 months</td>
</tr>
<tr>
<td>Above 2 months to 12 months</td>
</tr>
<tr>
<td>Above 12 to 14 months</td>
</tr>
<tr>
<td>2006/07 information not available as it is a new DSS school in 2007/08</td>
</tr>
<tr>
<td>Total</td>
</tr>
</tbody>
</table>
* schools have to submit their audited accounts of last year, the revised estimate of current year and the budget for next year to EDB for fee assessment. The operating reserves of these three years will be taken into account.

2. Table 6 in paragraph 5.3(b) includes operating reserve of 64 schools as at 31 August 2009. One school out of the 30 schools and three schools out of the 18 schools listed above are not on the list of the said 64 schools.
Regarding paragraph 1 (d) (iii)

(iii) for the two schools with the highest levels of approved school fee increases (i.e. with an increase from $4,500 to $22,000 and from $48,000 to $60,000), please provide a copy of the documents issued by the schools to obtain consent from parents for increasing the school fees

Document 1 (for the school with an increase of school fee from $4,500 to $22,000)

16th January 2009

23/F, Landmark North,
39, Lung Sun Avenue,
Sheung Shui, N.T.

Dear Ms Chung,

Application for Adjustment of School Fees for the 2008/09 School Year

I refer to your letter dated 8th January 2009 advising us the contents of the letter to be issued to our parents.

I advise that we have tabled the attached letter for discussion in our PTA Executive Committee meeting held on 9th January 2009. The parents present in the meeting did not have any negative comments on the letter. On 12th January 2009 we have issued it to all of our parents.

I will keep you updated on 23rd January 2009. By then we would confirm if the parents affected would have any concerns and how we would have addressed them.

Yours sincerely,

Principal

RECEIVED
16 JAN 2009
12th January 2009

Dear Parents,

**Update on Application for Adjustment of School Fees**

Since the last School Year 2007-08, we have communicated with you in several occasions explaining our application to the Education Bureau (EDB) for the school fee adjustment. This includes our discussion in the Executive Committee meetings of PTA (on 12th October 2007, 27th June 2008 and 28th November 2008 respectively) and our letters to the parents (dated 29th November 2007 and 17th September 2008 respectively). We were pleased to receive acknowledgement of our cause of fee adjustment and our request for support of our cause from each and every family of the students, and that has been communicated to EDB.

EDB has been hesitant in granting us approval for our application despite that we confirmed and re-confirmed to them that we have carried out the due process in informing and explaining to our parents, and indicating to them the proper channel for feedback and query.

In our last round of negotiation with EDB on 18th December 2008, in the presence of the Principal Assistant Secretary at the headquarters of EDB, we have come to a consensus that the following actions would be required:

a) There is no increase for Form 6 school fee in 2008-09. (Refund will be arranged once we receive confirmation from EDB, and the details will be advised to the parents concerned under separate cover).

b) Our school has to ensure that there is no concern from the Form 1 Parents regarding the school fee adjustment which applies to Form 1 in 2008-09 and works progressively in Form 2 and beyond in the subsequent years. And if there is any, our school has ways to address them properly.

c) Our school is required to inform EDB by the middle of January that the above requirements have been carried out so that they would consider our application.

In this regard, if you have any concern about our application for fee adjustment, please write in the form attached and sent it to the undersigned on or before 22nd January 2009. Otherwise, we will reply to EDB that our parents do not have any concern about our application for school fee adjustment, as we have informed and explained to them.
We would also like to reiterate that it is our policy to encourage our students to work towards excellence in their formation and to provide financial assistance to those who are in need. We pledge to continue with this policy in future, as what we have upheld in the past years. For details, please refer to the attachment of this letter.

We feel sorry to bother our parents again on this issue, but sincerely hope our parents understand our current situation and support our cause in providing quality education to our students. Please refer to the Financial Summary in our School Annual Report 2007-08 posted on our website. Should parents require further information or assistance on this, please feel free to contact us.

Yours sincerely,

Principal

To : [Redacted]

From : [Parent's Name] (Parent's Name)

Parent of [Student's Name] (Student's Name) in ____ (Class)

Date :

Re : Response to Letter on Adjustment of School Fees dated 12th January 2009

Comments:

[Parent's Signature]
Scholarships and Grants

The policy of our school is to encourage our students to work towards excellence in their formation and to provide financial assistance to those who are in need. We offer scholarships and grants to eligible students, who are the best suited to and would benefit from our programmes.

(A) Scholarships
   Form 1 - 3 Potential Development Scholarships
   Form 4 - 5 Potential Development Scholarships
   Form 6 - 7 Potential Development Scholarships

(B) Progress Grants
   Form 1 Progress Grants
   Form 2 Progress Grants
   Form 3 Progress Grants
   Form 4 Progress Grants
   Form 5 Progress Grants
   Form 6 Progress Grants
   Form 7 Progress Grants

(C) Special Progress Grants
   Special Progress Grants for Form 6
   Special Progress Grants for Form 5
   Special Progress Grants for Form 4
   Special Progress Grants for Form 2/3

(D) AWE (Activity Week Experience) Scholarships and Grants
    AWE Scholarships
    AWE Grants
Scholarships and Grants

(A) Scholarships

Form 1 - 3 Potential Development Scholarships

Purpose
To encourage Primary 6 students with outstanding qualities, such as achieving straight A in core subjects and high order achievements in extracurricular activities.

Amount
Full amount of the school fees for studying from Form 1 to Form 3, renewable upon a satisfactory review of the student's performance at the end of the school year. (Based on the current annual school fee of $22,000 for Form 1 in 2008-09, the total amount of this scholarship is $66,000 per student.)

Awarding Criteria
Candidates should show the highest level of attainment academically in English, Chinese and Mathematics, and produce a portfolio of extracurricular activity participation and achievement. Proof of other special talents could also be provided.

Form 4 - 5 Potential Development Scholarships

Purpose
To encourage students in Form 3 excelling in academic achievement to continue with Form 4-5 studies and finish their HKCEE in our school.

Amount
Full amount of the school fees for studying in Form 4 and Form 5, renewable upon a satisfactory review of the student's performance at the end of each school year.

Awarding Criteria
Candidates should obtain the best year end results in Form 3, together with a satisfactory standard of conduct. Other criteria include participation in extracurricular activities and service.

* Subject to approval by the Education Bureau
Scholarships and Grants

Form 6 - 7 Potential Development Scholarships

Purpose
To commend students who attain a high scoring in HKCEE and to encourage them to continue their studies for the HKAL in our school.

Amount
Full amount of the school fees for studying in Form 6 and Form 7, renewable upon a satisfactory review of the student’s performance at the end of each school year.

Awarding Criteria
Candidates should obtain at least 20 points in 6 best subjects. Only the top students will be selected for the award. Candidates should also reach a satisfactory conduct standard, and be able to contribute to school activities in Form 6-7.

(B) Progress Grants

Form 1 Progress Grants

Purpose
To support students with financial difficulties who are not qualified in other awards but are making substantial progress academically.

Amount
Full or half of the amount of annual school fee for studying in Form 1. (Based on the current annual school fee of $22,000[^1] for Form 1 in 2008-09, the full grant is $22,000 per annum and the half grant is $11,000 per annum.)

Application Procedure
Students could apply for the Grant by completing the Progress Grant Application Form when they register for admission to Form 1 in our school. Eligible candidates should show a) proof of financial needs, b) substantial/sustained improvement in their academic performance and c) satisfactory conduct record.

[^1]: Subject to approval by the Education Bureau
Scholarships and Grants

Form 2 Progress Grants

**Purpose**
To support students with financial difficulties who are not qualified in other awards but are making substantial progress academically.

**Amount**
Full or half of the amount of annual school fee for studying in Form 2.

**Application Procedure**
Students could apply for the Grant by completing the Progress Grant Application Form after the release of the year end results at the end of the school year of Form 1. Eligible candidates should show a) proof of financial needs, b) substantial/sustained improvement in their academic performance and c) satisfactory conduct record.

Form 3 Progress Grants

**Purpose**
To support students with financial difficulties who are not qualified in other awards but are making substantial progress academically.

**Amount**
Full or half of the amount of annual school fee for studying in Form 3.

**Application Procedure**
Students could apply for the Grant by completing the Progress Grant Application Form after the release of the year end results at the end of the school year of Form 2. Eligible candidates should show a) proof of financial needs, b) substantial/sustained improvement in their academic performance and c) satisfactory conduct record.
Scholarships and Grants

Form 4 Progress Grants

**Purpose**
To support students with financial difficulties who are not qualified in other awards but are making substantial progress academically.

**Amount**
Full or half of the amount of annual school fee for studying in Form 4.

**Application Procedure**
Students could apply for the Grant by completing the Progress Grant Application Form after the release of the year end results at the end of the school year of Form 3. Eligible candidates should show a) proof of financial needs, b) substantial/sustained improvement in their academic performance and c) satisfactory conduct record.

Form 5 Progress Grants

**Purpose**
To support students with financial difficulties who are not qualified in other awards but are making substantial progress academically.

**Amount**
Full or half of the amount of annual school fee for studying in Form 5.

**Application Procedure**
Students could apply for the Grant by completing the Progress Grant Application Form after the release of the year end results at the end of the school year of Form 4. Eligible candidates should show a) proof of financial needs, b) substantial/sustained improvement in their academic performance and c) satisfactory conduct record.
Scholarships and Grants

Form 6 Progress Grants

Purpose
To support students with financial difficulties who are not qualified in other awards but are making substantial progress academically.

Amount
Full or half of the amount of annual school fee for studying in Form 6.

Application Procedure
Students could apply for the Grant by completing the Progress Grant Application Form when they register for admission to Form 6 in our school. Eligible candidates should show a) proof of financial needs, b) substantial/sustained improvement in their academic performance and c) satisfactory conduct record.

Form 7 Progress Grants

Purpose
To support students with financial difficulties who are not qualified in other awards but are making substantial progress academically.

Amount
Full or half of the amount of annual school fee for studying in Form 7.

Application Procedure
Students could apply for the Grant by completing the Progress Grant Application Form after the release of the year end results at the end of the school year of Form 6. Eligible candidates should show a) proof of financial needs, b) substantial/sustained improvement in their academic performance and c) satisfactory conduct record.
(C) Special Progress Grants

Special Progress Grants for Form 6

Purpose
To commend students who attain a good scoring in HKCEE but not meeting the requirement for the Potential Development Scholarship, and to encourage them to continue their studies for the HKAL in our school.

Amount
40% or 20% of the amount of annual school fee for studying in Form 6 and Form 7, renewable upon a satisfactory review of the student's performance at the end of each school year.

Granting Criteria
Students with 20 points or above in the best 6 subjects in HKCEE, other than those who receive the Potential Development Scholarships, will be granted with the amount of 40% of the annual school fee. Students with 16 to 19 points in the best 6 subjects in HKCEE will be granted with the amount of 20% of the annual school fee.

Special Progress Grants for Form 5

Purpose
To students, who are required repeating in Form 5 with payment of the new school fee, to achieve better HKCEE results upon completion of their study in that school year.

Amount and Granting Criteria
Refund will be made to the students who can better HKCEE results upon completion of their study in that school as follows:

<table>
<thead>
<tr>
<th>Points achieved</th>
<th>Amount refunded</th>
</tr>
</thead>
<tbody>
<tr>
<td>14</td>
<td>$12,000</td>
</tr>
<tr>
<td>14</td>
<td>$10,000</td>
</tr>
<tr>
<td>12 - 13</td>
<td>$8,000</td>
</tr>
<tr>
<td>10 - 11</td>
<td>$6,000</td>
</tr>
<tr>
<td>8 - 9</td>
<td>$4,000</td>
</tr>
</tbody>
</table>
**Scholarships and Grants**

**Special Progress Grants for Form 4**

**Purpose**
To support students with financial difficulties who used to pay the old school fee but are required repeating Form 4.

**Amount and Granting Criteria**
If the student is able to achieve "D" grade or above in the core subjects (English, Chinese and Mathematics) and "E" grade or above in all other subjects (including the Other Learning Experience subjects) in the overall results of that year, the difference of the old and new school fees will be refunded to him in July.

**Special Progress Grants for Form 2/3**

**Purpose**
To support students with financial difficulties who used to pay the old school fee but are required repeating Form 2 or Form 3.

**Amount and Granting Criteria**
If the student is able to achieve "D" grade or above in the core subjects (English, Chinese and Mathematics) and "E" grade or above in all other subjects (including the Other Learning Experience subjects) in the overall results of that year, the difference of the old and new school fees will be refunded to him in July.

**D** AWE (Activity Experience Week) Scholarships and Grants

**AWE Scholarships**
For students with best academic performance at each formation level so as to facilitate them joining the AWE programmes

**AWE Grants**
For students who need financial support and have shown satisfactory academic and conduct results, facilitating them to participate in the AWE programmes
23rd January 2009

23/F, Landmark North,
39, Lung Sum Avenue,
Sheung Shui, N.T.

Dear Ms Chung,

Application for Adjustment of School Fees for the 2008/09 School Year

I refer to our letter dated 16th January 2009, in which we enclosed the copy of the letter dated 12th January 2009 addressed to our parents on the above subject, the contents of which are based on your guidelines in your letter dated 8th January 2009 and the consensus we reached in our meeting dated 18th December 2008.

By the deadline indicated in our letter (i.e. 22nd January 2009), we have received nine responses out of a total of 945 letters sent to our parents, representing 0.95% as the response rate. Among the responses, five of them indicated that they had concerns while the other four indicated their understanding or support to our proposal on school fee adjustment. We spoke to the five parents who had concerns and have dealt with them accordingly. The details of these responses and the actions we have taken to deal with the parents who had concerns are summarized in Appendix I for your reference.

We trust the actions we have taken from October 2007 to now have properly and adequately informed and explained to our parents, and have dealt with those who had concerns satisfactorily. We would communicate with the Form 6 parents in February for the arrangement in effecting the refund, as mentioned under point a) in our letter dated 12th January 2009.

Your kind consideration and approval of our fee adjustment application is greatly appreciated.

Yours sincerely,

[Signature]

Supervisor
<table>
<thead>
<tr>
<th>Parent's name</th>
<th>Student's name</th>
<th>Form</th>
<th>Parent's comments (quoted in full)</th>
<th>Actions taken to address parent's concern</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>1</td>
<td>It is unclear to me on item b) in the action list whether &quot;no&quot; concern from the Form 1 parents implies that there is no refund be arranged to the concerned parents/students. Does it imply the EDB has in principle agreed to the school's application to the increase in school fee to Form 1 students in 2008-09, and beyond in subsequent years?</td>
<td>We called and spoke to the parent on 22/1/2009. We found her concerns were to seek clarification on the following points: 1) any refund arrangement for F.1, 2) details about the Special Progress Grants, and 3) the likelihood of school fee adjustment in the coming years. We advised her that our application to EDB was under process. We would act according to the outcome of this process, and arrange the refund with immediate effect should any refund be required. After learning that we would not have any plan to apply for further adjustment at present, she indicated her satisfaction with the information provided and said that she had no more concern.</td>
</tr>
<tr>
<td>(mother)</td>
<td></td>
<td>2</td>
<td>The percentage of the increase is up to 1000%. If the increase is by phase, it will be much easier to be accepted and financially managed by parents. Anyway, I support what the school has made their decision.</td>
<td>We spoke to the parent on 21/1/2009. She admitted that the percentage she expressed was incorrect. She actually supported our proposal as she indicated her understanding that with $450 per month as school fee, the school could hardly operate.</td>
</tr>
<tr>
<td>(mother)</td>
<td></td>
<td>2</td>
<td>I am pleased to hear that our school provides the scholarship schemes to students.</td>
<td></td>
</tr>
<tr>
<td>(mother)</td>
<td></td>
<td>2</td>
<td>Very disagreed to increase the school fee</td>
<td>We spoke to the parent on 21/1/2009. She misread that the adjustment would affect her son. After learning the rationale of our proposal, which covers the balancing of the existing parents' interests and the new parents' rights of choice, she said that she had no more concern.</td>
</tr>
<tr>
<td>Parent's name</td>
<td>Student's name</td>
<td>Form</td>
<td>Parent's comments (quoted in full)</td>
<td>Actions taken to address parent's concerns</td>
</tr>
<tr>
<td>---------------</td>
<td>----------------</td>
<td>------</td>
<td>-----------------------------------</td>
<td>-------------------------------------------</td>
</tr>
<tr>
<td>(father)</td>
<td></td>
<td>2</td>
<td>I agree the adjustment of school fees so I have no comments.</td>
<td></td>
</tr>
<tr>
<td>(mother)</td>
<td></td>
<td>2</td>
<td>We understand the new fee system and the ways it operates. Thanks very much for informing us the details!</td>
<td></td>
</tr>
<tr>
<td>(mother)</td>
<td></td>
<td>2</td>
<td>The school fees are too expensive.</td>
<td></td>
</tr>
<tr>
<td>(father)</td>
<td></td>
<td>2</td>
<td>Try your best to keep the fee for the coming few years.</td>
<td>We spoke to the parent on 21/1/2009. He confirmed that he did not have any concern because his son would not be affected. We told him that we would try our best to keep the school fees as proposed in the coming few years.</td>
</tr>
<tr>
<td>(father)</td>
<td></td>
<td>6</td>
<td>There is no free lunch in the world. What I need is quality. I observed that my son is developing very well in especially in the past two years. He got proper guidance and improvement both academically and morally. I am pleased to let Desmond continue his study at this school. I support adjustment of school fees proposed by the Principal.</td>
<td></td>
</tr>
</tbody>
</table>
8 September 2008

Dear Parents, Students, Staff, Alumni and Friends of

When we joined the Direct Subsidy Scheme, we set our sights on building on our meritorious traditions and on continuing our pursuit of quality education.

Now, six years on, we have witnessed a number of milestone developments of the School – the most recent ones being the opening of the campus of our primary school and the commencement of redevelopment of the secondary school campus on

Our various initiatives are now paying off, among them having a new, state-of-the-art campus, better school facilities, a higher teacher-student ratio and a diverse range of multi-disciplinary curricula. Not only have we strengthened our position as a leading school in Hong Kong, we have also better prepared our students for the globalised world of the 21st century.

In fact, the latest Comprehensive Review by an independent professional agency from the University of Hong Kong concluded that “the School has clearly delivered quality educational experience and its student achievement well matches the vision of its initial proposal to secure DSS status.”

Since 2002, the very first year of our conversion to a DSS school, the annual tuition fees have been kept at $48,000 for all forms – despite government approval for an annual tuition fee of $60,000 for Forms 6 and 7. Moreover, fee remission has always been available to any student in financial need.

As you all know, Hong Kong has experienced sustained inflation in the past few years. This has resulted in significant increases in salaries for teachers and other operating expenses of the School. Although increases in teachers’ salaries are partially covered by increases in grants from the Government, the School has to finance part of these increases due to our higher teacher-student ratio compared with a normal aided school. Further, we foresee a substantial increase in the operating and maintenance costs for much larger and better-equipped campuses for both the primary and secondary schools.

Our financial projections indicate that the School will be operating at a deficit from 2009/10 onwards if school fees are maintained at the current level. In the absence of a fee adjustment, the School will not be able to maintain a sound financial position as required by the Education Bureau.
After thorough discussions and lengthy deliberations, the Council has reluctantly decided to increase tuition fees with effect from the school year 2009/10. The annual tuition fee for the primary school will be increased to $60,000 while that for the secondary school will be increased to $52,000, with the latter being adjusted in steps to the same level over the period of the redevelopment of the which is expected to take approximately five years. The Council will keep the situation under constant review and will only consider further increases in tuition fees in the future in the light of inflationary pressures.

I sincerely hope you will understand that the fee adjustment is necessary to sustain the schools’ operation without compromising the quality of education for which has long been renowned.

We are committed to providing quality education to all students irrespective of the financial circumstances of their families. Hence we are enhancing the Fee Remission Scheme when tuition fees are increased in the following manner:

For students currently in the Fee Remission Scheme, the fee remission arrangements will be revised so that they will not be asked to pay any additional tuition fees than what they are currently paying.

Additionally, the Scheme will be expanded to include students whose family income is marginally higher than the maximum level under the terms of the current Fee Remission Scheme. For example, a family of four with a disposable income of no more than $830,000 will become eligible for fee remission under the enhanced Scheme. Details of the Revised Fee Remission Scheme can be found on the school website (____________) 

Please note that there are no limits on the number of students in the Fee Remission Scheme as any student whose family income falls within the financial parameters of the Scheme will be included.

Please do not hesitate to let us know should you have any questions about the fee adjustment.

Sincerely yours,

Chairman

The Council of
Dear Parents,

Following the letter of 8 September 2008 from Council Chairman Professor regarding the tuition fee adjustments for the coming school year ( ), I write to provide you an update and seek your understanding of the School's financial position.

As you all know, since 2002, the School has made every endeavour not to increase tuition fees, which have been kept at $48,000 for all forms.

It should be noted that tuition fees are never used for construction and redevelopment of the campus as these are primarily covered by the funds the School has raised through its Charitable Trust.

However, we foresee a substantial increase in the operating and maintenance costs for the much larger and better-equipped campuses of both the primary and secondary schools. If tuition fees are maintained at the current level, we may not be able to continue to subsidise the programmes that we have been providing to our students over the past seven years, such as the Student Activities Week, sports training and musical instrument classes, community service and student exchange programmes. Neither will the School be able to maintain a sound financial position as required by the Education Bureau.

Under the given circumstances the Council decided to adjust the tuition fees, and announced on 8 September 2008 that the annual tuition fee for the primary school would be increased to $60,000 in 2009/10. At the same time, it was also announced that our Fee Remission Scheme, which is among the most generous of its kind, would be expanded and enhanced to ensure that students in need will not be worse off. The letter from the Council Chairman was copied to all parents and was also uploaded onto the school website. Meetings were held with our staff, Parent-Teacher Associations and Alumni Association. A press briefing was also held for the interest of the general public.

As always, we maintain an open and transparent communication whereby parents and other stakeholders are welcome to voice their views and concerns. I hope you will understand that the fee adjustments are necessary to sustain the School's operation without compromising the quality of education for which we have long been renowned. Should you have any questions, please return the Reply Slip to the Class Teacher on or before 4 June 2009. Thank you.

Yours sincerely,

Headmistress

---X--- REPLY SLIP

To: Headmistress,

☐ I have received your letter of 27 May 2009.

(If applicable) I have the following questions:

________________________________________________________________________

________________________________________________________________________

________________________________________________________________________

Name of Student: ____________________

Class: ____________________

Signature of Parent: ____________________

Date: ____________________

27 May 2009
Response to the letter of 3 December 2010 from Public Accounts Committee regarding paragraph 1(e)

(e) Table 4 in paragraph 4.10(a) of Chapter 2 showed that there were significant variances between the projected and actual operation reserves of eight DSS schools for 2008/09. Please provide an analysis of the reasons for the variances for each of these eight schools.

For a school which applied for fee increase in 2008/09, it had to submit, among other information, the following financial information around May 2008:

(i) the audited accounts of 2006/07;
(ii) the revised estimate of 2007/08; and
(iii) the budget for 2008/09 taking into account the impact of fee increase applied.

2. The following reasons explain the significant variances.

Time Gap
3. The 2008/09 projected reserve of a school would be made in May 2008, about 16 months before the actual operation reserve of 2008/09 was concluded as at 31 August 2009 for most schools. In other words, there is a time gap of about 16 months between the projected and actual result in income and expenditure items. Difference between the projected income or expenditure and the actual income or expenditure will result in variance between the projected reserve and the actual reserve as highlighted by Audit Commission.

Difference between projected and finalised DSS unit subsidy
4. When the school prepared the budget for 2008/09 in May 2008, it had to make reference to the 2007/08 projected DSS unit subsidy rates which were the latest data available at that juncture (the 2007/08 and 2008/09 finalised rates would only be available in October of 2008 and 2009 respectively). The 2008/09 finalised rates were higher than the 2007/08 projected rates in the range of 6% to 16%, resulting in higher DSS subsidy income and hence a higher actual operation reserve than estimated.

5. The reasons for the variances between the projected and actual operation reserves for the eight DSS schools for 2008/09 in Table 4 are as follows:
<table>
<thead>
<tr>
<th>Reasons</th>
<th>No. of schools</th>
</tr>
</thead>
<tbody>
<tr>
<td>Variance in income and expenditure due to time gap and higher DSS subsidy income than projected</td>
<td>3</td>
</tr>
<tr>
<td>Higher DSS subsidy income than projected</td>
<td>3</td>
</tr>
<tr>
<td>Higher DSS subsidy income than projected and substantial underspending in various areas (Note)</td>
<td>2</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>8</td>
</tr>
</tbody>
</table>

Note:

(i) One school has incurred less expenditure than estimated by 22% for several reasons (including the delay of a school self-financed extension construction project, lower-than-expected expenses on major repairs and teachers’ salary, etc.)

(ii) The other school had included a provision in the 2008/09 budget for large-scale repair works/self-financed construction works. However, about $1.4 million was not used in that school year.
Annex C

Response to the letter of 3 December 2010 from Public Accounts Committee regarding paragraph 1(f)

(f) whether there had been any change in the manpower, in terms of number of staff or man hours etc., deployed for undertaking duties relating to school audits of DSS schools and taking follow-up actions during the years from 2005 to 2010; and the reason why the glaring practices of the three schools identified by the EDB, as set out in Table 4 in paragraph 5.12 of Chapter 1, had not been rectified after a long time

Regarding whether there had been any change in the manpower, in terms of number of staff or man hours etc., deployed for undertaking duties relating to school audits of DSS schools and taking follow-up actions during the years from 2005 to 2010

The Finance Division and the Regional Education Offices (REO) of the Education Bureau (EDB) take up a range of duties in respect of school education services. Currently, there are around 4,000 schools including aided, government, DSS, caput and private schools as well as kindergartens in Hong Kong. The 15 District School Development Sections under 4 REOs are responsible for providing support to the administration and development of schools. As regards the school audits of DSS schools and the follow-up work required, there is no designated post specifically created for such purposes.

2. In brief, the School Audit Section of the Finance Division of the EDB will conduct audit of DSS schools to evaluate whether the DSS schools have put in place proper financial management and procurement arrangements, and whether their financial and accounting operations comply with the relevant letters, circulars and guidelines issued by the Education Bureau.

3. After the field audit inspections, the School Audit Section will continue to follow up with the schools in respect of any outstanding documents/information/clarifications which cannot be provided by the school on-site. Management letters would be issued to the schools concerned by the School Audit Section after seeking comments from the policy division. In addition to the above, the Finance Division also deploys staff to examine the audited accounts and fee revision application of DSS schools.
4. Schools are required to respond to the management letters and REO would take appropriate follow-up actions where necessary. Other than follow up on audit inspection, with regard to DSS schools, REOs are responsible for handling major repairs exceeding $2 million, fees revision, complaints handling, renewal of service agreement, enhancement of school facilities and other school administrative work (e.g. crisis management, appointment of school head, trading operation). For optimization of resources, there is no post in REOs designated solely for handling DSS schools.

5. The manpower as indicated in the tables below refers to (a) the number of School Audit Section’s staff deployed for undertaking duties relating to school audits of DSS schools and the related follow-up work; and (b) the apportionment of staff resources devoted to the overall administration and support of DSS schools and is worked out based on the relative workload of DSS schools as compared to other types of schools.

<table>
<thead>
<tr>
<th>Year</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010 (Plan)</th>
</tr>
</thead>
<tbody>
<tr>
<td>No. of audit inspection on DSS schools:</td>
<td>4</td>
<td>2</td>
<td>6</td>
<td>6</td>
<td>8</td>
<td>12</td>
</tr>
<tr>
<td>No. of School Audit Section’s staff involved in DSS schools’ audit inspections</td>
<td>0.9</td>
<td>0.4</td>
<td>1.3</td>
<td>1.3</td>
<td>1.7</td>
<td>2.5</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Year</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>No. of REO staff devoted to the overall administration and support of DSS</td>
<td>3.2</td>
<td>3.8</td>
<td>4.2</td>
<td>4.9</td>
<td>5.3</td>
<td>5.4</td>
</tr>
</tbody>
</table>
“the reason why the glaring practices of the three schools identified by the EDB, as set out in Table 4 in paragraph 5.12 of Chapter 1, had not been rectified after a long time”

According to Para. 5.12 of Chapter 1 of the Report No. 55 of the Director of Audit, the schools involved in the glaring practices as identified by the Audit include Tak Sun Secondary School, HKCCCUU Logos Academy and Good Hope School. Details pertaining to the respective schools are set out below.

(1) Tak Sun Secondary School (Tak Sun)

According to the Audit Report, Tak Sun was found to be involved in improper use of government funds (e.g. meal expenses incurred by staff but met by government funds) and lack of procurement policy and procedures.

Use of government funds

2. On improper use of government funds, EDB’s School Audit Section detected a similar mistake committed by the school during the school audit in January 2007 and issued a management letter to the school requesting rectification. Upon receiving the management letter from EDB in May 2007, the school replied in writing in July 2007 that separate accounts had been set up for government and non-government funds and the mistake had been rectified (i.e. charging the expenses in question to the account for non-government fund). In view of this, no follow-up action would be required by EDB. However, Audit discovered at its visit to the school in May 2010 that an expenditure of about $29,000 incurred for holding an annual dinner for staff was charged to the government fund account for 2009/10. The school explained that they were confused about charging different expenditure items to the government and non-government funds. Upon Audit’s query, the school has already transferred the expenditure in question from the government fund account to non-government fund account. Relevant accounting records have been forwarded to EDB.

Procurement policy and procedures

3. During the school audit in January 2007, EDB’s School Audit Section reminded the school of the need to establish proper procedures for tendering and purchasing of goods and services. On receiving the management letter
from EDB in May 2007, the school replied in writing in July 2007 that such procedures had been set up and it would ensure that all quotation records would be properly kept. Given the school’s written confirmation, no follow-up action would be required by EDB. However, during the Audit’s visit, it was found that no formal procurement policy and procedure were laid down by the school. While the school informed Audit that it had followed the procedures promulgated in EDB Circular No. 15/2007, no tender exercise was carried out for some procurements and no record was available proving that the departure from the procurement guidelines had been approved by the Incorporated Management Committee. In response to Audit’s query, the school has drawn up a procurement policy in line with the EDB guidelines. The school advises that the policy has been implemented since September 2010. Relevant documents have been forwarded to EDB for record.

(2) HKCCCU Logos Academy (Logos)

The Audit report noted that Logos was involved in the following two incidents-

(a) The trust arrangement used to hold one of the two properties purchased using school funds was not approved by the SMC. This was first identified by EDB’s school audit in March 2009; and

(b) The same trust arrangement used to hold a third property was also not approved by the SMC, as identified by the Audit at its visit in 2010.

2. The trust arrangement was first identified by EDB in the school audit inspection in March 2009. After obtaining additional information and seeking clarification from school, EDB issued a management letter to the school in February 2010 highlighting that the relevant documents regarding the trust arrangement were not available for inspection. EDB had also requested in the same letter justification/rectification of the arrangement and other financial irregularities in writing within one month. In the absence of any response from the school, written reminders were issued to the school for a reply in March and August 2010 respectively. Despite repeated reminders, there was no response or action from the school on rectifying the trust arrangement and other financial irregularities, advisory letters were then issued to the school in September and October 2010 respectively. A warning letter was issued to the school in November 2010 requiring the school to provide, among other irregularities detected, detailed information and concrete actions to be taken in
respect of the above arrangement, including proper documentation and justifications for the purchase of the properties as well as the approval of the SMC for the purchase and making the trust arrangement. A reply dated 23 November 2010 was finally received from the school. The school undertook to take rectification actions promptly. EDB is studying the reply and will monitor the situation closely. EDB will keep in view the need to take any further actions where necessary.

(3) Good Hope School

Good Hope School was found to be involved in:

(a) Improper use of school funds (loan to a third-party company); and
(b) Lack of tender exercise for a procurement involving a substantial amount.

Improper use of school funds (loan to a third-party company)

2. During the school audit inspection in December 2007, EDB’s School Audit Section found the improper use of school funds involving an amount comprising a loan of $60,000 to and an investment of around $200,000 in the school bus company. A management letter was issued to the school on 28 October 2008. In response to the management letter, the school provided a written reply on 27 February 2009 confirming that the school had worked out with the company on the plan of settlement of loan. The company has started to repay the loan to the school in three phases commencing in December 2008. Audit revealed the same irregularities in 2010 when the school was in the course of resolving the situation with the company.

3. Regarding the investment, after rounds of discussions, the school bus company eventually agreed with the school on 17.9.2009 that the company would be dissolved on 31.8.2010. The investment in the company was recovered by the school upon the former’s dissolution. The school Supervisor confirmed that all the loans and investments with the company had been recovered in August 2010. The school no longer holds any shares of the company.

Lack of tender exercise for a procurement involving a substantial amount

4. EDB’s School Audit Section issued a management letter to the school in October 2008 advising that the school should seek separate tenders for single
purchases exceeding $50,000 each from at least 5 suppliers.

5. During the visit from 24 May to 10 June 2010, the Audit revealed that in one procurement exercise where the amount involved was $587,000, no proper tendering exercise was carried out. The school confirmed that the procurement exercise was for the emergency repair of the stage lighting of the school hall. The school had only obtained three quotations instead of conducting proper tendering in accordance with the relevant guidelines.

6. Following EDB’s advice, guidelines on tendering and procurement of goods and services were drawn up and incorporated in the Staff Handbook to ensure compliance with relevant ordinance, regulations and school circulars in October 2009.
Urgent by post and fax  
(Fax No. 2537 1204)

17 December 2010

Ms Miranda HON  
Clerk to Public Accounts Committee  
Legislative Council  
8 Jackson Road  
Central  
Hong Kong

Dear Ms Hon,

The Director of Audit’s Report on the  
Results of Value for Money Audits (Report No. 55)  
Administration of the Direct Subsidy Scheme (Chapter 1)  
And Governance and administration of Direct Subsidy Scheme schools  
(Chapter 2)

I refer to your letters dated 13 and 14 December 2010.

The information requested in your letter of 13 December 2010 pertaining to items (a) to (k) will be at Annex A to Annex K, and that requested in your letter of 14 December at Annex L.

We are now enclosing Annexes B, C, E, F, G, J and K. The remaining Annexes will be available later today.

Yours sincerely,

(Mrs. Michelle WONG)  
for Secretary for Education

c.c. Secretary for Financial Services and the Treasury (Fax no.: 2147 5239)  
Director of Audit (Fax no.: 2583 9063)
Response to the letter of 13 December 2010 from Public Accounts Committee regarding paragraph 1(b)

(b) the specific measures that the EDB will take/has taken to ensure that DSS schools will improve their fee remission/scholarship schemes, including the publicity and eligibility criteria of the schemes

In order to set out more clearly the requirement for DSS schools as regards the provision of fee remission / scholarship schemes, we have recapitulated and elaborated on the prevailing rules and guidelines in the EDB Circular No. 12/2010 on “Use of Non-government Funds in Direct Subsidy Scheme (DSS) Schools” issued on 5 November 2010. Details are as follows:

(i) DSS schools should draw up clear and transparent criteria for awarding the needy students fee remission and sufficient financial assistance (e.g. the eligibility criteria and the maximum percentage of fee remission);

(ii) DSS schools are required to offer to students a fee remission/scholarship scheme with a set of eligibility benchmarks no less favourable than the government financial assistance schemes;

(iii) In assessing the students’ eligibility for fee remission, no factors except the parents’ financial situation should be taken into consideration;

(iv) Details of the fee remission/scholarship scheme should be shown in the school’s prospectus and uploaded onto the school’s website; and

(v) When the reserve for scholarship / financial assistance has reached a cumulative amount which exceeds the school’s half-year total fee income due to low utilization of fee remission/scholarship scheme, the DSS school should forward to the EDB a plan on how this specific reserve could be effectively deployed. Acceptable options or usages of these excessive reserve include but not limited to:

(a) extending the scholarship / fee remission scheme(s) by relaxing the awarding criteria;
(b) reducing the school fees;

(c) subsidizing eligible students in their purchase of textbooks / reference books / stationery; and

(d) funding students’ extra-curricular activities, including the expenses for their joining overseas educational visits and exchange study programme, etc.

In the proposed Working Group to be set up to address the issues raised by PAC and the Audit Commission, we shall further study possible measures to enhance the transparency (including ensuring that parents can have sufficient information on the fee remission/scholarship schemes and how schools may make effective use of any accumulated surplus of the scheme) and the efficacy of the fee remission/scholarship schemes in DSS schools in order to help ensure that students from low-income families will not be deprived of access to DSS schools due to inadequate means.
Response to the letter of 13 December 2010 from Public Accounts Committee regarding paragraph 1(c)

(c) whether the EDB had issued any guidelines on how a DSS school with excessive reserve for the fee remission/scholarship scheme should deploy the reserve and on the proper use of the reserve (paragraph 3.7 of the Chapter 2 refers); if it had, what the guidelines are, if it had not, whether it will issue such guidelines;

In the EDB Circular No. 12/2010 on “Use of Non-government Funds in Direct Subsidy Scheme (DSS) Schools” issued on 5 November 2010, we set out the guidelines on arrangements for DSS schools to handle reserve for the fee remission/scholarship schemes. Details are as follows:

(i) When the reserve for scholarship/financial assistance has reached a cumulative amount which exceeds the school’s half-year total fee income, the DSS school should forward to the EDB a plan on how this specific reserve could be effectively deployed;

(ii) For deployment of the excessive reserve for the fee remission/scholarship schemes, the acceptable usages of the reserve that can be adopted by DSS schools include the following:

(a) extending the scholarships/fee assistance schemes by relaxing the awarding criteria;
(b) reducing the school fees;
(c) subsidizing eligible students in their purchase of textbooks / reference books / stationery; and
(d) funding students’ extra-curricular activities, including the expenses for their joining overseas educational visits and exchange study programmes, etc.
Response to the letter of 13 December 2010 from Public Accounts Committee regarding paragraph 1(e)

(e) apart from Good Hope School (i.e. School 2 mentioned in Annex A of your letter dated 11 December 2010), whether there are any other DSS schools which run a fee remission/scholarship scheme for which students from family in receipt of Comprehensive Social Security Assistance (“CSSA students”) are not eligible; and what the 71 (i.e. all DSS schools except Good Hope School) schools’ policies towards the admission of CSSA students are

From what we gathered from all the 71 DSS schools (information of Good Hope School is provided at Annex G), no students from families in receipt of Comprehensive Social Security Assistance ("CSSA students") are not eligible for the schools' "fee remission/scholarship scheme". Besides, all the schools adopt the same admission policy in respect of CSSA students and non-CSSA students.
Response to the letter of 13 December 2010 from Public Accounts Committee regarding paragraph 1(f)

(f) the policy of and the criteria adopted by the Social Welfare Department (“SWD”) in considering application for school fee remission from CSSA students of DSS schools.

The information below is provided by the SWD

The Comprehensive Social Security Assistance (CSSA) Scheme is a safety net of last resort for those who cannot support themselves financially to meet their basic needs.

Under the existing CSSA policy, a student under the age of 22 and receiving education up to secondary level in a grammar school, vocational or technical training school can be assisted with a special grant to cover the school fees and other educational expenses. As free education is provided by the Government for students receiving primary and secondary education in Government or aided schools, normally, no special grant for school fees would be given under the CSSA Scheme to students who choose to attend Direct Subsidy Scheme (DSS) schools.

However, where the students have been attending DSS schools before resorting to CSSA, the SWD will give them sufficient time to make suitable arrangements. Normally, they will be given a special grant for school fees up to the current school year, and in the interim, they can apply for fee remission from school or apply to change to a Government or aided school. A special grant for school fees can be given to students attending Primary 5 & 6 to complete the Primary course; and also to those attending Secondary 5 & 6 to complete the Secondary course.
Annex G

Response to the letter of 13 December 2010 from Public Accounts Committee regarding paragraph (g)

(g) regarding the fee remission scheme of Good Hope School:

(i) please explain the reason why the school specifies that “Dependents in receipt of CSSA (excluding Old Age Allowance and Disability Allowance) are not eligible for any point score” under its fee remission scheme;

(ii) whether there are any CSSA students in the school;

(iii) whether the school has ever turned down the application for fee remission from CSSA students; and

(iv) whether the school has ever assisted CSSA students in applying for school fee remission from the SWD;

1. The school has explained in a press statement issued on 13 December 2010 that under the current system, students receiving CSSA payments that have already included school fees would not be eligible for receiving school fee remission. However, if the CSSA payments do not cover school fees, the students can always apply for fee remission administered by the school and fee remission will be granted to them. The school also clarified in the statement that the reference to CSSA recipients in the Guidelines for applying for school fee remission is included to avoid a situation where students will receive double subsidies from the CSSA and the school fee remission scheme. The School indicated that it would revise the Guidelines as soon as possible to make the eligibility criteria clearer.

2. Two CSSA students from S2 and S4 respectively have been granted full fee remission in 2010/11 school year.

3. The School advised that it had never turned down the application for fee remission from CSSA students.

4. The School advised that they have not provided assistance to students in applying for school fee remission from the SWD as the School is always ready to grant full fee remission to CSSA students if schools fees are not covered under their CSSA payments.
Response to the letter of 13 December 2010 from Public Accounts Committee regarding paragraph 1(j)

(j) please provide a sample appointment letter of external auditor and a sample external auditor’s report (paragraph 5.27 of Chapter 2 refers).

It is individual DSS schools that appoint their own auditors. EDB has provided the schools with an outline of the audit engagement letter in the EDB Circular No. 17/2008 for their reference. A copy of the said outline in the Appendix of the circular is enclosed in Appendix 1.

As regards external auditors’ report, we have set out our requirements in the “Reference Notes for Auditors of Schools which received subsidies under the Direct Subsidy Scheme” sent to all DSS schools. A sample is enclosed in Appendix 2 for reference.

*Note by Clerk, PAC:  Appendices 1 and 2 not attached.*
Response to the letter of 13 December 2010 from Public Accounts Committee regarding paragraph 1(k)

(k) regarding the school which had understated its interest income for three years by about $448,000 (paragraph 5.31 of Chapter 2 refers), whether the EDB has taken follow-up action on the school and what the results are.

In response to the Education Bureau’ follow-up enquiry, the school replied in writing on 14 December 2010, confirming that the $447,726.35 which being the interest income from government funds for 2006/07 to 2008/09 school years would be transferred from the non-government accounts back to the government fund accounts within December 2010.
30 December 2010

Dear Ms Hon,

The Director of Audit’s Report on the Results of Value for Money Audits (Report No. 55)

Administration of the Direct Subsidy Scheme (Chapter 1)
And Governance and administration of Direct Subsidy Scheme schools
(Chapter 2)

With reference to your letter dated 20 December 2010, please find enclosed information pertaining to items (a) to (g) set out in your letter at Annex A to Annex G.

Yours sincerely,

(Mrs. Michelle WONG)
for Secretary for Education

c.c. Secretary for Financial Services and the Treasury (Fax no.: 2147 5239)
Director of Audit (Fax no.: 2583 9063)

*Note by Clerk, PAC: Annex G not attached.*
Annex A

Response to the letter of 20 December 2010 from Public Accounts Committee regarding paragraph 1(a)

(a) regarding the purchase of properties by a school in August 2006 mentioned in paragraph 5.41(a) of Chapter 2, the reason why the EDB was not able to detect the purchase from the school’s financial statements submitted to the EDB until the school audit carried out in March 2009, including whether and how the purchase had been reported in the school’s audited accounts, and whether the EDB had taken any action on the relevant audited accounts

EDB scrutinizes the audited account of schools every year and writes to request schools to rectify the malpractice and irregularities identified. The said purchase of properties in August 2006 was recorded by the school concerned as “Additions” under “School Premises” in the 2005/06 audited accounts. No other details were provided in the audited accounts, including any indication that these additions were for purchase of properties. As it is not uncommon for schools to have additions to school premises such as minor construction work and renovation work, EDB did not categorically follow up with the school.

The purchase of properties and trust arrangement were first identified by EDB in the school audit inspection in March 2009 and which the EDB then followed up with the school. Despite repeated letters from EDB, there was no response from the school. A warning letter was issued to the school on 12.11.2010.

EDB would request DSS schools to provide detailed disclosure on purchase of properties in their accounts from 2009/10 onwards.
Annex B

Response to the letter of 20 December 2010 from Public Accounts Committee regarding paragraph 1(b)

(b) please provide a copy of the letter issued by the school supervisor informing the EDB that the ownership of the three properties in question would be transferred back to the school and the latest position of the matter

A copy of the letter is in the file attached.


We received the above letter of 14.12.2010 from the supervisor of the school concerned informing EDB that the School Management Committee (SMC) had accepted legal advice to apply to court for a vesting order to transfer the three properties to SMC. On 17.12.2010, we replied to the SMC in writing requiring the SMC to complete the transfer of properties by 7.1.2011. We reiterated this requirement at our meeting with the SMC held on 21.12.2010.

Annex C

Response to the letter of 20 December 2010 from Public Accounts Committee regarding paragraph 1(c)

(c) regarding Good Hope School’s investments in local equities and investment funds mentioned in paragraph 5.47 of Chapter 2 –

(i) whether the school is the registered owner of the local equities and investment funds; if not, who the registered owner is; and

(ii) whether and how the interest generated from the local equities and additional unit of funds generated from the investment funds since their purchase had been disclosed in the school’s accounts

According to information provided by the school, Good Hope School is the registered owner of all the investments reported in the audited accounts and all dividend income / additional units of funds generated from investments are reported as interest income / profit on disposal of investment in its audited accounts.
Response to the letter of 20 December 2010 from Public Accounts Committee regarding paragraph 1(d)

(d) regarding the fund raising activity undertaken by the school mentioned in paragraph 5.56 of Chapter 2, the reason why the EDB was not able to detect the irregularities until they were identified by the Audit Commission (“Audit”), including how the funds raised had been disclosed in the school’s audited accounts since the launching of the activity by the school in June 2008, and details of the follow-up action taken by the EDB after the irregularities have been identified;

According to the 2007/08 audited accounts of the school concerned, a receipt and an expenditure entry of the same amount of $508,408 with the description of “膠椅捐贈四川地震災區” were recorded in the notes to the accounts under Other Operating Expenses. As regards Audit Commission’s findings in paragraph 5.56(c) of Chapter 2 that there was a sum of about $160,000 from the fund raising activity recorded as retained surplus in the school’s accounts, EDB has checked the 2007/08 and 2008/09 audited accounts again and found that the said sum of surplus had not been separately disclosed in the accounts.

Subsequently, we noted from the 2008/09 audited account that the above-mentioned fund raising activity had been completed but EDB had not yet received the school’s application for approval of this activity. We therefore wrote to the school on 31.8.2010 requesting it to seek covering approval from us. In the reply letter of 14.9.2010, the school informed us that the activity was organised solely by the Parents Association (PA) with parents as the target donors; therefore, the school did not consider EDB’s approval necessary. EDB requested the school to provide relevant documentary evidence on the role of the PA. On 7.12.2010, the school provided EDB with copies of several letters to parents on the activity. As the letters could not prove who initiated and organized the fund raising activity, at its meeting with the School Management Committee (SMC) of the school on 21.12.2010, the EDB asked the SMC for an explanation. The SMC agreed to follow up and clarify the matter.
On 23.12.2010, the SMC wrote to EDB confirming that the fund raising activity was organized by the PA and assisted by the school. As EDB’s prior approval is still required for any fund raising activity organized by other organizations in schools, the SMC has also committed to seeking covering approval from EDB.

In order to avoid the misunderstanding that the school could use the surplus for other purposes, the school has further committed to transferring the surplus back to the PA. The PA has already made known to the parents the concerned financial statement of the fund raising activity on 22.11.2010.
Response to the letter of 20 December 2010 from Public Accounts Committee regarding paragraph 1(e)

(e) according to paragraph 7.17(d) of Chapter 1, the EDB has no objection to Audit’s recommendation that it should critically review the justifications for continuing to allow School I to remain in the DSS. Please inform the Committee of the details of the review, including when it will be conducted, the factors that will be taken into account in the review, and the outcome of the review when it is available.

With a view to addressing the issues raised by the Public Accounts Committee and the Audit Commission, we shall set up in early January 2011 a Working Group to be chaired by the Permanent Secretary for Education. Among other areas of concern, the Working Group will critically review the justifications for continuing to allow School I to remain in the DSS. We will revisit the justifications based on which a decision was made for continuing to allow School I to remain in the DSS and take into account the then and currently prevailing circumstances including the operating mode and quality of education provided by School I, legal advice, etc.
Response to the letter of 20 December 2010 from Public Accounts Committee regarding paragraph 1(f)

(f) the specific duties and monthly salaries of the three consultants hired by the HKCCC Union Logos Academy (paragraph 6.8 of Chapter 2 refers)

Based on the information provided by the school, the three consultants were Professional Photography Consultant, School Development Consultant and Quality Assurance Consultant respectively. Details are as follows:

1. The monthly salary of the Professional Photography Consultant is HK$24,000 and the job duties are as follows:
   i) To propose and design the multimedia curriculum;
   ii) To organise students’ Photography Club (Secondary Section) and related talks;
   iii) To organise staff Photography Club and related talks;
   iv) To organise photography outings for staff and students;
   v) To organise photography competition;
   vi) To publish photography album;
   vii) To organise photography exhibition; and
   viii) To assist in taking photos of the various school functions.

2. The monthly salary of the School Development Consultant is HK$34,000 and the job duties are as follows:
   i) To provide advice/ comments on the school budget, conduct analysis of monthly and annual financial statements, as well as to produce financial analysis and tender advice to the school principal accordingly;
   ii) To advise school accounting staff on handling financial matters;
   iii) To oversee major campus development projects, such as major construction works and new annex development;
   iv) To assist the school principal in establishing school networks and developing partnerships in the community;
   v) To advise the principal on school management;
   vi) To oversee the school’s publicity plan, organize publicity events and design all related materials; and
vii) To advise the school on publicity and media development, such as school newsletter, web-site, school magazine, etc.

3. The monthly salary of the Quality Assurance Consultant is HK$87,000 and the job duties are as follows:
   i) To improve the quality of teaching through:
      (a) conducting regular lesson inspection visits;
      (b) discussing and giving advice on teachers’ teaching;
      (c) assisting in organizing staff development activities with a view to enhancing teaching effectiveness.
   ii) To organize open class sessions for parents in order to;
      (a) further enhance teachers’ teaching skills;
      (b) facilitate parents’ understanding of the school’s policies and strategies on learning and teaching;
      (c) facilitate parents’ understandings of teaching methods through lesson demonstration and Questions/Answers session;
   iii) To arrange lesson observation sessions for school visitors, to enhance their understanding of the learning and teaching of the school; and
   iv) To evaluate the effectiveness of learning and teaching, disseminate good experience and practices and make pertinent recommendations.
Dear Ms Hon,

The Director of Audit’s Report on the
Results of Value for Money Audits (Report No. 55)
Administration of the Direct Subsidy Scheme (Chapter 1)
And Governance and administration of Direct Subsidy Scheme schools
(Chapter 2)

With reference to your letter dated 20 January 2011, please find the latest position of the School to complete the transfer of the three properties back to the SMC at the Annex.

Yours sincerely,

(Mrs. Michelle WONG)
for Secretary for Education

c.c. Secretary for Financial Services and the Treasury (Fax no.: 2147 5239)
Director of Audit (Fax no.: 2583 9063)
Response to the letter of 20 January 2011 from Public Accounts Committee

*Latest position for the school to complete the transfer of the three properties back to the SMC.*

**Latest position of the matter (As at 24.1.2011)**

EDB has been liaising with the School closely to ensure that the three properties will be properly transferred back to the School. The School has appointed a solicitor firm to follow up. According to the Supervisor, the Declaration of Trust of the three properties state that the trustees would hold the properties for the Incorporated Management Committee (IMC) of the Hong Kong Chinese Union (HKCCCU) Logos Academy. Since the School has no IMC and the school sponsor has no plan to establish one in the near future, legal advice is that it would be necessary to seek a vesting order from the court to vest the three properties to the SMC, i.e. the HKCCCU Logos Academy Management Committee Limited. To this end, the solicitor retained by the School has in turn instructed a barrister to apply for the requisite vesting order. The application will be made this week. If the vesting order is granted, it would take about two more weeks to complete all transfer.

We shall monitor the development closely with a view to ensuring that the vesting process is not unduly delayed.
Thank you, Chairman.

2. First of all, the Administration accepts the comments and recommendations made in the report on the future development of services provided by treatment centres. The Security Bureau (SB) will continue to coordinate the efforts of relevant bureaux and departments, in particular the Labour and Welfare Bureau, the Social Welfare Department (SWD), the Department of Health (DH), the Education Bureau (EDB) and the Lands Department (LandsD), and will spare no efforts in liaising with the 17 non-governmental organisations (NGOs) which operate residential treatment centres with a view to enhancing the overall provision and effectiveness of the services.

Treatment and Rehabilitation Services for Drug Abusers

3. It is an indispensable part of the overall anti-drug policy to provide treatment and rehabilitation services to pull those troubled by the scourge of drugs out of the trap. Regarding residential services, there are currently a total of 40 treatment centres throughout the territory providing voluntary in-patient programmes. They are run by 17 NGOs, which are important partners of the Government in drug treatment.

4. In maintaining partnership with these NGOs, three points are worth noting. First, among the existing 40 treatment centres, 20 rely on accommodation fees and donations from the community as their main source of income. Except for some educational programmes, they do not receive any direct subvention from the Government for their operation. These non-subvented agencies are, in principle, independent of Government’s subvention monitoring and have full autonomy in financial arrangements and daily operations. Second, following from the above, the mode of service, duration of training and target clients of the treatment centres run by these NGOs are determined by the organisations themselves. The Government does not impose any external subvention control, nor has it any power of direct intervention.
Third, most of these treatment centres are small in scale, and their frontline services are mainly run by enthusiastic rehabilitated abusers or volunteers.

5. Such kind of service delivery has its merits. For example, the Government and NGOs can establish effective partnership on a voluntary basis by consultation, joining force to offer diversified treatment options for those who voluntarily seek help. Non-subvented organisations are generally more flexible and they can respond more swiftly to the changing drug trends and social needs. On the other hand, these organisations are independent and autonomous in terms of finance and operation. They do not need to sign, nor have they signed any Funding and Services Agreements with the Government. The Government has therefore no authority to monitor their service performance directly. Some ardent persons-in-charge of the organisations, despite their successful rehabilitation experience, may not have sufficient administrative skills or adequate resources to engage outside expertise to manage the treatment centres. Considering the actual situation, the Government would like to enhance the service quality of these NGOs or treatment centres through consultation, encouragement and project funding as far as possible. During this process, we certainly do not wish to be seen as stifling the flexibility and autonomy of the organisations. What is more, we must not dampen the enthusiasm of any NGOs and their volunteers as they might wrongly take that their services are under criticism.

6. We have indeed been working with NGOs in partnership towards the same goal of providing multi-modal drug treatment services to those voluntarily seeking help, in a bid to meet the aspirations of the community as well as the needs of the service users. In this regard, the direction the Government and the NGOs have actually been following is the same as that recommended by Audit.

**Government Efforts**

**Increasing overall capacity**

7. First, the Task Force on Youth Drug Abuse led by the Secretary for Justice completed a report in 2008, putting forward specific measures to increase residential places. New places in SWD-subvented and DH-subvented treatment centres were added in 2008-09 and 2010-11 respectively. In addition, following the Chief Executive’s anti-drug campaign, we are looking for appropriate sites and plan to invite proposals for new and effective modes of treatment programmes.

8. Furthermore, we support the existing treatment centres to expand their capacities as far as possible when carrying out in-situ upgrading works or re-provisioning.
9. We will keep a close watch of the demand and supply of services and coordinate efforts between the government and treatment centres run by the NGOs, with a view to maximising the utilisation of places and services.

Optimising existing resources

10. Apart from increasing residential places and enhancing the service capacity, we will make efforts in optimising the use of existing resources. In this regard, we will follow the advice of the Audit and the Public Accounts Committee to enhance the support for the Society for the Aid and Rehabilitation of Drug Abusers (SARDA) in re-engineering its services, in particular for psychotropic substance abusers.

11. The Government will also continue to consult with the treatment centres with lower occupancy rates and assist them to strive for better use of their capacities.

12. As many drug abusers under Probation Order prefer to go to those treatment centres with high occupancy rates, there has been uneven workload and utilisation among treatment centres. At present, the SWD is disseminating updated information about occupancy rates of treatment centres and programmes they offer to Probation Officers periodically to assist them in referring probationers to suitable centres. However, I must point out that Probation Officers cannot send probationers aged 14 or above to any treatment centre against their wish.

13. Starting from school year 2010/11, the EDB has enhanced the level of subvention to educational programmes by about 40% to strengthen the education service for school-aged youngsters under treatment at treatment centres. Professional support has also been augmented.

Enhancing information sharing

14. Moreover, to better understand the operation and performance of various treatment centres, we will collaborate with relevant bureaux and departments as well as community stakeholders to push ahead with an effective information collection and sharing system.

Improving monitoring mechanism

15. Some non-subvented treatment centres are currently using government sites or vacant premises. The SWD will review these cases in order to make good use of the existing monitoring mechanism. We will also put in place an enhanced mechanism when granting government sites/premises to new operators in the future. The Narcotics Division will give policy support in this regard, while the LandsD will provide professional advice.
Assisting centres to obtain licences from the SWD

16. The Administration has been earnestly assisting existing treatment centres to meet the SWD’s licensing requirements through re-provisioning or in-situ upgrading. Among the 40 existing treatment centres, 19 are licensed, with six of them obtaining the licences upon completion of the upgrading/re-provisioning works in the past two years. For the remaining 21 centres which have not yet obtained a licence, we expect that seven of them will have their works completed and then obtain a licence in the coming two years.

17. With the injection of $3 billion into the Beat Drugs Fund in 2010, we will make better use of the investment return of the Fund to support treatment centres in obtaining licences. On the advice of the Action Committee Against Narcotics, we are making improvements to the funding arrangements. Each project may receive a grant of up to $50 million.

18. Although the Beat Drugs Fund can help treatment centres in solving funding and technical problems, the centres which have to be relocated for re-provisioning still require community acceptance and support in order to secure suitable sites. I wish to take this opportunity to appeal to members of the public to accept treatment centres as part of the community and not to shut them out.

Concluding Remarks

19. The Audit Report has made a number of valuable recommendations to further enhance residential drug treatment services. The SB will continue to maintain close partnership with government departments and NGOs to optimise the services. In this regard, the preparation of the “Sixth Three-year Plan on Drug Treatment and Rehabilitation Services in Hong Kong (2012 - 2014)”, which is scheduled to commence in the middle of next year, will provide a good opportunity for various stakeholders to map out the way forward and coordinate efforts in a structured manner.

20. Thank you. We will be glad to take questions from Members.

End
Opening remarks by the Secretary for Labour and Welfare

Chairman:

As just indicated by the Secretary for Security, we accept and agree with the views and recommendations on the future development of treatment centre services set out in the Director of Audit’s Report. I would like to supplement mainly on two parts relating to the policy areas under the Labour and Welfare Bureau (LWB)’s purview.

Waiting Time of Probationers for Drug Treatment

2. The Audit Report has expressed concern over the uneven distribution of referrals by Probation Officers of the Social Welfare Department (SWD) and recommended that SWD should take measures to shorten the waiting time for drug treatment as far as possible. As mentioned by the Secretary for Security earlier, I would like to take the opportunity to reiterate that under the Probation of Offenders Ordinance, the court shall not send a probationer aged 14 or above to any particular drug treatment centre against his/her will.

3. SWD’s Probation Officers will, in the best interest of probationers, continue to arrange their admission into drug treatment centres with a shorter waiting time as far as possible with reference to the latest occupancy situation of various drug treatment centres as shown on the intranet of SWD. If probationers only opt for drug treatment centres with a longer waiting time, Probation Officers will arrange community-based drug treatment programmes for them while they are waiting for the places with a view to assisting them to commence drug withdrawal treatment as soon as possible.
Monitoring the Operation Scale of Drug Treatment Centres at Government Sites/Premises

4. Separately, the Audit Report has also recommended that SWD should take proper measures to monitor the operation of non-subvented drug treatment centres, so as to ensure that all the centres comply with the conditions laid down by the Government in their respective land grants during their operation.

5. Non-subvented organisations have all along been playing a very important role in the delivery of welfare services. On the operation of drug treatment centres by non-subvented organisations at Government sites, they are run in an independent operation mode which is complementary to the overall anti-drug policy of the Government, with a view to providing appropriate services to drug abusers. In monitoring the effective use of land resources, the Government will strike a balance among various factors and consider the resources and capability of these organisations. SWD and the concerned government departments will examine the mechanism of granting Government sites to non-subvented organisations for operating drug treatment centres, and will properly monitor the operation and performance of the centres run on the sites allocated under Private Treaty Grants. Moreover, SWD has been keeping in close view the utilisation of non-subvented drug treatment centres. If the utilisation rates of the centres have remained low for a long time, we will discuss with them on how to utilise the resources in a more effective manner.

Conclusion

6. LWB and SWD will continue to work actively in alignment with the policy and work of the Security Bureau and refine the services of drug treatment centres in collaboration with relevant government departments and non-governmental organisations. SWD colleagues and I stand ready to answer questions to be raised by members. Thank you, Chairman.

-- END --
22 December 2010

By Fax

Ms Macy NG
Legislative Council Secretariat
Legislative Council Building
8 Jackson Road
Central, Hong Kong

(Fax No: 2537 1204)

Dear Ms NG,

The Director of Audit’s Report on the
Results of Value for Money Audits (Report No. 55)
Residential Treatment and Rehabilitation Services for Drug Abusers
(Chapter 10)

I refer to your letter of 13 December to the Secretary for Security. Please find enclosed at the Annex the Administration’s response to the request of the Public Accounts Committee for additional information.

Please feel free to contact me if you require further information.

Yours sincerely,

( Enoch Yuen)
for Secretary for Security
c.c.

SLW (Attn: Miss Helen KWAN) (Fax no: 2524 7635)
DSW (Attn: Mr ML FUNG) (Fax no: 2838 0757)
D of H (Attn: Mr David YUEN) (Fax no: 2573 7432)
D of Lands (Attn: Mr Jeff LAM) (Fax no: 2868 4707)
SFST (Attn: Ms Elsie YUEN) (Fax no: 2530 5921)
Director of Audit (Fax no: 2583 9063)
(a) Figure 1 of paragraph 3.8 of the Audit Report shows that the overall capacity of treatment centres in 2010, as compared to that of 2003, has decreased. Please explain the reasons for the decrease.

During the seven-year period from 2003 to 2010, there was a reduction in the licensed capacity of some treatment centres as a result of closure of nine treatment centres for various reasons including service re-engineering of the non-governmental organisations (NGOs) concerned, and reduction in the places as initiated by a few NGOs. During the same period, there was an increase in the licensed capacity as a result of expansion of six centres and setting up of one new centre. The overall capacity of 1635 places in August 2010 is the net total number of places after off-setting the increase of 166 places by reduction of 310 places in the overall licensing capacity.

(b) According to paragraph 3.24 of the Audit Report, of the 648 active probation officer (PO) referral cases as at 23 April 2010, only 43 (6.6%) cases related to probationers under treatment at Centre 21. Please provide the following information to the Committee:

(i) whether Centre 21 had ever rejected any PO referral cases; if it had, please provide the details.

Available records indicated that there were only two occasions on which the offenders referred to Centre 21 by the POs were found not suitable for admission by the Centre because of their individual circumstances.

(ii) a copy of relevant provisions of the land grant for Centre 21 which require the Centre to operate on a scale satisfactory to the Director of Social Welfare.

At Enclosure I is the letter from the Director of Lands to NGO2 dated 27 February 2007, informing NGO2 of the Government’s approval for granting an extension to the old lot. Paragraph 1(9) sets out the relevant special condition in the land grant.
(c) For those treatment centres which admit female drug abusers, whether the Administration had assessed if the following objectives could be achieved upon termination of aftercare service for such abusers (paragraph 3.29(a) of the Audit Report refers):

(i) settled with schooling / retraining
(ii) settled with employment; and
(iii) led a decent living

if it had, what the results were.

11 treatment centres admit female drug abusers only and one other treatment centre admit drug abusers of both genders. Seven of them are subvented by the Government whereas the remaining four are self-financed. We only have information on those centres which receive Government subvention. Their situations are as follows.

Centres subvented by the Social Welfare Department (SWD)

Five female centres are under SWD’s subvention. Their performance is assessed against the performance standards in the Funding and Service Agreement (FSA) specific to their service types. A sample FSA is at Enclosure II.

An outcome indicator “Rate of aftercare cases having achieved one of the objectives upon termination of aftercare service – (i) settled with schooling / retraining, (ii) settled with employment; and (iii) led a decent living” is applicable to three of the centres subvented by SWD. The centres have to attain the service level agreed with SWD as prescribed in the FSA. The agreed service level is 60%. SWD have, through the existing Service Performance Monitoring System, assessed and confirmed that all three centres had met this performance standard for the first half year of 2010-11 Financial Year (April to September 2010).

The remaining two treatment centres have another set of performance standards in their FSAs, to which the aforesaid indicator is not applicable.

Centres subvented by the Department of Health (DH)

Two female centres are under DH’s subvention. For case management purposes, the NGO concerned has been monitoring the rehabilitated abusers’ conditions after programme completion with reference to the three objectives stated in SWD’s FSAs. For the first half year of 2010-11 Financial Year (April 2010 to September 2010), the percentage
of rehabilitated drug abusers who had met one of the three objectives reached 67%.

(d) Whether the Administration will consider requiring the Society for the Aid and Rehabilitation of Drug Abusers (SARDA) to meet certain utilisation standard for Centre 1, such as achieving an occupancy rate of 80% or 90%, as a condition for granting subvention to SARDA.

DH has requested SARDA to review the resources of Centre 1 with a view to redeploying surplus resources, if any, to serve more psychotropic substance abusers. Following the review which is expected to be concluded in end-January 2011, the Administration will consider requiring SARDA to meet certain utilisation standard for the Centre as a condition for granting subvention.

(e) A sample Funding and Service Agreement between the Government and the subvented treatment centres (paragraph 4.5 of the Audit Report refers)

A sample "Funding and Service Agreement on Non-medical Voluntary Drug Treatment and Rehabilitation Services" for SWD-subvented treatment centres is provided at Enclosure II.

(f) According to paragraph 4.6(a) of the Audit Report, for the seven years ended August 2010, Centre 37 had only admitted six drug abusers, with some staying for just a few days. Please explain why the six drug abusers only stayed in Centre 37 for such a short period of time.

Non-subvented NGOs have on their own initiative developed their modus operandi that most suit their clientele. According to the NGO operating Centre 37 which is not subvented by the Government, their service targets were those occasional drug abusers and "underground drug abusers" who had low/no motivation for joining a long residential treatment programme. To cater for the unique nature of their clientele, the NGO operator had run short term residential treatment programmes, ranging from one to two weeks, to suit their rehabilitative needs.
(g) For each of the existing treatment centres, the number of drug abusers who are receiving financial assistance under the Comprehensive Social Security Assistance (CSSA) Scheme.

As at end of November 2010, a total of 554 recipients of CSSA were residing in the treatment centres. The breakdown by individual operating NGO is provided at Enclosure III.

(h) The rank of the Commissioner for Narcotics

The rank of Commissioner for Narcotics is Administrative Officer Staff Grade B.
DISTRIBUTION OFFICE, SHA TIN
LANDS DEPARTMENT
11/F., Sha Tin Government Offices,
1 Sheung Wo Che Road, Sha Tin, N.T.

Tel: 2158 4847
Fax: 2602 4093
Email: gendlost@landsd.gov.hk
Our Ref: ( ) in LNT 205/ZPT/76 Pt.3
Your Ref: 27 FEB 2007

St. Stephen’s Society Limited
Unit E/F, 3/F
You Chun Building
18-26 Portland Street
Yau Ma Tei
Kowloon

Dear Sir,

Sha Tin Town Lot No. 469 and the Extension thereto
99 A Kung Kok Shan Road, Sha Tin, New Territories

With reference to your application addressed to the Director of Lands (hereinafter referred to as “the Director”), I have to inform you that the Government of the Hong Kong Special Administrative Region (hereinafter referred to as “the Government”) has approved that the area of Government land (hereinafter referred to as “the Area”) delineated and shown coloured pink on the plan annexed hereto, containing 5,000 square metres or thereabouts, be granted to you as an extension to Sha Tin Town Lot No. 469 (hereinafter referred to as “the old lot”) on the following terms and conditions, subject to your acceptance thereof in the manner indicated in paragraph 2 below:

(1) The old lot and the Area are hereinafter referred to as “the new lot”.

(2) You, the Grantee, shall pay to the Government on demand the amount of $1,000.00 being premium for the Area and the land registration fee being $210.00.

(3) The Area or any part thereof shall not be used for any purpose other than for the purposes of a non-profit-making training and rehabilitation centre for displaced persons (hereinafter referred to as “the Centre”) including such other facilities as are usually associated with the object and purpose of St. Stephen’s Society Limited as set out in its Memorandum of Association and together with such other facilities as are ancillary to such uses as may be approved in writing by the Director of Social Welfare.
(4) You, the Grantee, hereby acknowledge that as at the date on which possession of the Area is given (this date will be notified to you in a letter from the Director after the premium and the land registration fee referred to in Condition No. (2) above have been settled), there are some structures existing on the Area (hereinafter referred to as "the said Existing Structures"). The Grantee agrees that all the cost arising out of or in connection with the demolition or removal of the said Existing Structures shall be at his own expense and that the Government will accept no responsibility or liability for any loss, damage, nuisance or disturbance caused to or suffered by the Grantee by reason of the presence or subsequent demolition or removal of the said Existing Structures and the Grantee shall indemnify and keep indemnified the Government from and against all liability, claims, costs, demands, actions or other proceedings whatsoever arising whether directly or indirectly out of or in connection with the presence and subsequent demolition or removal of the said Existing Structures.

(5) You shall also pay to the Government an annual rent for the Area equal to 3% of the rateable value from time to time of the Area and which rent shall be payable from the date on which possession of the Area is given (such date is deemed to be the date of this letter subject to your having settled the amount demanded as referred to in Condition No. (2) above) until the expiry of the term of the old lot, and shall be governed by the provisions of the Government Rent (Assessment and Collection) Ordinance, any regulations made thereunder and any amending legislation, subject to a minimum rent of HK$1.00 per annum (if demanded).

(6) Subject to the Director being satisfied as to your title to the old lot, you will be entitled to a lease of the new lot. Such lease will be for the same term and commence from the same date as is laid down in New Grant No. 13022 dated the 4th day of December 1998 (hereinafter referred to as "the Conditions") under which the old lot is held, and will contain the terms and conditions herein contained and all the terms and conditions in the Conditions except as hereby modified. Pending the issue of the lease of the new lot, the old lot and the Area shall be deemed to be held as one lot subject to the terms and conditions contained in the Conditions except as hereby modified and the terms and conditions herein contained. Within one month of being required by the Director so to do, you shall take up the lease of the new lot and pay the prescribed fees therefor.

(7) You shall pay to the Government on demand the cost of providing and fixing each additional boundary stone required to define the new lot and the cost of re-fixing any boundary stone which through being lost, damaged or removed, requires replacement.
(8) No building or buildings may be erected on the new lot or any part thereof or upon any area or areas outside the new lot specified in the Conditions, nor may any development or use of the new lot or any part thereof, or of any area or areas outside the new lot specified in the Conditions take place, which does not in all respects comply with the requirements of the Town Planning Ordinance, any regulations made thereunder and any amending legislation.

(9) With effect from the date of this letter, Special Condition No. (10) in the Conditions shall be deleted and the following shall be substituted therefor.

"(10) The Grantee shall on or before the expiration of thirty-six calendar months from the date of this Agreement commence to operate at least 2,990 square metres gross floor area of the Centre and shall on or before the 31st day of December 2008 commence to operate the whole of the Centre on a scale satisfactory to the Director of Social Welfare and shall continue to operate the Centre on the said scale and in accordance with all Ordinances, bye-laws and regulations relating to the Centre which are or may at any time be in force in the Hong Kong Special Administrative Region and in all respects to the satisfaction of the Director of Social Welfare. If it is at any time shown to the satisfaction of the Chief Executive of the Hong Kong Special Administrative Region that there has been a breach of this Special Condition, it shall be lawful for the Government to re-enter upon and take back possession of the new lot or any part thereof and all buildings thereon without notice and thereupon the rights of the Grantee in and to the new lot under this Agreement shall absolutely cease and determine, and upon the exercise of this power no compensation whatsoever shall be payable to him in respect of the land re-entered upon, but there shall be payable by the Government to the Grantee in respect of buildings lawfully erected on the land such sum as the Director shall on a fair and impartial valuation determine to be the value thereof (include site formation) less the amount of any building grant or grants made by the Government towards the cost of the buildings."

(10) Except as hereby modified all the terms and conditions contained in the Conditions shall remain in full force and effect.

(11) You shall, if required by the Director so to do and within such time as he may stipulate, execute a formal instrument incorporating the terms and conditions herein contained in such form as he may require.

(12) In the event of the breach, non-observance or non-performance of any of the foregoing terms and conditions or of any of the terms and conditions contained in the Conditions the Government shall be entitled to re-enter upon the old lot or the Area or both as it shall deem fit.
2. If the foregoing terms and conditions are acceptable, I shall be glad if you will signify your acceptance by executing under seal and in accordance with your Articles of Association, the docket on both copies of this letter and both copies of the plan annexed hereto. Your signature must be duly witnessed.

3. After execution please return both copies of this letter and both copies of the plan to me for registration together with the Treasury receipt for the said sum of $1,000.00 and a certified copy of a resolution of your Board of Directors whereby authority is given to the affixing of your Common Seal hereto and the plan annexed hereto, whereupon this letter and the plan will be registered by Memorial in the Land Registry. On completion the original of this letter and the plan and the Treasury receipt will be returned to you for retention with the documents of title relating to the old lot until the new lease is issued.

Yours faithfully,

[Signature]

(Miss Mona WOO)
District Lands Officer, Sha Tin
I/We hereby agree to and accept the foregoing terms and conditions.

[Signature]

JACQUELINE PULLINGER
(EXECUTIVE DIRECTOR)

[Signature]

SU MING

Witness: [Signature] ROBERT DOVER LEUNG SIU MAI
(Signature and name in block letters) (Seal of St. Stephen’s Society Limited and signatures and names in block letters of its attesting officers and description of their offices)

Address: HOUSE 61
BLICE HOLIDAY HOMES
OFF TUNG TSZ ROAD
TUNG TSZ, TAPO, N.T.

c.c. LACO (ST)
AD/NT

N.B. You are required to note that pursuant to the provisions of the Land Registration Ordinance and the Regulations made thereunder the personal data contained in this Extension Letter will appear in the land register(s)/record(s) of the Land Registry to facilitate the orderly conduct of land transaction and to provide the most up-to-date information to searchers.]
Service-specific Sections (LSG)  

Funding and Service Agreement

Non-medical Voluntary Drug Treatment and Rehabilitation Services

I  Service Definition

Introduction

The non-medical voluntary drug treatment and rehabilitation service caters for the needs of those drug abusers who wish voluntarily to seek residential treatment, rehabilitation and social reintegration through a non-medical model. These services provide non-medical drug treatment and rehabilitation programme as well as aftercare services to the drug abusers and their families basing on spiritual philosophy and social work inputs.

Purpose and objectives

The non-medical voluntary drug treatment and rehabilitation service aims at helping the drug abusers to quit drug addiction through detoxification, treatment, rehabilitation and aftercare services. The ultimate goal of the above service is to help the abusers to start a new healthy life.

The specific objectives of the above service are to help drug abusers:

- to quit drug habit;
- to re-integrate into the community by continuation treatment at halfway house and aftercare services; and
- to bring about new direction in life and subsequently positive change in behavior.

Nature of service

The services provided by the non-medical drug treatment and rehabilitation centers include:

- providing residential detoxification and rehabilitation programmes to the drug abusers;
- organizing rehabilitation programmes such as religious activities, counseling, peer support, recreation and sport, work therapy, vocational and developmental training for the residents;
- providing counseling and supportive programmes for the family members of the residents;
- providing half-way house service to prepare the residents to start a new life in the society; and

July 2006
• providing aftercare service to the rehabilitated drug abusers to help them achieve and maintain a drug free life.

Target groups:

The non-medical voluntary drug treatment and rehabilitation centers serve drug or psychotropic substance abusers. Individual centre has its own admission criteria in terms of age and sex.

II Performance Standards:

The service operator (agency as a whole) will meet the following performance standards:

Outputs

<table>
<thead>
<tr>
<th>Output Standard</th>
<th>Output Indicators</th>
<th>Agreed Level</th>
</tr>
</thead>
<tbody>
<tr>
<td>1a</td>
<td>Rate of placement occupancy (^{Note 1}) (Male) in residential programme in a year</td>
<td>80%</td>
</tr>
<tr>
<td>1b</td>
<td>Rate of placement occupancy (^{Note 1}) (Female) in residential programme in a year</td>
<td>65%</td>
</tr>
<tr>
<td>2</td>
<td>Total no. of vocational training sessions (^{Note 2}) in a year</td>
<td>Please see annex attached</td>
</tr>
<tr>
<td>3</td>
<td>Total no. of hours for rendering counselling/ conducting programme (^{Note 3}) to the residents by registered social worker(s) in a year</td>
<td>Please see annex attached</td>
</tr>
<tr>
<td>4</td>
<td>Total no. of programmes (^{Note 4}) rendered to the family members of the residents in a year</td>
<td>Please see annex attached</td>
</tr>
</tbody>
</table>

(For the explanatory notes, please refer to the Appendix attached to this Agreement.)

July 2006
Outcomes

<table>
<thead>
<tr>
<th>Outcome Standard</th>
<th>Outcome Indicators</th>
<th>Agreed Level</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Rate of completion of the agreed period of the residential programme\textsuperscript{5} in a year</td>
<td>50%</td>
</tr>
<tr>
<td>2</td>
<td>Rate of aftercare cases\textsuperscript{6} staying drug-free\textsuperscript{7} upon termination of aftercare service in a year</td>
<td>60%</td>
</tr>
</tbody>
</table>
| 3                | Rate of aftercare cases having achieved one of the objectives upon termination of aftercare service: 
- settled with schooling / retraining 
- settled with employment 
- led a decent living\textsuperscript{8} | 60%          |
| 4                | Rate of graduates having improved family relationship\textsuperscript{9}           | 60%          |

(For the explanatory notes, please refer to the Appendix attached to this Agreement.)

Essential service requirements

- 24-hour care per day with at least one full-time staff member present at all time

Quality

The service operator will meet the requirements of the 16 Service Quality Standards (SQSs).

III Obligations of SWD to Service Operators

The SWD will undertake the duties set out in the General Obligations of SWD to Service Operators.

IV Basis of Subvention

The basis of subvention is set out in the offer and notification letters issued by the SWD to the service operator.

The service operator is required to comply with the rules on the use of the social welfare subventions in accordance with the latest edition of Lump Sum Grant Manual and circular letters in force issued by the SWD on subvention policies and procedures.

July 2006
Appendix

Explanatory Notes:

1) Placement occupancy refers to the number of places of the agency occupied, starting from the date of admission to the date of formal discharge. It includes residents on leave.

2) Vocational training includes (i) job skills training, such as computer training, handicraft-making, multi-media production etc and (ii) employment assistance counselling / programmes, such as fostering good working habit and cultivate good working attitude, so as to assist residents to secure a stable job. Vocational training may be conducted by the agency or other institutions. A training session refers to training to one or more participants for at least one hour to half-day, e.g. a whole day training is regarded as two training sessions.

3) Counselling refers to counselling to residents on detoxification, drug abuse problem, other personal and relationship problems, adjustment to new living, preparation for discharge etc, to one or more residents for at least half an hour. Programme refers to activity with objectives set conducted to two or more residents for at least one hour or more. Counseling and programmes should be conducted by registered social worker.

4) Programme refers to activity which aims to help the family members to understand more about the residents and have better communication with them. The activity should have clear objectives set and be conducted to at least two or more family members of the residents for at least one hour or more.

5) “Completion of the agreed period of the residential programme” refers to the fulfilment by the residents of the agreed plans on the residential detoxification and rehabilitation programme within the planned period of time.

6) “Aftercare cases” refer to those residents who have received regular service for a minimum of three months from the agency under the aftercare programme upon their completion of the agreed residential programme at training centre (Girl Centre of Operation Dawn Only) or halfway house.

7) “Drug-free” refers to complete drug abstinence of aftercare cases upon termination of aftercare service.

8) “Decent living” refers to those female service users having performed/resumed the role of housewife or those aged persons having reunited with their families/secured stable living including accommodation e.g. private premises or aged home, etc.

9) Improved family relationship refers to the situation where, as compared with the condition before intervention, graduates and their families have achieved reunion and/or reported to have better communication or understanding among themselves.

July 2006
Enclosure III

Number of Comprehensive Social Security Assistance (CSSA) Recipients in Treatment Centres as at end November 2010

<table>
<thead>
<tr>
<th>Treatment Centres (with reference to the codification used in the Audit Report)</th>
<th>No. of CSSA Recipients</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Centre 1, Centre 2, Centre 3, Centre 4, Centre 5, Centre 6, Centre 7, Centre 8 and Centre 39 run by one NGO</td>
<td>46</td>
</tr>
<tr>
<td>2. Centre 9 and Centre 10 run by one NGO</td>
<td>30</td>
</tr>
<tr>
<td>3. Centre 11, Centre 12 and Centre 13 run by one NGO</td>
<td>49</td>
</tr>
<tr>
<td>4. Centre 14 and Centre 15 run by one NGO</td>
<td>98</td>
</tr>
<tr>
<td>5. Centre 16 and Centre 40 run by one NGO</td>
<td>12</td>
</tr>
<tr>
<td>6. Centre 17 and Centre 18 run by one NGO</td>
<td>33</td>
</tr>
<tr>
<td>7. Centre 19</td>
<td>11</td>
</tr>
<tr>
<td>8. Centre 20</td>
<td>18</td>
</tr>
<tr>
<td>9. Centre 21 and Centre 22 run by one NGO</td>
<td>8</td>
</tr>
<tr>
<td>10. Centre 23</td>
<td>32</td>
</tr>
<tr>
<td>11. Centre 24, Centre 25, Centre 26 and Centre 27 run by one NGO</td>
<td>39</td>
</tr>
<tr>
<td>12. Centre 28, Centre 29, Centre 30, Centre 31, Centre 32 and Centre 33 run by one NGO</td>
<td>110</td>
</tr>
<tr>
<td>13. Centre 34</td>
<td>14</td>
</tr>
<tr>
<td>14. Center 35</td>
<td>16</td>
</tr>
<tr>
<td>15. Centre 38</td>
<td>38</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>554</strong></td>
</tr>
</tbody>
</table>
17 January 2011

Ms Macy NG
Legislative Council Secretariat
Legislative Council Building
8 Jackson Road
Central, Hong Kong

(Fax No: 2537 1204)

Dear Ms NG,

The Director of Audit’s Report on the
Results of Value for Money Audits (Report No. 55)

Residential Treatment and Rehabilitation Services for Drug Abusers
(Chapter 10)

Thank you for your letter of 11 January to the Secretary for Security. Please find at the Annex additional information requested by Members.

Please feel free to contact me if needed.

Yours sincerely,

( David Wong )

for Secretary for Security
<table>
<thead>
<tr>
<th>c.c.</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>SLW (Attn: Miss Helen KWAN)</td>
<td>(Fax no: 2524 7635)</td>
</tr>
<tr>
<td>DSW (Attn: Mr ML FUNG)</td>
<td>(Fax no: 2838 0757)</td>
</tr>
<tr>
<td>D of H (Attn: Mr David YUEN)</td>
<td>(Fax no: 2573 7432)</td>
</tr>
<tr>
<td>D of Lands (Attn: Mr Jeff LAM)</td>
<td>(Fax no: 2868 4707)</td>
</tr>
<tr>
<td>SFST (Attn: Ms Elsie YUEN)</td>
<td>(Fax no: 2530 5921)</td>
</tr>
<tr>
<td>Director of Audit</td>
<td>(Fax no: 2583 9063)</td>
</tr>
<tr>
<td>SARDA (Attn: Ms Angelique Tam)</td>
<td>(Fax no: 2165 2202)</td>
</tr>
</tbody>
</table>
Annex

Latest Development of Project Youth Care

At the public hearing of the Public Accounts Committee on 7 December 2010, we explained that the Society for the Aid and Rehabilitation of Drug Abusers (SARDA) had, in response to the changing drug scene, shifted its efforts from the Project Youth Care proposal (targeting youth aged 12 to 18) to a new programme named Project SARDA (targeting young adults aged 21 to 35). As requested in your letter of 11 January 2011, we would like to provide information on the latest development.

2. The Administration has been working with SARDA in earnest to help the latter re-engineer its resources and facilities, as previously advised by the Audit Commission and the Public Accounts Committee. As mentioned in paragraph 2.9 of the Audit Report No. 55, SARDA submitted a framework proposal to the Narcotics Division (ND) in December 2009 for a three-year pilot programme named Project Youth Care. At the same time, SARDA applied to the Hong Kong Jockey Club Charities Trust for funding support for the proposed pilot programme. The proposed programme sought to deliver, inter alia, residential services for male adolescents aged 12 to 18 through the facilities of Centre 1, after necessary upgrading and conversion.

3. Furthermore, as stated in paragraphs 2.10, 2.11 and 2.13(d) of the Audit Report, ND has since May 2010 provided detailed observations and comments to SARDA to help it substantiate its proposal, against its ongoing funding application to the Hong Kong Jockey Club. A number of exchanges and meetings were held with SARDA to render the Administration’s advice and assistance. We emphasised the need for expediting the Project Youth Care proposal to better use the under-utilised facilities in Centre 1 to serve more psychotropic substance abusers (PSAs), and for redeploying existing resources to this pilot project as early as possible. During the time, there was no mention of Project SARDA.

4. In November 2010, SARDA advised ND that it would not further pursue the Project Youth Care proposal. Rather, it would shift and focus its efforts on Project SARDA, an initiative that it had launched at Centre 1 in August 2010 to meet the changing drug scene. Project SARDA provides a residential programme of 26 to 52 weeks.
targeting at adult male PSAs aged between 21 and 35. Initially, Centre 1 has set aside 38 places for Project SARDA.

5. We have looked carefully into the Project SARDA initiative and found that it has enabled SARDA to –

(a) make early and better use of existing resources and facilities at Centre 1 to service young adult male PSAs without the need for additional project funding or much conversion works;

(b) meet a service need brought by the changing drug scene. According to the Central Registry of Drug Abuse, the number of PSAs aged between 21 and 40 saw a notable increase of 86% from 2005 to 2009, which was much faster than those aged below 21 (51%). In 2009, the numbers of reported drug abusers of these two age groups were similar, that is, over 3,000; and

(c) capitalise on the strength of Centre 1 in handling adult male drug abusers and enhance the vocational elements, to help young adult male PSAs reintegrate into society after completion of the new residential programme.

6. At the public hearing on 7 December 2010, Members noted the latest occupancy of some 54% by opiate abusers at Centre 1 (paragraph 2.8 of the Audit Report) and suggested that SARDA make better use of the facilities, achieving 80% occupancy overall if possible. We consider that Project SARDA, which started with 38 places (hence making up the overall occupancy of 66% at Centre 1 when these places are filled), is a proactive and prudent first step of SARDA in the right direction. With sustained efforts to provide more places for male PSAs over time, there is realistic scope for SARDA to bring the overall occupancy of Centre 1 to around 80%.

7. In this direction, SARDA has been working closely with different parties such as Probation Offices to promote Project SARDA to the target groups in need. As at 12 January 2011, 15 male PSAs have been admitted to the Project SARDA programme. SARDA has undertaken to strive for success and expand the programme by phases where appropriate. We will continue to work with SARDA to make optimal use of the resources and facilities at Centre 1.

Security Bureau
January 2011
Dear Ms NG,

The Director of Audit’s Report on the results of value for money audits (Report No. 55)

Residential treatment and rehabilitation services for drug abusers (Chapter 10)

Thank you for your letter of 22 November 2010 on the captioned subject.

Our reply in response to the points raised in your letter is attached at Annex. Please feel free to contact the undersigned or Ms WONG Yin-yee, Chief Social Work Officer (Youth), at 2892 5122 if further information is required.

Sorry for the late reply.

Yours sincerely,

(FUNG Man-lok)
for Director of Social Welfare

c.c. Secretary for Labour and Welfare (fax no. 2537 3539)
    Secretary for Security (fax no. 2537 0325)
    Commissioner for Narcotics (fax no. 2523 5731)
    Director of Health (fax no. 2893 9613)
    Director of Lands (fax no. 2152 0450)
    Secretary for Financial Services and the Treasury (fax no. 2147 5239)
    Director of Audit (fax no. 2583 9063)
1. In consultation with the Narcotics Division of the Security Bureau (ND/SB), the Social Welfare Department (SWD) has made strenuous efforts to assist drug treatment and rehabilitation centres for drug abusers (referred to “treatment centres” hereafter) in securing suitable sites / premises for re-provisioning, where in-situ upgrading or redevelopment is not feasible, with a view to meeting the licensing requirements. Of the 19 treatment centres licensed since 2002, six were licensed during 2009 and 2010. We anticipate that another two treatment centres will be re-provisioned while another five treatment centres will be upgraded in-situ for licensing in the next two years. The two centres under reprovisioning have successfully secured a suitable new site for combined operation, following necessary local consultation and concerted efforts made by SWD, the ND/SB and other government departments in collaboration with the NGO concerned.

2. In searching for suitable sites for re-provisioning of treatment centres, we have to consider a basket of factors including the capacity and operational needs of the treatment centres requiring re-provisioning; space and area requirements; conditions of existing facilities on sites available; other planned uses; accessibility, planning and land usage; scale, technical feasibility, cost and time of the conversion / construction works required; site compatibility with the treatment models or programmes of the treatment centre; views of relevant departments, etc.

3. Vacant school premises are made known to SWD either through circulation by other government departments, mainly the Government Property Agency (GPA) or the Lands Department (LandsD), or through referral from GPA or LandsD upon direct application by an operating non-governmental organisation (NGO) of a treatment centre which has identified the premises. Our records indicated that of all the vacant school premises circulated to SWD from 2004-05 to 2009-10, 53 vacant school premises were available for SWD’s assessment and consideration of re-provisioning of treatment centres. The breakdown of these 53 cases by year is tabulated in the Appendix.

4. Among them, two sites were identified and applied for by operating NGOs. SWD supported their applications because the treatment centres had genuine need of reprovisioning and the sites were considered suitable for the purpose with due consideration of the factors in paragraph 2 above. Policy support has also been given by the ND/SB along this line.

5. SWD has carefully looked into each of the remaining 51 premises. They were considered against the criteria mentioned in paragraph 2 above and found not suitable. Inadequacy in area provision, land status (e.g. falling into private land) technical difficulties, competing uses and other factors were noted. In many cases,
local objections were anticipated and were one of the pertinent issues that we had taken into account. However, it might not be appropriate to attribute anticipated local objections as the only criterion that had affected our assessment of these premises. This notwithstanding, there was no case where vacant school premises were not considered due to “actual” local objection.

6. SWD and ND/SB will continue the joint effort in identifying possible sites and promoting to the community the important role played by treatment centres and call for local support for setting up treatment centres.

Social Welfare Department
December 2010
Appendix

Number of Vacant School Premises made known to the SWD for Consideration of Re-provisioning of Treatment Centres from 2004-05 to 2009-10

<table>
<thead>
<tr>
<th>Year</th>
<th>No. of vacant school premises known to SWD</th>
<th>No. of vacant school premises supported</th>
<th>No. of vacant school premises not pursued further</th>
</tr>
</thead>
<tbody>
<tr>
<td>2004-05</td>
<td>0</td>
<td>N.A.</td>
<td>N.A.</td>
</tr>
<tr>
<td>2005-06</td>
<td>0</td>
<td>N.A.</td>
<td>N.A.</td>
</tr>
<tr>
<td>2006-07</td>
<td>8</td>
<td>0</td>
<td>8</td>
</tr>
<tr>
<td>2007-08</td>
<td>5</td>
<td>1</td>
<td>4</td>
</tr>
<tr>
<td>2008-09</td>
<td>4</td>
<td>1</td>
<td>3</td>
</tr>
<tr>
<td>2009-10</td>
<td>36 (Note 1)</td>
<td>0</td>
<td>36</td>
</tr>
<tr>
<td>Total</td>
<td>53</td>
<td>2 (Note 2)</td>
<td>51</td>
</tr>
</tbody>
</table>

Note 1  This excludes vacant school premises which already had other planned use or had been found “not suitable for re-provisioning of treatment centres” in the previous years but were circulated / made known to SWD again in 2009-10.

Note 2  One of the two premises supported by SWD for treatment centre was later found not available due to the subsequent change in development in town planning intentions and programmes, whereas the application for the other premises is still being considered.
Opening remarks by the Secretary for Labour and Welfare

Chairman:

First of all, on behalf of the Labour and Welfare Bureau (LWB) and the Community Investment and Inclusion Fund Committee (the CIIF Committee), I would like to thank the Audit Commission for the audit conducted on the Community Investment and Inclusion Fund (CIIF). We agree with the views and recommendations of the Audit Commission. In fact, some of the recommendations for improvement have already been implemented. We are also actively following up on the remaining recommendations to enhance the operation and governance of the CIIF for the sake of good governance and ensure the optimum use of public fund.

Governance and Operation of the CIIF

2. With the funding approval from the Finance Committee of the Legislative Council, the Government set up the $300 million CIIF in 2002. The CIIF, in the form of seed money, encourages mutual care and help as well as promotes community participation and cross-sectoral collaboration through collaborative projects among community and commercial organisations with a view to building up social capital including “mutual trust”, “community networks”, “collaboration spirit” and “social cohesion” etc. As such, the CIIF has a clear objective and positioning which is to serve as a catalyst to foster social capital development through promoting the concept of social capital to all sectors. The CIIF is not a general welfare fund or one that disburses financial assistance.

3. The CIIF Committee is currently chaired by Mr. YEUNG Ka-sing and comprises members from the welfare, academic, commercial and community sectors so that we can draw on their collective wisdom. The Committee is responsible for advising the Administration on the approval of applications under the CIIF and assessing and monitoring
CIIF projects. When the CIIF was initially established, the CIIF Committee had clearly defined that the seed money would be used to support projects that could effectively foster the development of social capital while all one-off activities and projects in lack of long-lasting effect would not be supported. When assessing applications, the Committee will accord priority to the effectiveness of the project in terms of promotion of multi-partite collaboration and social capital development rather than focusing on the number of projects approved.

4. The CIIF welcomes applications from stakeholders of different sectors, and all non-governmental and private organisations can apply for subsidies under the CIIF. At present, the CIIF invites three batches of applications every two years. The CIIF Committee has put in place a fair and impartial mechanism for handling all applications. First, we will consult relevant government departments on the applications and make an initial assessment in accordance with the established assessment criteria. If necessary, an interview between the applicants and representatives of the CIIF Assessment and Evaluation Sub-committee will be arranged. The applications will then be submitted to the Assessment and Evaluation Sub-committee for discussion and then the CIIF Committee for a final decision.

Present Situation of Project Implementation

5. The CIIF has been set up for eight years. So far, a total of 213 CIIF-funded projects will be launched/ have been launched/ have been completed and the amount of total funding approved exceeds $200 million. The projects are implemented by 130 organisations, including non-governmental organisations, district organisations, educational institutions, medical and nursing organisations, cultural groups and business establishments. The content and nature of the 213 funded projects mainly cover children and family networks, community capacity building, youth development, social integration (including services for ethnic minorities and new arrivals), community healthcare networks, cross generation integration and elderly empowerment etc.

6. The findings of the CIIF Evaluation Consortium conducted by five local tertiary institutions from 2004 to 2006 showed that the CIIF had initially achieved its objective of promoting social capital development. It was also confirmed that the CIIF had achieved certain outcomes in building mutual help and neighbourhood support, fostering community-business-government collaboration and promoting community participation.
Enhancing Support to Applicant Organisations and CIIF Projects

7. Social capital development is an enormous task calling for active participation of stakeholders from different sectors. As social capital is a relatively new concept, we are committed to providing eligible applicants and funded projects with necessary support.

8. To encourage more applications from eligible organisations for CIIF subsidies, we have stepped up our publicity efforts to social service agencies and district organisations. Briefing sessions will be held before each batch of applications to brief interested parties on the social capital concept and assessment criteria. CIIF-funded project teams will also be invited to share their experience. Moreover, we will from time to time review the CIIF application procedures and make necessary amendments, including revision to the application form last year and development of clearer assessment criteria, to help applicants gain a better understanding of the CIIF requirements and prepare concise project proposals. Subject to the needs of applicants, we will provide individual consulting service whereby applicants can exchange preliminary views with the CIIF Secretariat on the ideas of their projects. Before granting formal approval, the CIIF Committee will arrange an interview between individual applicants and CIIF Committee members as well as the CIIF Secretariat on a need basis in order to exchange views on the ideas and content of the projects with a view to enhancing the quality of the project proposals.

9. As the CIIF is public fund, we have to ensure its optimum use while providing applicants or executive agencies with convenience. The CIIF has therefore set up a monitoring and review mechanism. In accordance with the established practice, each approved project will be assigned a member of the CIIF Committee as project mentor who in collaboration with the CIIF Secretariat will provide the project team with guidance and support during the project period. Besides, CIIF-funded organisations are required to submit quarterly progress reports and, upon completion of projects, final performance reports to the Committee. The Secretariat will monitor the performance of funded projects regularly on a quarterly basis, and conduct at least one site visit during the project period. For those projects with performance problems, the CIIF Secretariat and concerned CIIF Committee members will hold review meetings with the project operators and advise on the areas for improvement for the development of the projects. In response to the recommendations of the Audit Commission, the Secretariat plans to conduct regular training or sharing sessions for project operators on topics of common concern so as to foster exchange of experience. We
will continue to review and improve the existing operational mechanism to ensure that applicants and project operators are provided with sufficient support and guidance with a view to assisting them to effectively implement their projects.

**Sustainable Development of Projects**

10. Since the CIIF is a seed fund, we attach great importance to the sustainable development of the projects. Practical experience shows that sustainability can be achieved if effective interventional approaches are used and the active participation of stakeholders is secured. Since the inception of the CIIF, there have been many successful examples of sustainable development. An example is the Elderly Shop Project launched by the Salvation Army in Wong Tai Sin. While the project period has expired in May 2007, many community service teams, including the repair teams led by elders, cleaning teams led by women and the elderly shop managed by local elders selling elderly and healthcare items, formed during the project period still continue to operate now. The core members of the project also actively take part in another CIIF-funded project called “The Harmonious Home” to promote cross-generation integration in collaboration with local schools through establishing the relationships of “god-grandfathers and god-grandmothers” with students. Other successful examples include the “House Captain/Floor Captain System” launched at many housing estates over the territory, under which residents take the initiative in making concerted efforts in caring their neighbours; community clinics set up under the “medical-welfare-community” collaboration model to provide physical, mental and spiritual care for local residents; and mentorship programmes carried out to provide local students with after-school care and life navigation under the “home-community-school” collaboration model etc.

**Way Forward for the CIIF**

11. The CIIF Committee drew up a strategic development plan in mid-2010, which focused on the action plans for promotion and development in the coming three years. On promotion, the CIIF will strive to enhance the participation of stakeholders of various networks, including the first social capital district summit to be held in Wong Tai Sin early next month (December). We will also reinforce our collaboration with the media to enhance the public awareness of the CIIF. On development, we will take stock of the experience of all projects and identify some successful ones as flagship models which will be promoted to and developed in other districts. Moreover, the CIIF has successfully
gathered some 100 persons from different sectors such as industrial and commercial, social welfare, education, medical and nursing ones as well as the community to serve as SC.Net (i.e. Social Capital.Net) members. In the future, we will further leverage on the influence and networks of SC.Net members to enhance the development of social capital.

**Conclusion**

12. Chairman, the Administration has all along been attaching great importance to the governance and operation of the CIIF to ensure the optimum use of public fund and effective achievement of the CIIF’s objectives. We have commissioned an independent consultant to conduct the second evaluation study which has just commenced last month (October) for completion in early 2012. We will actively follow up on the findings of the independent evaluation study and consider the future development of and injection of funding into the CIIF in due course.

13. LWB colleagues, CIIF Committee Chairman Mr. YEUNG Ka-sing and I stand ready to answer questions to be raised by Members. Thank you, Chairman.

-- END --
Ms Macy NG  
Public Accounts Committee  
Legislative Council Building  
8 Jackson Road  
Central  
Hong Kong  

Dear Ms NG,

The Director of Audit’s Report on the results of value for money audits (Report No.55)  

The Community Investment and Inclusion Fund (Chapter 11)

I refer to your letter dated 25 November 2010 and would like to provide the required information (in Chinese) at Annex for your perusal please. This is a consolidated response from the Labour and Welfare Bureau and the Community Investment and Inclusion Fund Committee.

The English translation of our response will follow shortly.

Yours sincerely,

(Ms Karyn CHAN) 
for Secretary for Labour and Welfare

*Note by Clerk, PAC: This letter is the English translation mentioned in the last paragraph.*
c.c.

Chairman, CIIF Committee (Attn: Mr KS YEUNG) Fax No: 2523 7283
SFST (Attn: Mr CK WONG) Fax No: 2147 5236
D of Audit (Attn: Ms Olivia LEE) Fax No: 2583 9063

Internal

AA/SLW
PSLW
DS(W)1
PMO (CIIF)
Annex

Response to the request for information made by the Public Accounts Committee on 25 November 2010

Q1 What is the definition of “social capital” according to the World Bank and the Asian Development Bank? Please make a comparison with the definition adopted by the Community Investment and Inclusion Fund (CIIF).

A1 The definition of social capital adopted by the CIIF is based on the World Bank’s definition announced on its official website – social capital refers to the institutions, relationships, and norms that shape the quality and quantity of a society’s social interactions. Social capital includes social norms (individual attitudes and social values), networks, and institutions. The “strategies” deployed in social capital development include “cognitive”, “relational” and “structural” dimensions, incorporating psychological and sociological concepts of “role transformation”, “social trust” in horizontal “bridging” across heterogeneous groups and collaboration in vertical “linking” partnerships across sectors and power hierarchy. Social capital is more than the sum of the institutions or the talents of individuals that underpin a society – it agglomerates the people and the institutions together with a view to striving for the common good.

According to the result of our internet search, the Asian Development Bank does not elaborate much on the definition of social capital. Social capital includes networks, groups, mutual trust, mutual understanding, personal attitudes, social values and systems, which are basically similar to the World Bank’s definition.

Q2 Did the Assessment and Evaluation Sub-committee (AESC) established under the CIIF Committee issue guidelines to its members? If yes, please provide the assessment and evaluation guidelines. Have the guidelines been modified since 2002? If so, please provide the texts and indicate the modifications.
The AESC (formerly known as the Assessment Sub-committee) held its first meeting on 20 September 2002 to discuss the proposed assessment procedures and criteria. The proposed guidelines were endorsed by the CIIF Committee on 24 September 2002. The relevant guidelines are at Appendix 1.

The CIIF Committee subsequently reviewed the operation of AESC at its meetings on 8 May 2009 and 29 June 2009, and recommended that the AESC should develop clearer and more concrete assessment criteria and procedures in order to process applications efficiently. Taking into account the lack of clear weighting in the vetting criteria and overall score in the original set of assessment criteria, the AESC revised the assessment criteria in April 2010 and the revisions were endorsed by the CIIF Committee in May 2010. The revised marking scheme is at Appendix 2.

Q3 In what format does the Promotion and Development Sub-committee (PDSC) submit proposals to the CIIF Committee? Please provide annual year reports or related documents for channelling these proposals since 2002.

A3 The PDSC under the CIIF Committee was established in April 2005. It is responsible for advising the CIIF Committee on the promotion, marketing and networking and promotion strategies as well as measures to enhance further development of social capital. The PDSC meets around twice a year and makes recommendations to the CIIF Committee for endorsement. PDSC papers and documents submitted to the CIIF Committee since April 2005 are at Appendix 3.

Q4 Please provide detailed information on the funding recommendations prepared by the CIIF Secretariat for submission to the AESC in 2002, 2003, 2009 and 2010.

A4 A total of eight AESC meetings were held in 2002, 2003, 2009 and 2010. Funding recommendations prepared by the CIIF Secretariat are at Appendix 4.
[Note: Two sub-committees, namely the Assessment Sub-committee and the Evaluation and Development of Social Capital Sub-Committee, were set up when the CIIF was first launched in 2002. At the CIIF Committee held on 18 April 2008, members decided to merge the above two sub-committees into the AESC to advise the CIIF Committee on the formulation of themes of application and vetting criteria, monitoring of project performance, assessment of project effectiveness and consolidation of successful factors etc.]

Q5 Please provide the research reports conducted by a consortium comprising academics as mentioned in paragraph 1.9 of the Audit Report.

A5 The research reports are at Appendix 5.

Q6 According to paragraph 2.6 (b) of the Audit Report, the CIIF Committee considered the 15th batch of applications at the meeting held in October 2009. Please provide the declaration records of the attendees and the list of 42 applicants for the 15th batch of applications.

A6 The declaration records of the attendees of the CIIF Committee meeting held on 15 October 2009 and the list of 42 applicants for the 15th batch of applications are at Appendix 6.

Q7 Please provide the 17 items of performance information as mentioned in paragraph 2.15 of the Audit Report and explain why only 9 data were published whereas the remaining 8 data were left out.

A7 As at 25 November 2010, the 17 items of performance information of the CIIF are listed as follows –

1. Number of approved projects in the 16 batches of applications: 213 (among the 213 projects, 119 are completed, 84 are still in progress and the remaining 10 were terminated early by mutual agreement between the CIIF and the project teams);
2. Amount of funding allocated to the 16 batches of applications: over $210 million;

3. Engaged over 560,000 participants;

4. Transformed 21,000 people from service recipients to providers of assistance;

5. Helped over 5,000 people re-enter the labour market with enhanced confidence and capabilities;

6. Supported over 14,500 families;

7. Formed over 450 mutual support networks;

8. Founded over 20 self-support groups;

9. Mobilised over 5,000 collaboration partners, including business sector, non-governmental organizations, schools, residents’ organisations, hospitals, District Councils and government departments. Over one-fourth of the partners come from the business sector;

10. Geographical distribution of the projects: CIIF-funded projects cover all the 18 districts in Hong Kong, with 28 projects implemented in Tin Shui Wai, followed by 23 projects in Sham Shui Po (details at Appendix 7.1);

11. Project target groups: Major target groups include “family and children network”, “community capacity building”, “youth development”, “social integration (including ethnic minorities and new immigrants)”, “community health care network”, “cross generation integration” and “elderly support and empowerment” (details at Appendix 7.2);

12. Classification of project performance: Among the 213 approved projects, about 26% are well-performed flagship projects, 62% are able to meet the expected targets and the remaining 12% with unsatisfactory performance/rooms for improvement;
13. Quarterly reimbursement claims of CIIF projects: please see Appendix 7.3;

14. Total amount of funding released: over $120 million;

15. Submission records of performance reports: please see Appendix 7.4;

16. Submission records of annual audit reports: please see Appendix 7.5; and

17. Records of site visits and reasons for cancellation (if applicable): The Secretariat visited all the project teams as scheduled in the 2010 site visit plan, except for the postponement of one visit to December 2010 owing to staff changes. The Secretariat also conducted four additional visits this year in view of the actual needs (details Appendix 7.6).

We did not deliberately leave out items 10 to 17 of the performance information which were only not released to the public through various channels in the same way as items 1 to 9. In accordance with the recommendations of the Audit Commission, the Secretariat will upload all the 17 items of performance information onto the CIIF website and regularly update them for public information.

**Q8** As mentioned in paragraph 3.5 of the Audit Report, the grantee needs to prepare quarterly project progress reports. How do they differ from the progress reports prepared for other funds or applications for the District Councils’ funding?

**A8** The CIIF has a clear objective and positioning. It provides seed money to facilitate and promote the development of social capital. It does not provide financial support for individuals or support various social welfare programmes. Thus, it is not appropriate to make a comparison between the CIIF and other funds or applications for the District Councils’ funding.
Q9 Please provide the texts of the marking scheme used in the 16th batch of applications as mentioned in paragraph 3.10 of the Audit Report and compare it with the marking scheme used in previous batches of applications.

A9 The marking scheme used in processing applications before the 16th batch mainly include the following eight categories –

1. Organization’s background and capability
2. Whether the application aligns with CIIF objectives and has the potential to develop social capital
3. Effectiveness and performance indicators
4. Implementation of innovative strategies and programmes
5. Technical feasibility
6. Financial viability and reasonableness of its budget plan
7. Sustainability
8. Risk factors

Each project has a designated rating from 0 to 5, with 5 being the highest –
- Proposals with an average rating of 3.0 or above will likely be accepted
- Proposals with an average rating between 2.5 and 2.9 may require further deliberation of the CIIF Committee
- Proposals with a rating below 2.5 are usually not recommended for acceptance

The AESC revised the marking scheme in April 2010 and the revisions were endorsed by the CIIF Committee in May 2010. The major amendments to the marking scheme are as follows –

The original eight categories have been expanded with five additional categories –

1. Accurate assessment and ability to fulfil community needs
2. Intervention model and networking strategies
3. Effective evaluation tools and methods
4. Support from key collaborators
5. Effective leadership
The 13 categories have been reorganised into 4 key categories with 11 assessment criteria. We then weigh the 4 key areas according to their importance –

1. Understanding of social capital building (10%)
2. Project effectiveness (70%)
3. Organisation’s capability (15%)
4. Other factors including risk evaluation and problem-solving ability (5%)

Each category has a passing mark, with 100 being the full assessment mark –
- Proposals with a total score above 70 will likely be accepted
- Proposals with a score between 51 and 69 may require further deliberation of the CIIF Committee
- Proposals with a score below 50 are usually not recommended for acceptance

The Secretariat has made the above information available for public access through the CIIF’s website when the new marking scheme has been put in place. It was also introduced in the briefings for the 16th batch and 17th batch of applications. The marking schemes used in the 16th batch of applications and previous batches of applications are at Appendices 1 and 2 respectively.

Q10 When appointing members from different sectors to the CIIF Committee, has the Administration considered their knowledge in social capital and whether brief introduction of social capital was given to the new members?

A10 When appointing members to the CIIF Committee, the Administration will carefully consider all relevant factors, including their knowledge and experience in social capital and whether they could facilitate the promotion and development of social capital, and determine the suitability of individuals to serve as members of the CIIF Committee.
When issuing appointment letters to the new members, we will attach a copy of the relevant Legislative Council Finance Committee paper which includes an introduction to social capital, background, objectives, models and assessment criteria, etc. of the CIIF when it was set up in 2002 for their information.

Q11 Has the CIIF Secretariat issued guidelines to the project grantees regarding the progress reports (see paragraph 4.12 of the Audit Report). If yes, please provide the relevant guidelines.

A11 According to the Conditions of Grant, the project grantees need to submit four quarterly progress reports every year. The CIIF Secretariat will issue the relevant guidelines by email around half a month before the submission deadline to remind the project grantees to submit reports on time and of other matters requiring attention. The guidelines are attached at Appendix 8.

Q12 Please provide the questionnaire for relevant bureaux/departments to fill in as mentioned in paragraph 4.5(c) of the Audit Report.

A12 The questionnaire is attached at Appendix 9. The CIIF Secretariat has already deleted the “no comment” checkbox from the answer section based on the recommendation of the Audit Commission. The revised questionnaire has immediately been used in processing the 17th batch of applications which commenced in August this year. The revised questionnaire is at Appendix 10.

Q13 What is the long-lasting effect of the one-off activities as mentioned in Paragraph 5.16 of the Audit Report? Apart from the six projects examined by the Audit Commission, has the CIIF Secretariat rejected other applications for one-off activities? What were the reasons for rejection? Please provide a list including the name of the applicant, the title of the project and the amount of the applied one-off activities for all rejected and accepted applications.
CIIF funding is paid quarterly to grantees on a reimbursement basis. We have stated in the CIIF application form that “one-off large-scale events, which are not in line with the rationale of social capital building and without continuous impact, will generally not be supported (such as banquets, carnivals and tours). If the one-off event is regarded as crucial in the project, please elaborate on its cost-effectiveness and how it can help build social capital. Please also provide the budgeted expenses and income of the one-off event.”.

In considering whether to reimburse expenditure on individual activities, we will mainly consider whether the nature of the activities is in line with the project objectives and how the activities would facilitate social capital development. When applying for reimbursements, grantees are required to provide justifications regarding the nature of the activities, attendance records, effectiveness and expenditure of the activities.

The assessment records of all applications for reimbursement for one-off activities conducted by the CIIF Secretariat since July 2007 are at Appendix 11.

Labour and Welfare Bureau
The Community Investment and Inclusion Fund Committee
November 2010

*Note by Clerk, PAC:  Appendices 2, 3, 4 (except Summary of Project Proposal and Recommendation from CIIF Secretariat: HWFB Reference Nos: 11-1, 17-1 and 113-1), 5, 6, 7.1 to 7.6, 8 (except Quarterly Performance Report on Key Milestones), 9 to 11 not attached.
Appendix 1

For discussion on 20 September 2002

Paper CIIF-AS 01/02

CIIF Applications: Assessment Procedures and Criteria

This paper seeks Members’ comments on the proposed procedures and criteria to be adopted for assessing applications under the CIIF. Views expressed by Members in previous Committee meetings have been incorporated as appropriate.

1. Key Principles

✓ The Fund is a seed fund for developing social capital - it should neither duplicate nor replace existing government subventions or other funding;

✓ Projects to be supported should be community-initiated with a clear objective to develop social capital - funding is not directed at supporting long term, or supplementing existing services or one-off consumption projects; and

✓ To sustain operation beyond the funding period.

2. Assessment Approach

2.1 The innovative nature, merit and intent of this new Fund comes with increased risk exposure. For these reasons the Fund has been identified as one of the new study areas for ICAC and SWD. It is also likely that it will be scrutinized by the Audit Commission.

2.2 The risk areas to be addressed by the CIIF Committee include the following:

✓ The expected outcomes are new and may be difficult to specify, achieve, or monitor as well as measure;

✓ The track record of applicants will vary (including the risk of project failure, late or non-delivery that tends to be high even amongst other more established Funds); and

✓ The assessment criteria and process are new and untested (increasing the degree of difficulty in reaching a consensus and consistency in the assessment process).
2.3 The following principles will be adhered to when designing the assessment procedures:

✓ Make the administrative process **simple** so as to facilitate the involvement of smaller and less well-established groups;

✓ Make the decision making process **fair and accountable** to minimize the risk of abuse or misuse and hence address the requirements of monitoring offices such as the ICAC and the Audit Commission.

✓ Make the assessment process and assessment outcomes **transparent** so as to gain public confidence in the effectiveness of the Fund to achieve its primary purposes.

2.4 Judging from the experience of other Funds, the vetting and assessment processes can be extremely cumbersome and time-consuming for both the Secretariat and the Committee to manage. The Secretariat has considered various "tested" approaches, and estimated the following resource requirements:

✓ A minimum of 10 hours for the processing of a simple and straightforward application, and around 20 hours for applications requiring substantial clarification and consultation with other government departments, to the stage of making an initial recommendation to the Sub-committee.

✓ Apart from the committee deliberation time, each Sub-Committee member will need a minimum of 1 to 2 hours to read through and consider each application.

The Secretariat is proposing a vetting and assessment approach that takes on board the positive elements but simplifies the tight assessment system applied to assessing technical tenders against standard specifications.

**Vetting and Assessment Procedures**

3.1 The flow of decision making process will involve three integrated layers, i.e. from the Secretariat, to the Sub-committee and finally to the CIIF Committee. Each onward layer should take an increasingly broader perspective. The assessment focus of each layer will be:

a) **the Secretariat:** the Secretariat should do the initial, detailed and technical vetting;
b) **the Assessment Sub-committee:** the Sub-committee will take account of the recommendations of the Secretariat, assess the merits of projects along major assessment criteria (such as those outlined in section 4) and consolidate a set of funding recommendations to the CIIF Committee;

c) **the CIIF Committee:** the CIIF Committee will assess the major risk-benefit potentials of the projects in finalizing the decision.

3.2 The flow-chart in Annex A shows the following assessment procedures:

a) receipt, processing, initial analysis and vetting by the Secretariat,
b) assessment and recommendation by the Assessment Sub-Committee,
c) decision making by the CIIF Committee, and
d) the post-assessment tasks including the notification of approval and confirmation of acceptance by the Secretariat.

3.3 Vetting by the CIIF Secretariat:

3.3.1 Incoming project proposals will firstly be assessed on the existence of some “qualifying” or “disqualifying” factors, such as applications by individuals, applicants without credible registration status, affiliation or sponsorship from bona fide groups that can assume legal liability, or those that clearly duplicate other Government subventions

3.3.2 Proposals meeting the qualifying criteria (outlined in 3.3.1) will be analyzed against a checklist of key components. Ratings will be given under respective criteria or areas.

3.3.3 A summary for each individual project will be prepared (see Annex B) after the Secretariat’s initial vetting, including seeking clarification from the applicants and comments from relevant Government departments. A set of consolidated initial recommendations will be grouped and put to the Assessment Sub-committee as follows:

(a) The “**recommend to accept**” cluster for projects that clearly meet the criteria of the Fund (with an initial recommended funding amount);

(b) The “**recommend to reject**” cluster for projects that are clearly outside of the scope of the Fund; including those with **disqualifying factors**; and
(c) The “marginal” group of projects with sufficient merits to warrant further consideration by the Sub-committee.

3.4 Assessment by the Assessment Sub-committee:

Considering the impracticality of the Sub-committee assessing every project in detail, and based on the principle of “management by exception”, it is proposed that the Sub-committee should focus on reviewing the initial vetting undertaken by the Secretariat.

This phase will involve:
(a) The set of initial assessment summaries with recommendations with a declaration of interest form, will be circulated to the Assessment Sub-Committee;
(b) Sub-committee members will be requested to provide written comments on the Secretariat’s initial recommendations on each proposal, together with a signed declaration of interest form for each batch of applications;
(c) Meeting with applicant groups if necessary;
(d) Reviewing, confirming or giving reasons to suggest changes to the Secretariat’s initial vetting results from “recommend to accept” or “recommend to reject” to “marginal” for further consideration by the Sub-committee (as every suggested variation will in effect place the project into the “marginal” group); and
(e) When the Sub-Committee meets, it should focus on reaching a decision on the “marginal” group; and then consolidate recommendations to the CIIF Committee for endorsement. The recommendations will be sorted into three categories:

- Approve (with a suggested amount of grant),
- Reject, and
- Deferral, including invitation to “revise and re-submit.”

3.5 Decision by the CIIF Committee: decision by the CIIF Committee is final.
(a) The consolidated recommendations from the Sub-committee CIIF Committee, will be circulated to the CIIF Committee for formal decision;
(b) A declaration of interest form will accompany each batch of applications for CIIF Committee members to declare their interest;
(c) Written confirmation of the declaration of interest and key issues for consideration at the Committee will be invited prior to the Committee meeting; and
(d) CIIF Committee members will then either confirm or revise the recommendations of the Sub-committee to approve (the level of grant), reject, or defer consideration,
including an invitation to “revise and re-submit.”

3.6 Post assessment and approval:

(a) The CIIF Secretariat will manage the subsequent notification, payment control and progress monitoring tasks.

(b) The Evaluation and Development of Social Capital Committee will undertake the on-going monitoring of the overall performance of the Fund.

4. Assessment criteria

The following areas will form the basis of the Secretariat’s vetting, analysis and initial recommendations to the Assessment Sub-Committee.

The proposed projects will be assessed according to the following dimensions once it has passed the “qualifying” or “disqualifying” factors.

- Applicants’ background and capability (balancing track record with ability to innovate)
- Technical feasibility of the proposed project (whether the proposal demonstrates clear linkages between their strategies, proposed action in addressing the needs identified, and achieving the planned outcome, i.e. intervention logic. This is different from financial viability of the project).
- Potential social capital outcomes (e.g. sustainability, inclusion, driving energy within the community)
- Other planned outcomes
- Financial viability (cost effectiveness, sustainability)
- Possible negative factors; and
- Other considerations

CIIF Secretariat
September 2002
Annex B

Summary of Project Proposal and Recommendation from CIIF Secretariat

(A) Details of Application

HWFB Reference No.:  

Name of Applicant(s):  

Name of Collaborating Groups:  

Name of Project Proposal:  

Total Amount Requested from CIIF:  

(B) Summary of the Proposal:

- Key objectives
- Main outputs
- Target group(s)
- Location
- Unique feature
(C) Summary of Proposed Outcome (Including Performance Targets, Indicators, Degree of Application/Development/Promotion of Social Capital, etc.):

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(D) Amount Requested from CIIF:

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(E) Consolidated Comments from CIIF Secretariat:

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<td>Financial Viability/ reasonableness of budget</td>
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<td>Other Planned Outcome</td>
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<tr>
<td><strong>Additional Factors / Other Comments / sustainability</strong></td>
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<tr>
<td><strong>Other Negative Figures</strong></td>
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*Comments from other government departments:*

<table>
<thead>
<tr>
<th>Departments</th>
<th>Comments</th>
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<tr>
<th><strong>Overall Recommendations:</strong></th>
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<tbody>
<tr>
<td>☐ Recommend to approve</td>
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<tr>
<td>☐ Recommend to reject</td>
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<tr>
<td>☐ Marginal – issues for further consideration</td>
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</tbody>
</table>

**Recommendation from CIIF Assessment Sub-committee:**

☐ Proposal supported

Suggested Amount of Grant: ____________________________

☐ Proposal not supported

☐ Proposal to be re-worked for further consideration

Comments from CIIF Assessment Sub-committee:

Signature of Chairperson (CIIF Assessment Sub-committee): ____________________________
(G) Decision by the CIIF Committee:

The application for CIIF grant is:

☐ Approved by CIIF Committee; and
   The amount of grant approved is: ____________________.

☐ Decision deferred on current proposal, for applicant to consider resubmission after modification.

☐ Proposal not supported.

Signature: ___________________________ Date: ________________

Name: ___________________________
(Chairman – CIIF Committee)

Assessment of CIIF Project Proposals
Initial vetting and analysis by the CIIF Secretariat (Office Use Only):

(1) Disqualifying Factors  ☐ Ineligible applicants (e.g. Individuals, gov’t dept.) _________
______________________________
______________________________

☐ Ineligible project (e.g. currently funded by other subvention, are eligible to / should apply other existing funds): _________
______________________________
______________________________

☐ Others: ___________________________
______________________________
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## Initial Ratings:

<table>
<thead>
<tr>
<th>Assessment Criteria</th>
<th>Indicators</th>
<th>Rating</th>
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</thead>
<tbody>
<tr>
<td><strong>I. Applicants’ background and capability</strong></td>
<td>(a) Proven track record/demonstrated experience of applicant organization’s management committee and/or staff, in operating related programmes.</td>
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<td>(c) Clear governance accountability:</td>
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<td>- Being a registered organization?</td>
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<td>- Has appropriate affiliation?</td>
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<td>- Being sponsored by a registered organization?</td>
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<td></td>
<td>(d) Existence of support and connection with other community groups.</td>
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<td><strong>II. Technical Feasibility</strong></td>
<td>(a) Clearly specified project objectives.</td>
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<td>(c) Evidence of need identified.</td>
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<td></td>
<td>(d) Evidence of community self-initiation.</td>
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<td></td>
<td>(e) Extent of collaboration across sectors/groups.</td>
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<tr>
<td><strong>III. Project Quality and Potential Social Capital Outcomes</strong></td>
<td>(a) Evidence of innovation and positive values to be achieved.</td>
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<td></td>
<td>(b) Extent of increase in social participation and social solidarity to be achieved.</td>
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<td>(d) Degree of inclusion (in main stream society) of marginalized groups such as people with disability, elderly, disengaged youth, unemployed people, etc.</td>
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<td>(e) Evidence of development, promotion and application of social capital in Hong Kong.</td>
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<td>(f) Operational sustainability, in terms of:</td>
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<td>- Continuity (how long?) beyond funding</td>
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<td>period.</td>
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<td></td>
<td>- Transfer of skill and knowledge.</td>
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<td>- Support from/engagement with other community groups.</td>
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<tr>
<td>IV. Financial Viability</td>
<td>(a) Reasonableness of proposed budget. Criteria including:</td>
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<td>- Appropriateness in terms of proposed items to be acquired, their quantity and budget price.</td>
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<td>- Appropriateness in terms of no. of staff to be recruited, use of volunteers and the total package.</td>
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<td>- Cost-effectiveness of the project relating to the end-products to be developed.</td>
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<td>(b) Financial capability of applicant’s organization:</td>
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<td>- Does the applicant provide financial reports?</td>
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<td>- Operational position of the organization, was it in a surplus or deficit position?</td>
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<td>- The balance sheet strength of the applicants (e.g. Was it in a net asset or liabilities position?)</td>
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<td>(c) Existence of any source of financing or backing.</td>
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<td>(d) Financial sustainability after funding period</td>
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<td></td>
<td>- Existence of future funding source.</td>
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<td></td>
<td>- Evidence of self-financing.</td>
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<tr>
<td>V. Other Planned Outcome</td>
<td>Specify</td>
<td></td>
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<tr>
<td>VI. Possible Negative Figures</td>
<td>(a) Political considerations</td>
<td></td>
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<td>(b) Possible conflict of interest amongst grantee, partners, volunteers, staff, participants.</td>
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<td>(c) Others:</td>
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<td>Assessment Criteria</td>
<td>Indicators</td>
<td>Rating</td>
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<td>---------------------</td>
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<tr>
<td>VII. Additional Factors and Other Comments</td>
<td>(a) For example, the potential to become a project model or for wider dissemination.</td>
<td>0 1 2 3 4 5</td>
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<td></td>
<td>(b) Others:</td>
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<tr>
<td>VIII. Overall Rating</td>
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</tbody>
</table>
Summary of Project Proposal and Recommendation from CHF Secretariat

(A) Details of Application

HWFB Reference No.: J1-1

Name of Applicant(s): 香港會德豐基金會長者服務中心 SAGE Chan Thai Hai Tsuen Wan Multi-service Centre for the Elderly

Name of Collaborating Groups: 本計劃沒有與其他單位合作，但有部份內容將與青衣區的青少年中心合作 (This project does not have a co-organiser. But some parts of the program will be organised jointly with other (non-specified) youth centres in Kwai Tsing).

Name of Project Proposal: 表情天現 A special space service for the elderly

Total Amount Requested from CHF: $1,408,917.00 (3 years: Feb. 2003 - Feb. 2006)

(B) Summary of the Proposal:

- Key objectives:
  1) To arouse the older people's awareness on personal health (both physical and psychological health)
  2) To provide care and support for older people so as to increase their self esteem and to encourage them to think positively
  3) To increase and establish social networks for the older people who live alone or who are in need
  4) To increase linkages between youth, women and the old
  5) To enhance the older people's IT knowledge e.g. obtain information through the Internet, get access to government web sites and make payment through internet

- Main outputs
  1) To increase support network for older people
  2) To increase mutual care and trust, increase mutual assistance and reciprocity
  3) To develop positive values - to provide care and support for older people so as to increase their self esteem and to encourage them to think positively
  4) The ultimate aims: social solidarity, social inclusion, self-help, mutual-help and positive values will be achieved through the project.

---

Target group(s)

1) Older people (60 years old or above) in Kwai Tsing District or older people with the following features:
   a) those who live alone or whose family is not able to take care of them
   b) those who are without any social network
   c) those who have health problems
   d) those who have financial problems
   e) those who are in very poor living conditions
   f) those who have no knowledge about the resources in the society

2) Volunteers who want to serve the older people e.g. volunteers from the youth centre

3) People in the community

Location
Kwai Tsing District

Unique feature
Establish the first Cyber Cafe for older people in Hong Kong. The Cyber Cafe will be operated with the assistance from youngsters.

(C) Summary of Proposed Outcome (Including Performance Targets, Indicators, Degree of Application/Development/Promotion of Social Capital, etc.)

1) Operational Plan:
   a) To provide Integrated Supporting Service (綜合支援服務) with the assistance from 2 social workers from the centre, volunteers and companions who will accompany older people when they go to clinic (診診員):
      i) To provide maintenance service or transport service - improve the living conditions of 25-30 older people each month.
      ii) To provide companionship service when the older people go to clinic.
      iii) To provide psychological support and referral services (轉介服務)
   b) Health Centre for the Old. The aim is to increase the older people's awareness on health and to increase positive values:
      i) Seminars on health - conducted by nurses or professionals once a month
      ii) Health Inspection - conducted by the outreaching team under Department of Health and some volunteers once a month
      iii) Health Corner and Health Information Sections - 2 sections each day with the assistance from 2 social workers and volunteers
   c) Cyber Cafe for the Old (老人网吧). A technician and some volunteers will be in charge of the daily operation of the Cyber Cafe while the financial matters will be
handled by the applicant organisation. The opening hours is 6 hours a day and hence 1,584 people will be benefited from the cafe each day (6 hours X 12 Older people X 22 days). The service charge is $2 per hour which includes a drink. Youngsters and women will prepare the tea reception.

i) To provide computers for the older people to get access to internet
ii) To conduct computer courses
iii) To provide tea reception.

2) Performance indicators
   a) Number of volunteers participated in the project: 3960 volunteers
   b) Number of people visited the health centre: 63360 people
   c) Number of older people benefited from the project: 3960 elders
   d) Support network to older people who live alone or in need: around 500 elders
   e) Number of people using the computer facilities: 57024 people

3) Monitoring and evaluation
   The evaluation of the program is mainly through:
   a) the actual number of participants of each program
   b) feedback from participants – both older people and the volunteers
   c) feedback from the working group
   d) feedback from the youth centers or volunteering organisations

4) Future of the project
   The sustainability of the project depends very much on:
   a) the number of companions required by older people when they go to clinics
   b) the number of older people using the Cyber Cafe and the assistance from youth centres
   c) the number of people using the Health Centre
   d) the amount received from other funding for homecare improvements

5) Other outcome of the project:
   a) increase job opportunities – recruit women helpers in the community as companions when the older people go to clinics. These women will have an income in return. One technician and one program assistant will be recruited for this project.
   b) Increase linkages between the young and the old
   c) Increase the older peoples’ awareness of personal health.

Remarks:
1) Five Staff is required for this project:
   a) a Senior Social Welfare Worker – paid by the applicant organization
   b) a Social Welfare Assistant – paid by the applicant organization
   c) an IT technician – paid by CIIF
   d) a program assistant – paid by CIIF
   e) a worker – paid by the applicant organization

(D) Amount Requested from CIIF:

<table>
<thead>
<tr>
<th>Item (項目)</th>
<th>Expenditure (支出)</th>
<th>Income (收入)</th>
<th>Amount Requested (申請總數)</th>
</tr>
</thead>
<tbody>
<tr>
<td>護理及檢查身體的器材 Health equipments (e.g. electronic weighing machines, meters for measuring blood pressure, blood sugar and cholesterol, etc.)</td>
<td>$31,640.00</td>
<td>$0.00</td>
<td>$31,640.00</td>
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<tr>
<td>電腦設施 Computer equipments (e.g. computer hardwares and softwares, multi-media projector, screen, etc)</td>
<td>$234,295.00</td>
<td>$0.00</td>
<td>$234,295.00</td>
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<tr>
<td>辦公室設施 Office equipments (e.g. photocopying machine, cabinets, desks, chairs, etc.)</td>
<td>$39,380.00</td>
<td>$0.00</td>
<td>$39,380.00</td>
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<tr>
<td>電器用品 Electrical appliances (e.g. television, VHS recorder, microphone, etc.)</td>
<td>$15,410.00</td>
<td>$0.00</td>
<td>$15,410.00</td>
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<tr>
<td>裝修 Renovation (e.g. air conditioners, sofa, repaint the walls, etc)</td>
<td>$164,800.00</td>
<td>$0.00</td>
<td>$164,800.00</td>
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<tr>
<td>宣傳單張 Leaflets for promotion of the activities</td>
<td>$10,000.00</td>
<td>$0.00</td>
<td>$10,000.00</td>
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<tr>
<td>租金 Rent</td>
<td>$427,680.00</td>
<td>$0.60</td>
<td>$427,680.00</td>
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</table>
Comments from other government departments:

\[ \text{Department} \quad \text{Comments} \]

SWD: The proposed project is not supported.

1) The SAGE is currently receiving welfare subvention to operate two multi-service centres for the elderly, including the Applicant which already operates two support teams for the elderly respectively in Tsuen Wan and Kwai Tsing Districts providing similar volunteer support and networking services as proposed in the Applicant's application.

2) In addition, there are 6 social centres for the elderly operated by other NGOs in Tsing Yi which also provide more or less the same services as proposed.

3) The two multi-service centres for the elderly operated by the SAGE in Kwai Tsing Districts and the existing 6 social centres for the elderly operated by other NGOs in Tsing Yi have already installed one to two personal computers with Internet access in each of them with a grant from the Lotteries Fund by end of 2001. In this connection, elders can easily gain access to computers and learn Information Technology in these elderly service units.

4) There are four Integrated Children & Youth Services Centres and one Children & Youth Centre in Tsing Yi with good computer facilities, the Applicant can network with them to provide services to elders with a goal to promote cross-generational collaboration, instead of setting up a new internet bar for the elders.

5) The proposal to set up a new centre is the highest-cost option. The proposed services are can be provided by existing service units in the district through networking and collaboration among elderly services units, youth services units, medical/health services units provided by HA/DH at a minimal cost.

6) With the heavy staff cost and recurrent expenses, it is unlikely that the project can be sustainable on a self-financing basis. 65% of the budget ($913,392 in $1,408,917) is recurrent in nature for the employment of staff and rental of accommodation. These can be dispensed with if the project is launched by existing (subvented) staff at existing accommodation through collaboration with other services units.

Overall Recommendations:

- [ ] Recommend to approve
- [ ] Recommend to reject
- [✓] Marginal – issues for further consideration

Although there are potentials to develop cross-generational networks and linking, the proposed option is too costly and with many components overlapping with existing subvented services. Hence marginal – to reject.
Assessment of CIIF Project Proposals
Initial vetting and analysis by the CIIF Secretariat (Office Use Only):

(1) Disqualifying Factors

- Ineligible applicants (e.g. individuals, gov’t dept.)

- Ineligible project (e.g. currently funded by other subvention, are eligible to / should apply other existing funds)

- Others:

(2) Initial Ratings:

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<tr>
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<tr>
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<td>(a) Proven track record/demonstrated experience of applicant organisation’s management committee and/or staff, in operating related programmes</td>
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<td>(b) Balancing consideration: new group, ability to innovate</td>
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<td>(c) Clear governance accountability: - being a registered organization? - has appropriate affiliation? - being sponsored by a registered organisation?</td>
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<td>II. Technical Feasibility</td>
<td>(a) Clearly specified project objectives</td>
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<td>(c) Evidence of need identified</td>
<td>✓</td>
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<td>(d) Evidence of clear programme logic – that the proposed programmes will achieve the planned results</td>
<td>✓</td>
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</table>
### III. Project Quality and Potential Social Capital Outcomes

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<tr>
<td>(a) Evidence of positive values to be achieved. Would the established values result in positive or negative social capital?</td>
<td>✓</td>
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<td>(b) Evidence of network(s) being established and its nature including: - the size and strength of the network; - whether it would contribute bridging and linking among groups; and</td>
<td>✓</td>
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<td>(c) Whether the established network(s) would enhance existing relationships or produce added and positive value to groups.</td>
<td>✓</td>
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<td>(d) Extent of increase in social participation and social solidarity to be achieved.</td>
<td>✓</td>
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<tr>
<td>(e) Extent of community self-initiation.</td>
<td>✓</td>
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<td>(f) Clear target group: the capacity of the project to identify and engage marginalized groups.</td>
<td>✓</td>
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<tr>
<td>(g) Evidence of innovation and brace serve as a project model for others to follow/refer to.</td>
<td>✓</td>
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<td>(h) Evidence of self and mutual help to be achieved.</td>
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<td>(i) Degree of inclusion (in main stream society) of marginalized groups such as people with disability, elderly, disengaged youth, unemployed people, etc.</td>
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<td>(j) Evidence of development, promotion and application of social capital in Hong Kong.</td>
<td>✓</td>
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<td>(k) Operational sustainability, in terms of: - continuity (how long?) beyond funding period; - transfer of skill and knowledge.</td>
<td>✓</td>
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<td>(l) Support from engagement with other community groups.</td>
<td>✓</td>
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<tr>
<td>(m) Potential to be a snow-ball agent: i.e. the capacity of the applicants to arouse other groups' interest to pursue similar projects or to adopt similar practices.</td>
<td>✓</td>
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### IV. Financial Viability

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<tr>
<th>Assessment Criteria</th>
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<td>(a) Reasonableness of proposed budget. Criteria including: - appropriateness in terms of proposed items to be acquired, their quantity and budget price; - appropriateness in terms of no. of staff to be recruited, use of volunteers and the total package. - cost-effectiveness of the project relating to the end-products to be developed.</td>
<td>✓</td>
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<td>(b) Financial capability of applicant's organization: - does the applicant provide financial reports? - operational position of the organization, was it in a surplus or deficit position? - the balance sheet strength of the applicant(s) (e.g. Was it in a net asset or liabilities position?)</td>
<td>✓</td>
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<td>(c) Existence of any source of financing or backing (contribution from own organization or from sponsors?)</td>
<td>✓</td>
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<td>(d) Financial sustainability after funding period - existence of future funding source; - evidence of self-financing.</td>
<td>✓</td>
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### V. Other Planned Outcome

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<tr>
<th>Assessment Criteria</th>
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<tr>
<td>(a) Increase job opportunities</td>
<td>✓</td>
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### VI. Possible Negative (Risk) Factors

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<tr>
<th>Assessment Criteria</th>
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<tbody>
<tr>
<td>(a) Contravening Government interest/policies.</td>
<td>✓</td>
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<tr>
<td>(b) Possible conflict of interest amongst grantor, partners, volunteers, staff, participants.</td>
<td>✓</td>
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<td>(c) Negative effect on the credibility of the Fund.</td>
<td>✓</td>
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<td>(d) Others (risk of duplicating existing subvented services)</td>
<td>✓</td>
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<tr>
<td>Assessment Criteria</td>
<td>Indicators</td>
<td>Rating</td>
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<tr>
<td>VII. Additional Factors and Other Comments</td>
<td>Specify</td>
<td>✓</td>
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<td>Some elements with good potential to establish cross-generational linking between younger and older people through the establishment of the cyber-café for elders. But this positive consideration is outweighed by the extent of duplication with existing services already subvented by SWD. The results could be achieved without necessarily establishing such a high cost independent service.</td>
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</table>
Summary of Project Proposal and Recommendation from CIIF Secretariat

(A) Details of Application

HWFB Reference No.: 17-1

Name of Applicant(s): 香港粵庭社屬會粵庭婦女會 (Ching Fai Women Association, federated with the Hong Kong Ching Fai Association)

Name of Collaborating Groups: 深水埗婦女聯合會 (Sham Shui Po Women's Organisations Federation) and 香港青年義工團 (Hong Kong Youth Volunteer Association).

Name of Project Proposal: 家家教裏 (Family Education - Love and Caring at Home)

Total Amount Requested from CIIF: $1,045,500.00 (3 years: May 2003 - May 2006)

(B) Summary of the Proposal:

- Key objectives
  - The key objective of the project are:
    a) to emphasise the value of family and to put effort on the education of children (重視家庭價值，盡力子女教育)
    b) to provide after school care service (assist the parents who have to work during
day time (雙職父母) and to take care of their children)
    c) to conduct training workshops for parents on the communication skills with their
       children
    d) to train the unemployed women as family tutors (to take care of the children and
       to assist them in finishing the homework)
    e) to develop networks for parents so that they can share their experience and to
       support each other

- Main outputs
  a) the project aims at achieving social participation, self-help and mutual-help
     through developing mutual care and trust among the family members and
     between different families
  b) to build up support networks in different families and between the counselors in
     the centre and the parents
  c) to promote positive values such as to emphasis the value of family and to put an
     effort on the education of children (重視家庭價值，盡力子女教育)
  d) to increase the quality of the next generation

- Target group(s)
  - Women, working parents and families, involving young people and other women as
    volunteers

- Location
  - All districts in HK (the centre is at Sham Shui Po)

- Unique feature
  - Collaboration from 2 welfare organisations in the district: the project is co-organised
    with the Hong Kong Youth Volunteer Association which has agreed to provide some
    youth graduated from tertiary institutions as volunteers and tutors. Besides, the Sham
    Shui Po Women's Organisations Federation agrees to provide women members as
    volunteers

(C) Summary of Proposed Outcome (Including Performance Targets, Indicators, Degree
of Application/Development/Promotion of Social Capital, etc.)

1) Operational Plan:
   a) to provide after school care service
      - to take care of the children and to assist them in finishing all the homework,
      - to provide lessons on self discipline, moral education and to develop the
        analytical ability of the children
      - to conduct talent training courses on music and art
      - the applicant organization will charge a monthly fee of $650 - for those who
        only need assistance in finishing homework and $980 - for those who receive
        all the service including the charges for lunch
   b) Training workshops for parents in the evening and during weekends
      - provide two in one course (二合一課程) which teaches cookery, pottery and etc.
        in the first part of the lesson and then the skills on how to communicate with
        their children in the second part so that parents can apply the skills on daily life
   c) Family tutors training course
      - recruit the unemployed women as family tutors. The organization observed
        that some women has already received secondary education and they can be
        tutors instead of being a domestic helper
   d) Volunteering networks for parents
      - to build up networks among the parents, to conduct experience sharing
        sessions, to assist in the training workshops for parents
2) Performance indicators
   a) After school care service to children – totally 280 service recipients (aged 6-14)
   b) Lessons on music, art and calligraphy: totally 60 lessons
   c) Training workshop for parents – 310 parents
   d) Training for family tutors – 170 participants
   e) Volunteer network for parents – 120 people

3) Monitoring and evaluation
   a) To submit a yearly report on the outcomes of the project
   b) To evaluate the feedback from service recipients and to compare their changes after receiving the service
   c) The outcome of the project is reflected in the actual number of participants in each program

4) Future of the project
   a) to set up a counter for selling toys, stationary and the materials for calligraphy and pottery
   b) to set up a membership system – membership fees and charges for borrowing toys and books
   c) to obtain income from selling second hand musical instruments, toys and school uniforms

(D) Amount Requested from CHF:

<table>
<thead>
<tr>
<th>Item (項目)</th>
<th>Expenditure (支出)</th>
<th>Income (收入)</th>
<th>Amount Requested (申請額)</th>
</tr>
</thead>
<tbody>
<tr>
<td>收入 Fees &amp; Charges</td>
<td>$0.00</td>
<td>$620,000.00</td>
<td>-$620,000.00</td>
</tr>
<tr>
<td>贊助 Other Sponsorship</td>
<td>$0.00</td>
<td>$100,000.00</td>
<td>-$100,000.00</td>
</tr>
<tr>
<td>閣樓裝修，房間裝修 4 間 (每間約 180 平方呎) Renovation of 4 rooms</td>
<td>$40,000.00</td>
<td>$0.00</td>
<td>$40,000.00</td>
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<tr>
<td>廚房 1 個 (200 平方呎) Renovation of a kitchen</td>
<td>$30,000.00</td>
<td>$0.00</td>
<td>$30,000.00</td>
</tr>
<tr>
<td>洗手間 2 個 Renovation of 2 washrooms</td>
<td>$10,000.00</td>
<td>$0.00</td>
<td>$10,000.00</td>
</tr>
<tr>
<td>營房設施 Renovation of an activity room</td>
<td>$100,000.00</td>
<td>$0.00</td>
<td>$100,000.00</td>
</tr>
<tr>
<td>5 air conditioners</td>
<td>$25,000.00</td>
<td>$0.00</td>
<td>$25,000.00</td>
</tr>
<tr>
<td>電腦、印表機 (各 1台) One photocopying machine</td>
<td>$15,000.00</td>
<td>$0.00</td>
<td>$15,000.00</td>
</tr>
</tbody>
</table>

Total: $1,765,000.00 $720,000.00 $1,045,000.00
<p>| Criteria / Aspects         | Rating | Justifications                                                                                                                                                                                                 |
|---------------------------|--------|--------------------------------------------------------------------------------------------------------------------------------(Func)                                                                                                                                         |
| Track Record &amp; Capability | ✔️      | The applicant has shown evidence of organizing community-building projects in the past years. The project is also collaborated with the Hong Kong Youth Volunteer Association and Sham Shui Po Women’s Organisations Federation which have agreed to provide volunteers and tutors for the programs. |
| Technical Feasibility     | ✔️      | Clearly specified objectives: to provide after school care service, to conduct training workshops for parents on communication skills, to train the unemployed women as family tutors, to build up volunteering networks for parents, evidence of need identified, clearly stated community benefits to be achieved. |</p>
<table>
<thead>
<tr>
<th>Other Planned Outcome</th>
<th>✓</th>
<th>Create job opportunities for women</th>
</tr>
</thead>
<tbody>
<tr>
<td>Additional Factors / Other Comments / sustainability</td>
<td>✓</td>
<td>Plan for financial sustainability to be clarified.</td>
</tr>
<tr>
<td>Other Negative Factors</td>
<td>✓</td>
<td></td>
</tr>
</tbody>
</table>

Comments from other government departments:

**Departments**

Views from relevant departments are being sought.

---

Overall Recommendations:

- [x] Recommend to approve
- [ ] Recommend to reject
- [ ] Marginal – issues for further consideration

---

(G) Decision by the CIIF Committee:

The application for CIIF grant is:

- [ ] Approved by CIIF Committee, and
  The amount of grant approved is: ________________________

- [ ] Decision deferred on current proposal, for applicant to consider resubmission after modification.

- [ ] Proposal not supported.

Signature: ________________________ Date: ________________________

Name: ________________________ (Chairman – CIIF Committee)

---

(F) Recommendation from CIIF Assessment Sub-committee:

- [ ] Proposal supported
  Suggested Amount of Grant: ________________________

- [ ] Proposal not supported

- [ ] Proposal to be re-submitted

Comments from CIIF Assessment Sub-committee:

---

Assessment of CIIF Project Proposals
Initial vetting and analysis by the CIIF Secretariat (Office Use Only):

(1) Disqualifying Factors

- [ ] Ineligible applicants (e.g. Individuals, gov’t dept.)

- [ ] Ineligible project (e.g. currently funded by other subvention, are eligible to / should apply other existing funds):

- [ ] Others:

Signature of Chairperson (CIIF Assessment Sub-committee): ________________________
### Assessment Criteria

<table>
<thead>
<tr>
<th>Assessment Criteria</th>
<th>Indicators</th>
<th>Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td>I. Applicants' background and capability</td>
<td>(a) Proven track record/demonstrated experience of applicant organisation’s management committee and/or staff, in delivering and/or operating related programmes</td>
<td>✓</td>
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<td></td>
<td>(b) Clear governance: accountability:</td>
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</tr>
<tr>
<td></td>
<td>- being a registered organization?</td>
<td>✓</td>
</tr>
<tr>
<td></td>
<td>- has appropriate affiliation?</td>
<td>✓</td>
</tr>
<tr>
<td></td>
<td>- being sponsored by a registered organisation?</td>
<td>✓</td>
</tr>
<tr>
<td></td>
<td>(II. Technical Feasibility)</td>
<td>✓</td>
</tr>
<tr>
<td></td>
<td>(a) Clearly specified project objectives.</td>
<td>✓</td>
</tr>
<tr>
<td></td>
<td>(b) Clearly stated community benefits to be achieved.</td>
<td>✓</td>
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<tr>
<td></td>
<td>(c) Evidence of need identified.</td>
<td>✓</td>
</tr>
<tr>
<td></td>
<td>(d) Evidence of clear programme logic: it is clear the proposed programmes will achieve the planned results</td>
<td>✓</td>
</tr>
</tbody>
</table>

### III. Project Quality and Potential Social Capital Outcomes

<table>
<thead>
<tr>
<th>Indicators</th>
<th>Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) Evidence of positive values to be achieved:</td>
<td>✓</td>
</tr>
<tr>
<td>Would the established values result in positive or negative social capital?</td>
<td>✓</td>
</tr>
<tr>
<td>(b) Evidence of network(s) being established and its nature:</td>
<td>✓</td>
</tr>
<tr>
<td>- the size and strength of the network;</td>
<td>✓</td>
</tr>
<tr>
<td>- whether it would contribute bridging and linking among groups;</td>
<td>✓</td>
</tr>
<tr>
<td>(c) Whether the established network(s) would enhance existing relationships or produce added and positive value to groups.</td>
<td>✓</td>
</tr>
<tr>
<td>(d) Extent of increase in social participation and social solidarity to be achieved.</td>
<td>✓</td>
</tr>
<tr>
<td>(e) Extent of community self-identification.</td>
<td>✓</td>
</tr>
<tr>
<td>(f) Clear target group: the capacity of the project to identify and engage marginalized groups.</td>
<td>✓</td>
</tr>
<tr>
<td>(g) Evidence of innovation and hence serve as a project model for others to follow refer to.</td>
<td>✓</td>
</tr>
<tr>
<td>(h) Evidence of self and mutual help to be achieved.</td>
<td>✓</td>
</tr>
<tr>
<td>(i) Degree of inclusion (in mainstream society) of marginalized groups such as people with disability, elderly, disengaged youth, unemployed people, etc.</td>
<td>✓</td>
</tr>
<tr>
<td>(j) Evidence of development, promotion and application of social capital in Hong Kong</td>
<td>✓</td>
</tr>
<tr>
<td>(k) Operational sustainability, in terms of:</td>
<td>✓</td>
</tr>
<tr>
<td>- continuity (how long?) beyond funding period;</td>
<td>✓</td>
</tr>
<tr>
<td>- transfer of skill and knowledge.</td>
<td>✓</td>
</tr>
<tr>
<td>(l) Support from/engagement with other community groups.</td>
<td>✓</td>
</tr>
<tr>
<td>(m) Potential to be a snowball agent: i.e. the capacity of the applicants to arouse other groups’ interest to pursue similar projects or to adopt similar practices.</td>
<td>✓</td>
</tr>
<tr>
<td>Assessment Criteria</td>
<td>Indicators</td>
</tr>
<tr>
<td>--------------------</td>
<td>------------</td>
</tr>
<tr>
<td><strong>IV. Financial Viability</strong></td>
<td>(a) Reasonableness of proposed budget. Criteria including: - appropriateness in terms of proposed items to be acquired, their quantity and budget price. - appropriateness in terms of no. of staff to be recruited, use of volunteers and the total package. - cost-effectiveness of the project relating to the end-products to be developed. (b) Financial capability of applicant's organization: - does the applicant provide financial reports? - operational position of the organization, was it in surplus or deficit position? - the balance sheet strength of the applicants (e.g. Was it in a net asset or liabilities position?) (c) Existence of any source of financing or backing (contribution from own organization or from sponsor?) (d) Financial sustainability after funding period - existence of future funding source; - evidence of self-financing.</td>
</tr>
<tr>
<td><strong>V. Other Planned Outcome</strong></td>
<td>a) Create job opportunities for women</td>
</tr>
<tr>
<td><strong>VI. Possible Negative (Risk) Factors</strong></td>
<td>(b) Contravene Government interests/policies. (c) Possible conflict of interest amongst grantee, partners, volunteers, staff, participants. (d) Negative effect on the credibility of the Fund (e) Others</td>
</tr>
<tr>
<td><strong>VII. Additional Factors and Other Comments</strong></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Assessment Criteria</th>
<th>Indicators</th>
<th>Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>VIII. Overall Rating</strong></td>
<td>A proposal with planned results of enhancing the self-help and mutual help capability of the identified groups, potential to link up between youth, women and families in need. Good indication of collaboration in designing and implementing the project. Concerns about financial sustainability beyond the funding period to be clarified. And views from relevant departments are being sought.</td>
<td>✓</td>
</tr>
</tbody>
</table>
Summary of Project Proposal and
Recommendation from CIIF Secretariat

(A) Details of Application

HWFB Reference No.: 113-1

Name of Applicant(s): 城市建築師聯合會 Peacemaker Evangelistic Fellowship Ltd.

Name of Collaborating Groups: 基督教遠東會會堂, 基石教會與田堂 (Local Churches)

Name of Project Proposal: 寶田輪值聯絡 -- 社區連繫網絡計劃 Community Care and Networking Programmes for Residents in "Po Tin Interim Housing", Tuen Mun.

Total Amount Requested from CIIF: $1,567,500.00 (for 3 years, starting 2 months after funding approval)

(B) Summary of the Proposal:

Key objectives

(i) To build up and strengthen the relationships between residents/families living in Po Tin Interim Houses (bonding), encouraging and promoting mutual help, positive values and problem-solving skills;

(ii) To build linkages or networks between residents of Po Tin Interim House and community groups in Po Tin (intra-community bridging), encouraging residents to participate more in community programmes and joint problem solving;

(iii) To build networks among Po Tin residents with other sectors such as commercial organisations, government departments like housing and social welfare, religious groups and kindergartens (bridging and linking) so that they would be more responsive to the needs of the Po Tin residents.

Main outputs

(i) Refurbish their local centre and establish it as a base for providing services and organizing activities;

(ii) Volunteer Home visiting Scheme (linking) - visits to needy and poor families (e.g. for CSSA recipients, new residents displaced from other areas and unemployed peoples) and matching with appropriate volunteers, with a view to promoting goodwill, mutual understanding and better communication. Besides, with the sponsorship from commercial organisations, visiting gifts like food, daily products would be provided to these families in need. It is targeted that a total of 704 regular home visits and 15 large-scale home visits would be made during the 3 years' project period.

(iii) Adjustment and integration (linking) programme for new neighbours - this programme would be jointly organized by the applicant, social service unit, estate management office, Christian groups, kindergartens and commercial organisations. Activities under this programme would include welcoming gatherings, help talks for newcomers to understand District resource and related information, support for individual families and festival celebration programmes. The projected outputs are as follows:

- 6 welcome gatherings for newcomers
- 90 support for individual families
- 12 festival celebration programme
- 8 times setting up resource exhibition booth

(iv) Women support networks (bonding and linking) - to provide support to women in Po Tin House who face various adjustment problems relating to employment, support network, schooling for their children etc as a result of their relocation and dislocation. Mutual-help groups and different training classes and courses will be set up. Some of the women would be become representatives/ambassadors of the area who would in turn stimulate more people to promote the welfare of women and neighbourhood. It is targeted that a total of 324 women sessions would be held.

(v) Large scale community activities / festival celebration - there would be gatherings which would involve groups from various sectors and all residents of Po Tin Interim House. A total of 12 activities would be held over the 3 years period.

(vi) Mutual help (linking) - Po Tin residents would be invited to participate a mutual help programme which aims to identify residents' special skills and perform a matching on people who need the assistance from others. Sense of belongings, self-respect, mutual care and trust will thus be improved and strengthened. The target groups are unemployed people and CSSA recipients who have skills to contribute. It is projected that a total of 288 sessions would be held over the project period.

(vii) Cross-sector Networks (bridging) - activities like sharing sessions for
different sector groups, training and gathering for volunteers from different organisations would be held so as to strengthen the networks, enhance the nature of their collaboration, and increase inclusiveness. The followings are the expected outputs:

- discussion with members from different groups - 36 times
- training course - 12 sessions
- "precious moment" gathering - 36 times
- "The use of electronic promotion tools" - 26 times
- network sharing sessions - 3 times
- publications - 10,000 pieces

**Target group(s):**
- All residents in Po Tin Interim Housing Area (over 10,000 living 9 blocks each with 28 storeys)

**Location:**
- Po Tin Interim Housing, Tsuen Wan, N.T.

**Unique feature:** a sense of transiency, dislocation and helplessness would be experienced by most of the residents who moved to the interim estate established since 1990/2000. Over 30% are singles and just under half living in 3-5 people units; mostly poor. The "interim" housing arrangement accentuates the sense of transiency making it even harder for the residents to build up neighbourliness, trust and mutual help, which this scheme seeks to address.

(C) **Summary of Proposed Outcome (Including Performance Targets, Indicators, Degree of Application/Development/Promotion of Social Capital, etc.):**

**Quantity**
1. No. of residents who have linked up with community groups: 4,850 times
2. No. of residents visited by volunteers/ community groups: 1,152 times
3. No. of sessions that residents have attended: 324 sessions
4. No. of community groups organized by/ for residents: 4
5. Sharing sessions with cross sector groups: 85

**Quality**
1. Positive values being promoted.
2. Improved mutual care trust, sense of belonging to the community

**Immediate Effect**
1. Residents within the networks can get help

2. Residents gained in self-confidence
3. Residents changed from "victim" to "blessed" roles and altruism promoted.
4. Networks established between community groups, government departments and commercial organisations.

**Long Term Impact**
1. To enable a healthy growth of a District, not just asking for help, but turn into a self-helping community.
2. Ability to respond promptly to any sudden changes or emergencies in the District.
3. To early detect and prevent major family tragedies.
4. To develop a unique culture in Po Tin Interim Houses

(D) **Amount Requested from CHF:**

<table>
<thead>
<tr>
<th>Item (項目)</th>
<th>Expenditure (支出)</th>
<th>Income (收入)</th>
<th>Amount Requested (申請總額)</th>
</tr>
</thead>
<tbody>
<tr>
<td>筹款 Grants</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>收入 - 收取的費用 Fees and Charges</td>
<td>$2,000.00</td>
<td>$2,000.00</td>
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</tr>
<tr>
<td>收入 - 內部資源 Internal Resources</td>
<td>$200,000.00</td>
<td>$200,000.00</td>
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<tr>
<td>收入 - 教會及個人捐款 Other Donations</td>
<td>$100,000.00</td>
<td>$100,000.00</td>
<td></td>
</tr>
<tr>
<td>變修 Renovation</td>
<td>$10,000.00</td>
<td>$10,000.00</td>
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<tr>
<td>家具 Furniture</td>
<td>$10,800.00</td>
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<tr>
<td>設備 Equipment</td>
<td>$58,000.00</td>
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<tr>
<td>宣傳 Promotion</td>
<td>$7,340.00</td>
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<tr>
<td>計劃活動支出 - 探訪計劃 Programme Expenses - Volunteer Home Visiting Scheme</td>
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<td>計劃活動支出 - 新居民適應計 劃 Programme Expenses - Integration Programme for New Neighbours</td>
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<td>計劃活動支出 - 開心天地婦女 支援組 Programme Expenses - Women Support Networks</td>
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<tr>
<td>計劃活動支出 - 社區活動/節慶 Programme Expenses - large Scale Community Activities/Festival Celebration</td>
<td>$66,000.00</td>
<td>$66,000.00</td>
<td></td>
</tr>
</tbody>
</table>
### Preliminary Comments about the Proposed Budget:

- The programme costs are reasonable.
- The center base refurbishment cost is reasonable.
- Over 80% of the proposed budget relate to the support of 2 paid staff and rental costs over the 3-year period.
- Issues for discussion with the applicant: other possible approaches to increase the volunteering element in the programme organisation.
- The audit fee should be excluded from the above budget as it will be claimed from the CHIF separately and at a predetermined scale.

(F) **Consolidated Comments from CHIF Secretariat:**

<table>
<thead>
<tr>
<th>Criteria / Aspects</th>
<th>Rating (Please tick as appropriate)</th>
<th>Justifications</th>
</tr>
</thead>
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<td></td>
<td>Low</td>
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<td></td>
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<tr>
<td>Track Record &amp; Capability</td>
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<tr>
<td>Technical Feasibility</td>
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<tr>
<td>Proposal Quality &amp; Social Capital Outcomes</td>
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<td></td>
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<tr>
<td>Financial Viability/ reasonableness of budget</td>
<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td>Other Negative Factors</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Comments from other government departments:**

- **Departments:**
- **Comments:**
  - To be sought from SWD & HAD on the roles of other community groups in the area

**Overall Recommendations:**

- **Recommend to approve**
- **Recommend to reject**
- **Marginal – issues for further consideration**
Recommendation from CIIF Assessment Sub-committee:

- Proposal supported
  Suggested Amount of Grant: ______________________

- Proposal not supported

- Proposal to be re-submitted

Comments from CIIF Assessment Sub-committee:

Signature of Chairperson (CIIF Assessment Sub-committee):

Decision by the CIIF Committee:

The application for CIIF grant is:

- Approved by CIIF Committee; and
  The amount of grant approved is: ______________________

- Decision deferred on current proposal, for applicant to consider resubmission after modification.

- Proposal not supported.

Signature: ______________________    Date: ______________________

Name: ______________________
(Chairman – CIIF Committee)

Assessment of CIIF Project Proposals
Initial vetting and analysis by the CIIF Secretariat (Office Use Only):

1. Disqualifying Factors

   - Ineligible applicants (e.g. individuals, gov't dept.)

   - Ineligible project (e.g. currently funded by other subvention, are eligible to / should apply other existing funds): ______________________

   - Others: ______________________

2. Initial Ratings:

<table>
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<tr>
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<td>(a) Proven track record/demonstrated experience of applicant organisation's management committee and/or staff, in operating related programmes.</td>
<td>✓</td>
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<tr>
<td></td>
<td>(b) Balancing considerations: new group, ability to innovate.</td>
<td>✓</td>
</tr>
<tr>
<td></td>
<td>(c) Clear governance/accountability:</td>
<td>✓</td>
</tr>
<tr>
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<td>Assessment Criteria</td>
<td></td>
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<tr>
<td>III. Project Quality and Potential Social Capital Outcomes</td>
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<tr>
<td>(a) Evidence of positive values to be achieved. Would the established values result in positive or negative social capital?</td>
<td></td>
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<tr>
<td>(b) Evidence of network(s) being established and its nature including:</td>
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<tr>
<td>- the size and strength of the network;</td>
<td></td>
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<tr>
<td>- whether it would contribute bridging and bonding among groups; and</td>
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<tr>
<td>(c) Whether the established network(s) would enhance existing relationships or produce added and positive value to groups</td>
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<tr>
<td>(d) Extent of increase in social participation and social solidarity to be achieved</td>
<td></td>
<td></td>
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<tr>
<td>(e) Extent of community self-organization</td>
<td></td>
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<tr>
<td>(f) Clear target group: the capacity of the project to identify and engage marginalized groups</td>
<td></td>
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<tr>
<td>(g) Evidence of innovation and hence serve as a project model for others to follow/refer to</td>
<td></td>
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<tr>
<td>(h) Evidence of self and mutual help to be achieved</td>
<td></td>
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<tr>
<td>(i) Degree of inclusion (in mainstream society) of marginalized groups such as people with disability, elderly, disengaged youth, unemployed people, etc.</td>
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<tr>
<td>(j) Evidence of development, promotion and application of social capital in Hong Kong</td>
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<tr>
<td>(k) Operational sustainability, in terms of:</td>
<td></td>
<td></td>
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<tr>
<td>- continuity (how long?) beyond funding period</td>
<td></td>
<td></td>
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<tr>
<td>- transfer of skill and knowledge</td>
<td></td>
<td></td>
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<tr>
<td>(l) Support from/engagement with other community groups</td>
<td></td>
<td></td>
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<tr>
<td>(m) Potential to be a snowball agent: i.e. the capacity of the applicants to arouse other groups' interest to pursue similar projects or to adopt similar practices</td>
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</table>

<table>
<thead>
<tr>
<th>Assessment Criteria</th>
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<tbody>
<tr>
<td>IV. Financial Viability</td>
</tr>
<tr>
<td>(a) Reasonableness of proposed budget: Criteria including:</td>
</tr>
<tr>
<td>- appropriateness in terms of proposed items to be acquired, their quantity and budget price</td>
</tr>
<tr>
<td>- appropriateness in terms of no. of staff to be recruited, use of volunteers and the total package</td>
</tr>
<tr>
<td>- cost-effectiveness of the project relating to the end-products to be developed</td>
</tr>
<tr>
<td>(b) Financial capability of applicant’s organization:</td>
</tr>
<tr>
<td>- does the applicant provide financial reports</td>
</tr>
<tr>
<td>- operational position of the organization, was it in a surplus or deficit position</td>
</tr>
<tr>
<td>- the balance sheet strength of the applicants (e.g. Was it in a net asset or liabilities position)</td>
</tr>
<tr>
<td>(c) Existence of any source of financing or backing (contribution from own organization or from sponsor?)</td>
</tr>
<tr>
<td>(d) Financial sustainability after funding period</td>
</tr>
<tr>
<td>- existence of future funding source</td>
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<tr>
<td>- evidence of self-financing</td>
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</table>

<table>
<thead>
<tr>
<th>Assessment Criteria</th>
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<tbody>
<tr>
<td>V. Other Planned Outcome</td>
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<tr>
<td>Specify</td>
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</table>

<table>
<thead>
<tr>
<th>Assessment Criteria</th>
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</thead>
<tbody>
<tr>
<td>VI. Possible Negative (Risk) Factors</td>
</tr>
<tr>
<td>(a) Contravene Government interests/policies</td>
</tr>
<tr>
<td>(b) Possible conflict of interest amongst grantees, partners, volunteers, staff, participants</td>
</tr>
<tr>
<td>(e) Negative effect on the creditability of the Fund</td>
</tr>
<tr>
<td>(d) Others</td>
</tr>
<tr>
<td>Assessment Criteria</td>
</tr>
<tr>
<td>-------------------------</td>
</tr>
<tr>
<td>VII. Additional Factors</td>
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<tr>
<td>and Other Comments</td>
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<td>VIII. Overall Rating</td>
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</table>
Community Investment & Inclusion Fund
Quarterly Performance Report on Key Milestones

Section A  Project Information

<table>
<thead>
<tr>
<th>Period covered:</th>
<th>to</th>
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<tbody>
<tr>
<td>Name of Grantee:</td>
<td></td>
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<tr>
<td>Project Name:</td>
<td></td>
</tr>
<tr>
<td>No.:</td>
<td></td>
</tr>
<tr>
<td>Project Period:</td>
<td>to</td>
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</tbody>
</table>

Section B  Project Performance

1. Project Quantity

1.1 Overall Quantity

Please fill in the increased and cumulative numbers (not attendances) of participants for this quarter and ever since the Project was launched respectively. The numbers of project participants are divided into three categories, namely volunteers, direct participants and indirect participants, without multiple counting.

<table>
<thead>
<tr>
<th></th>
<th>Expected Quantity</th>
<th>Actual Quantity</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>Quarterly Increased</td>
<td>Cumulative</td>
</tr>
<tr>
<td>(i) No. of Volunteers</td>
<td></td>
<td></td>
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<tr>
<td>(ii) No. of Direct Participants (volunteers not included)</td>
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</tbody>
</table>
| (iii) No. of Indirect Participants  
(Note: persons who do not directly participate in the Project, e.g. visitors to the exhibitions or onlookers of the opening ceremony of the Project)|
| **Total**            |
1.2 **Individual Programme Quantity**

Please provide a breakdown of the target groups and numbers of participants for this quarter and on a cumulative basis by individual programmes contained in the Conditions of Grant. Each programme may have more than one target group, and the number (not attendance) of each target group should be clearly stated.

<table>
<thead>
<tr>
<th>Programme</th>
<th>Target Groups</th>
<th>No. of Volunteers</th>
<th>No. of Participants</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Expected Quantity</td>
<td>Actual Quantity</td>
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<tr>
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<td>For this Quarter</td>
<td>Cumulative</td>
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<td></td>
<td></td>
<td>For this Quarter</td>
<td>Cumulative</td>
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<td></td>
<td></td>
<td>Expected Quantity</td>
<td>Actual Quantity</td>
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<td></td>
<td></td>
<td>For this Quarter</td>
<td>Cumulative</td>
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<tr>
<td></td>
<td></td>
<td>For this Quarter</td>
<td>Cumulative</td>
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</tbody>
</table>
1.3 Statistics of Other Quantities

The CIIF will compile periodic statistics on the social capital outcomes of all funded projects. Please provide a breakdown of the contributions by categories of the Project for this quarter. If the Project has not implemented the strategies for any particular category, please enter “N.A.” in the relevant column.

<table>
<thead>
<tr>
<th>Category</th>
<th>Expected Quantity</th>
<th>Actual Quantity</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>For this Quarter</td>
<td>Cumulative</td>
</tr>
<tr>
<td>(i) Succeeding in Creating Special Roles</td>
<td></td>
<td></td>
</tr>
<tr>
<td>♦ House Captains/Floor Captains</td>
<td></td>
<td></td>
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<tr>
<td>♦ Life Navigators</td>
<td></td>
<td></td>
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<tr>
<td>♦ Others</td>
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<tr>
<td>(ii) Role Transformation</td>
<td></td>
<td></td>
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<tr>
<td>♦ Service Recipients Transformed into Volunteers/Leaders</td>
<td></td>
<td></td>
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<tr>
<td>♦ Participants/Volunteers Transformed into Leaders/Co-ordinators</td>
<td></td>
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<tr>
<td>(iii) Assisting Employment</td>
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<tr>
<td>♦ Creating Full-Time Jobs and Employing Unengaged Persons</td>
<td></td>
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<td>♦ Creating Part-Time Jobs and Employing Unengaged Persons</td>
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<tr>
<td>♦ Assisting Unengaged Persons to Secure Full-Time Jobs</td>
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<tr>
<td>♦ Assisting Unengaged Persons to Secure Part-Time Jobs</td>
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<tr>
<td>(iv) Succeeding in Building Mutual Help Support Networks</td>
<td></td>
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<tr>
<td>♦ Cross Generations (Please specify)</td>
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<td>♦ Cross Strata</td>
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<td>♦ Cross Ethnicities</td>
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<td>♦ Cross Sectoral</td>
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<td>♦ Cross Organisations</td>
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<tr>
<td>♦ Others</td>
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</tr>
<tr>
<td>Category</td>
<td>Expected No. for this Quarter</td>
<td>Actual No. for this Quarter</td>
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<td>-----------------------------</td>
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<tr>
<td>(v) Co-operatives</td>
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<tr>
<td>(vi) Key Collaborators</td>
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</table>

Note 1: The numerous categories of collaborators listed below are for reference only. If the Project has not secured collaborators of any category, it may be deleted accordingly.
2. **Programme Quality**

Please report by the programme objectives set out in the approved plan under the Conditions of Grant, and also attach the samples of evaluation tools and information on assessment results, e.g. the overall analytical data of questionnaires, for the reference of the CIIF Secretariat.

<table>
<thead>
<tr>
<th>Programme Objectives</th>
<th>Expected Outcome Indicators</th>
<th>Actual Outcomes</th>
<th>Evaluation Tools Used</th>
</tr>
</thead>
<tbody>
<tr>
<td>(i)</td>
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<tr>
<td>(ii)</td>
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<td>(iv)</td>
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<td>(v)</td>
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</table>

Please give the reasons for and an analysis of the discrepancy (which refers to the situation that the Project has performed better or lower than expected.)

3. **Participation and Functions of Key Collaborators in the Project**
4. Overall Social Capital Outcomes and Specific Objectives Assessment

4.1 Achievement of Outcomes and Objectives

Please report on the annual achievement of the overall outcome and objective performance indicators contained in the approved plan, and also attach the samples of evaluation tools and information on assessment results, e.g. the overall analytical data of questionnaires, for the reference of the CIIF Secretariat.

<table>
<thead>
<tr>
<th>Project Overall Outcomes and Objectives</th>
<th>Expected Outcome Indicators</th>
<th>Actual Cumulative Outcomes</th>
<th>Evaluation Tools used</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
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<td>4.</td>
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4.2 Self-Assessment of Overall Project Performance:

In my opinion, the overall performance so far has been: (select only one option)

□ better than expected
□ consistent with expectations
□ lower than expected

4.3 Reasons for and Analysis of the Discrepancy in Achieving the Overall Outcomes and Objectives of the Project (which refers to the situation that the Project has performed better or lower than expected.)
5. Difficulties/Challenges Encountered in Project Implementation and Contingency Measures

6. Financial Position and Assessment

6.1 Has any individual programme or the overall expenditure exceeded the funding ceiling so far?
□ The funding ceiling has not been exceeded
□ Individual items of expenditure will exceed/have exceeded the funding ceiling. (Please fill in Item 6.2)
□ The overall expenditure will exceed/has exceeded the funding ceiling. (Please fill in Item 6.2)

6.2 Please account for the over-spending and recommend solutions:
7. Staff Turnover and Arrangements (If applicable)

Please list out any staff turnover of the Project in this quarter, including CIIF-funded project staff and Project Co-ordinator who is responsible for project monitoring and management as specified in the Conditions of Grant for the CIIF. (Note: Any alteration of Project Co-ordinator must obtain the prior approval in writing by the CIIF, see Section 9 of the Conditions of Grant for details.)

7.1 Information on Resigned Staff

<table>
<thead>
<tr>
<th>Name</th>
<th>Position</th>
<th>Resignation Date</th>
<th>Reasons for Resignation</th>
<th>Monthly Salary on Resignation</th>
</tr>
</thead>
<tbody>
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7.2 Information on New Employees

<table>
<thead>
<tr>
<th>Name</th>
<th>Position</th>
<th>Employment Date</th>
<th>Full Time/Non-Full time (Note 1)</th>
<th>Education Attainment and Relevant Qualifications</th>
<th>Working Experience</th>
<th>Monthly Salary</th>
<th>Responsibilities and Functions</th>
</tr>
</thead>
<tbody>
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Note 1: For non-full time staff, please specify their ratio and working hours, e.g. part-time, 10 hours each week.

8. Feedback from Project Participants

Please share in this part any positive changes, touching stories, commendations or complaints of participants.


CIIF Project No.: - 447 -  
Updated: 7 April 2010
9. Sustainability and Development Plan of the Project

Please brief on any preparation work for the sustainability and development plan of the Project. If the Project is at an initial stage, it may be unnecessary to fill in this part.

10. Information on Project Promotion

Please attach media reports/photos of activities/promotional leaflets for reference. (If applicable)

<table>
<thead>
<tr>
<th>Name of Agent</th>
<th>Name of Column/Programme</th>
<th>Date of Broadcast/Publication</th>
<th>No. of Respondents</th>
<th>Content</th>
</tr>
</thead>
<tbody>
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</table>

(Note: Your organisation is requested to observe the requirements of the Personal Data (Privacy) Ordinance in ensuring that all photos of activities submitted have already obtained the consent of the persons shot for being used by the CIIF in publicity, promotion and report production.)

Name of Reporter: ______________________ Post: ____________________

Signature: ______________________ Date: ____________________
Section C  Verification by Grantee

I hereby certify on behalf of the grantee that the above information provided in this report is true and correct.

Signature of Project Co-ordinator* ____________________________

Chop of Grantee ____________________________

Name of Project Co-ordinator* ____________________________

Date ____________________________

( Please fill in block letters)

* Project Co-ordinator must be the person who is responsible for project monitoring and management as specified in the Conditions of Grant for the CIIF.
17 December 2010

Ms Macy NG
Public Accounts Committee
Legislative Council Building
8 Jackson Road
Central
Hong Kong

Dear Ms NG,

The Director of Audit’s Report on the results of value for money audits (Report No.55)

The Community Investment and Inclusion Fund (Chapter 11)

Further to our letter dated 13 December 2010, we would like to provide the required additional information in English at Annex, together with a slightly revised Chinese version (amendments made to answer (e) on page 5) for your follow-up action please.

Yours sincerely,

(Ms Karyn CHAN)
for Secretary for Labour and Welfare

c.c.
Chairman, CIIF Committee (Attn: Mr K.S. YEUNG) (Fax No: 2523 7283)
SFST (Attn: Mr C.K. WONG) (Fax No: 2147 5236)
D of Audit (Attn: Ms Olivia LEE) (Fax No: 2583 9063)

Internal
AA/SLW
PMO (CIIF)
Annex

Supplementary information requested by the Public Accounts Committee at the public hearing held on 30 November 2010

Q(a) According to the assessment form attached to the assessment and evaluation guidelines of 2002 (Appendix 1 of your letter dated 29 November 2010 refers), “political consideration” was one of the criteria for assessing the Community Investment and Inclusion Fund (CIIF) applications. Please inform the Committee of the reasons for adopting such a criterion when the assessment form was designed, and whether the CIIF Committee had assessed any application by this criterion; if it had, what the details were.

A (a) The assessment form at Appendix 1 of the paper submitted to the Public Accounts Committee (PAC) of the Legislative Council by the Labour and Welfare Bureau (LWB) on 29 November 2010 was a discussion paper on “CIIF applications: assessment procedures and criteria” prepared for the first meeting of the Assessment Sub-committee (currently known as the Assessment and Evaluation Sub-committee) of the CIIF on 20 September 2002. One of the assessment criteria was “other negative factors” which included the draft criterion of “political consideration”. According to the minutes of the meeting, there was no discussion on the draft criterion at the meeting.

After further examining the previous record, it was found that the CIIF Committee had discussed the assessment procedures and criteria at its meeting held on 24 September 2002. The meeting agreed that the Assessment Sub-committee would conduct a “practice run” in late October 2002, with a view to building consensus on the application of the assessment criteria and detailed working arrangements of the assessment procedures as proposed by the Assessment Sub-committee. The Assessment Sub-committee subsequently held its second meeting on 29 October 2002 to further discuss the assessment procedures and criteria. The assessment form attached to the discussion paper for the meeting was revised and the draft criterion of “political consideration” was deleted. When the first batch of applications were submitted to the CIIF Committee for vetting on 9 December 2002, the criterion of “political consideration” was no longer included in the assessment form. Therefore, since the CIIF processed its first batch of applications, “political consideration” had not been one of the criteria for vetting project applications.
We apologise for any misunderstanding caused owing to our failure to submit to the PAC on 29 November 2010 the assessment form which was revised and ultimately adopted in October 2002. As pointed out by the Secretary for Labour and Welfare at the PAC hearing on 30 November 2010, the CIIF has subsequently further revised the assessment form and the most updated version also does not include the criterion of “political consideration”. The assessment forms revised in October 2002 and May 2010 are set out at Appendices 1 and 2 respectively.

Q(b) According to the funding recommendations prepared by the CIIF Secretariat for the former Assessment Sub-committee meeting on 29 October 2002 (Appendix 4 of your letter dated 29 November 2010 refers), the cost of rental of the following three projects seemed to be very high when compared to the total budget –

Project 1: HWFB Reference No: 11-1

Project 2: HWFB Reference No: 17-1

Project 2: HWFB Reference No: 113-1

Please provide the following information:

(i) the reasons for the high rental costs of the above projects; and

(ii) whether the LWB or the CIIF Committee had ever explored the feasibility of helping the grantees of the above projects to make use of vacant government premises to reduce rental costs; if not, whether the LWB and the CIIF Committee will explore such an option in future?

A(b)(i) Regarding the three applications mentioned in your letter, the reasons for the high estimated rental costs are as follows –

- Application No. 11-1: the project aims to identify a regular venue in Kwai Tsing for setting up a “cyber café for the elderly” to provide a platform for mutual acquaintance for the elders in the district;

- Application No. 17-1: the project aims to identify a regular venue in Fu Cheong Estate, Sham Shui Po, for provision of after-school care service; and
- Application No.113-1: the project aims to rent a shop in the shopping centre near Po Tin Interim Housing (IH) for office use by the project staff and for IH residents to gather.

(b)(ii) The CIIF has been encouraging applicants to establish networks of mutual help with local stakeholders in pursuance of the development of the social capital concept. Among the three applications, Application No.11-1 was finally not accepted by the CIIF Committee. As for the other two applications (i.e. Application No. 17-1 and Application No.113-1), the then CIIF Assessment Sub-committee, when discussing the applications, considered that the proposals had the potential for developing social capital. However, the Sub-committee also noted that the estimated rental costs were on the high side and thus encouraged the applicants to co-operate with local stakeholders to make effective use of the existing community resources so as to reduce unnecessary rental costs. Subsequently, as recommended by the Sub-committee, the two applicants actively discussed with local groups and successfully secured the provision of venues by local stakeholders to achieve the benefits of sharing community resources. Among them, the operating organisation of Application No.17-1 worked with the residents’ associations of the participating estates and the estimated rental costs were significantly reduced from the original $540,000 to $30,000, which accounted for 4.72% of the total amount of funding approved. The operating organisation of Application No.113-1, in coordination with local religious groups, also reduced the estimated rental costs from the original $288,000 to $36,000, which accounted for 3.58% of the total amount of funding approved. The two applications were formally approved by the CIIF Committee after amendments had been made to the estimated costs. In line with its objective of establishing social capital in the community, the CIIF will continue to encourage applicants to make active efforts to implement projects jointly with local stakeholders, including government departments.

Q(c) It was mentioned at the hearing that grantees might apply for advance of operating funds. The Committee would like to know –

(i) the number of projects for which advanced funds had been made to the grantees since the establishment of the CIIF in 2002;

(ii) for each of the above projects, the percentage of the funds advanced versus the total amount of the approved budget;

(iii) the CIIF Committee’s mechanism of advancing funds as
compared to similar funds in the Government, including the criteria for approving application for advance.

A(c)(i) A total of 229 projects have been approved by the CIIF since its establishment in 2002. Four of the projects were granted advance payment of part of the subsidies by the CIIF Committee.

A(c)(ii) Information on the four projects which were granted advance payment of part of the subsidies by the CIIF Committee is as follows –

- Project 1: the amount of advance payment of subsidies granted was $131,075, which accounted for about 13% of the total approved budget;

- Project 2: the amount of advance payment of subsidies granted was $75,000, which accounted for about 5% of the total approved budget;

- Project 3: the amount of advance payment of subsidies granted was $150,000, which accounted for about 10% of the total approved budget; and

- Project 4: the amount of advance payment of subsidies granted was $100,000, which accounted for about 9% of the total approved budget.

A(c)(iii) The CIIF funds are mainly disbursed in the form of reimbursement on a regular basis. To prevent potential abuse of public funds, the CIIF Committee will consider and handle requests for advance payment of subsidies only on a case-by-case basis under exceptional circumstances. The amount of funding involved normally would not exceed the estimated costs for the first three months of the projects. For the four applications approved previously, the main considerations of the CIIF Committee included the track record of the applicants, their affordability for advance payment of costs, as well as the expenditure items which require advanced funds and the reasonableness of the amount of funds involved.

The CIIF is unique in nature and has a clear objective and positioning. It provides seed money to facilitate and promote the development of social capital. It does not provide financial support for individuals or support various social welfare programmes. Thus, it is not appropriate to make a comparison of the funding arrangements between the CIIF and other government funds.
Q(d) Please provide information on the CIIF Committee’s mechanism of reporting project progress by grantees as compared to similar funds in the Government.

A(d) According to the Conditions of Grant (COG) of the CIIF, grantees are required to submit four quarterly reports every year during the implementation period to enable the CIIF Secretariat to conduct timely monitoring and provide advice and support to the grantees when necessary to help them complete the projects. To facilitate the reporting of project performance by the operating organisations, we have revised the quarterly performance report form in early 2010 to set out clearly the items that need to be reported, so as to make it easier for the operating organisations to complete the report form and understand the requirements of the CIIF. The CIIF Secretariat will also send guidelines to grantees via e-mail about half a month before each reporting deadline to remind them of the need to submit their reports on time and the points to note.

The CIIF provides seed money to facilitate and promote the development of social capital. It has a clear objective and positioning. It does not provide financial support for individuals or support various social welfare programmes. Thus, it is not appropriate to make a comparison of operation between the CIIF and other government funds.

Q(e) According to paragraph 3.13 of the Audit Report, of the 10 completed projects, the sustainability of seven of them was questionable. Please inform the Committee whether the CIIF Committee had conducted any review on why these seven projects could not sustain; if it had, what the findings were; if it had not, whether it would conduct such a review.

A(e) According to paragraph 3.13 of the Audit Report, among the 10 projects of which the funding period had expired, the sustainability of seven projects was questionable. We believe that the Audit Commission mainly meant that the projects could not sustain financially, e.g. other sources of subsidies were still required.

The CIIF Committee considers that the concept of sustainability should be interpreted from a wider perspective. The projects need not necessarily be implemented in their original modes of operation. In fact, if the operating organisations can adopt effective social capital strategies in implementing the projects, the social outcomes of the projects will become sustainable. These social outcomes include the enhancement of participants’ capacity through role transformation,
successful establishment of networks of mutual help in the neighbourhood, and creation of more development opportunities in society through multi-partite collaboration etc. We consider that nine of the 10 projects mentioned in the Audit Report are sustainable in terms of social outcomes. The remaining project was completed in 2005 and the relevant project staff had already departed. The grantee indicated that it could not provide information for assessment purpose.

The CIIF Committee from time to time reviews the overall performance of project sustainability. Five local academic institutions were commissioned to jointly conduct an evaluation study for the CIIF between 2004 and 2006. The study confirmed the effectiveness of the CIIF in fostering mutual support in the neighbourhood, tripartite collaboration among the community, business sector and the Government, as well as community participation etc. The CIIF has commissioned independent consultants to launch the second evaluation study in October 2010. The study is expected to be completed in early 2012.

Q(f) According to paragraph 5.20 of the Audit Report, the ownership of assets such as furniture and equipment acquired through CIIF funding remains with the CIIF. Please inform the Committee whether the current establishment of the CIIF Secretariat is sufficient to properly carry out its asset management duties, including implementing the Audit’s recommendations in paragraph 5.23 of the Audit Report; if not, the number of additional staff required.

Q(g) Compared to other similar funds in the Government, whether manpower of the CIIF Secretariat is considered sufficient.

A The requirements on procurement and asset management for the grantees have been set out in the COG of the CIIF. We accept the recommendations on asset management in paragraph 5.23 of the Audit Report and will further enhance the asset management mechanism.

When the CIIF was established in 2002, the relevant paper of the Finance Committee indicated that the then Health and Wealth Bureau (the Labour and Welfare Bureau since July 2007) would provide secretariat service for the CIIF. Having regard to the increasing number of projects and the development of the CIIF, the Administration has allocated additional resources over the past few years to strengthen the manpower of the Secretariat. The strength of the Secretariat has increased from five at the inception of the CIIF in 2002 to 11 now. The
Administration will continue to closely keep in view the manpower situation and requirements of the Secretariat in the light of the future development of the CIIF.

The CIIF provides seed money to facilitate and promote the development of social capital. Its objective and positioning are different from other government funds and hence it is not appropriate to make a comparison.

Labour and Welfare Bureau  
The Community Investment and Inclusion Fund Committee  
December 2010
Summary of Project Proposal and Recommendation from CIIF Secretariat

(A) Details of Application

HWFB Reference No.:

Name of Applicant(s):

Name of Collaborating Groups:

Name of Project Proposal:

Total Amount Requested from CIIF:

(B) Summary of the Proposal:

- Key objectives
- Main outputs
- Target group(s)
- Location
- Unique feature:
(C) Summary of Proposed Outcome (Including Performance Targets, Indicators, Degree of Application/Development/Promotion of Social Capital, etc.) :

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(D) Amount Requested from CIIF:

<table>
<thead>
<tr>
<th></th>
<th>Expenditure</th>
<th>Income</th>
<th>Amount Requested</th>
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</table>

Total

(E) Consolidated Comments from CIIF Secretariat :

<table>
<thead>
<tr>
<th>Criteria / Aspects</th>
<th>Rating (Please tick as appropriate)</th>
<th>Justifications</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Low 0 1 2 3 4 5</td>
<td></td>
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<tr>
<td>Track Record &amp; Capability</td>
<td></td>
<td></td>
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<tr>
<td>Technical Feasibility</td>
<td></td>
<td></td>
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<tr>
<td>Proposal Quality &amp; Social Capital Outcomes</td>
<td></td>
<td></td>
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<tr>
<td>Financial Viability/ reasonableness of budget</td>
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</tbody>
</table>
### Other Planned Outcome

### Additional Factors / Other Comments / sustainability

### Other Negative Factors

| Comments from CIIF Secretariat / other government departments: |
| --- | --- |
| **Departments** | **Comments** |
|  |  |

### Overall Recommendations:

- [ ] Recommend to approve
- [ ] Recommend to reject
- [ ] Marginal – issues for further consideration

**Proposal from CIIF Assessment Sub-committee:**

- [ ] Proposal supported
  - Suggested Amount of Grant: ___________________________

- [ ] Proposal not supported

- [ ] Proposal to be re-submitted

**Comments from CIIF Assessment Sub-committee:**

Signature of Chairperson (CIIF Assessment Sub-committee) :  _____________________
G) Decision by the CIIF Committee:

The application for CIIF grant is:

☐ Approved by CIIF Committee; and
   The amount of grant approved is: ________________________.

☐ Decision deferred on current proposal, for applicant to consider resubmission after modification.

☐ Proposal not supported.

Signature: __________________________ Date: ________________

Name: ____________________________
   (Chairman – CIIF Committee)

Assessment of CIIF Project Proposals
Initial vetting and analysis by the CIIF Secretariat (Office Use Only):

(1) Disqualifying Factors ☐ Ineligible applicants (e.g. Individuals, gov’t dept.) _________

______________________________

☐ Ineligible project (e.g. currently funded by other subvention, are eligible to / should apply other existing funds): _______
   ______________________________
   ______________________________

☐ Others: ______________________________
   ______________________________
   ______________________________
(2) Initial Ratings:

<table>
<thead>
<tr>
<th>Assessment Criteria</th>
<th>Indicators</th>
<th>Rating</th>
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<tbody>
<tr>
<td>I. Applicants’ background and capability</td>
<td>(a) Proven track record/demonstrated experience of applicant organisation’s management committee and/or staff, in operating related programmes.</td>
<td></td>
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<tr>
<td></td>
<td>(b) Balancing consideration: new group, ability to innovate.</td>
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<td></td>
<td>(c) Clear governance accountability:</td>
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<tr>
<td></td>
<td>- being a registered organisation?</td>
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<td></td>
<td>- has appropriate affiliation?</td>
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<td></td>
<td>- being sponsored by a registered organisation?</td>
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<tr>
<td>II. Technical Feasibility</td>
<td>(a) Clearly specified project objectives.</td>
<td></td>
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<td></td>
<td>(b) Clearly stated community benefits to be achieved.</td>
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<td></td>
<td>(c) Evidence of need identified.</td>
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<td></td>
<td>(d) Evidence of clear programme logic: that the proposed programmes will achieve the planned results</td>
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<tr>
<td>Assessment Criteria</td>
<td>Indicators</td>
<td>Rating</td>
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<td>---------------------</td>
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<tr>
<td>III. Project Quality and Potential Social Capital Outcomes</td>
<td></td>
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<tr>
<td>(a)</td>
<td>Evidence of positive values to be achieved. Would the established values result in positive or negative social capital?</td>
<td></td>
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<tr>
<td>(b)</td>
<td>Evidence of network(s) being established and its nature including: - the size and strength of the network; - whether it would contribute bridging and linking among groups; and</td>
<td></td>
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<tr>
<td>(c)</td>
<td>Whether the established network(s) would enhance existing relationships or produce added and positive value to groups.</td>
<td></td>
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<tr>
<td>(d)</td>
<td>Extent of increase in social participation and social solidarity to be achieved.</td>
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<tr>
<td>(e)</td>
<td>Extent of community self-initiation.</td>
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<td>(f)</td>
<td>Clear target group: the capacity of the project to identify and engage marginalized groups.</td>
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<tr>
<td>(g)</td>
<td>Evidence of innovation and hence serve as a project model for others to follow/refer to.</td>
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<tr>
<td>(h)</td>
<td>Evidence of self and mutual help to be achieved.</td>
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<tr>
<td>(i)</td>
<td>Degree of inclusion (in main stream society) of marginalized groups such as people with disability, elderly, disengaged youth, unemployed people, etc.</td>
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<tr>
<td>(j)</td>
<td>Evidence of development, promotion and application of social capital in Hong Kong.</td>
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<tr>
<td>(k)</td>
<td>Operational sustainability, in terms of: - continuity (how long?) beyond funding period; - transfer of skill and knowledge.</td>
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<tr>
<td>(l)</td>
<td>Support from/engagement with other community groups.</td>
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<tr>
<td>(m)</td>
<td>Potential to be a snowball agent: i.e. the capacity of the applicants to arouse other groups’ interest to pursue similar projects or to adopt similar practices.</td>
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<tr>
<td>Assessment Criteria</td>
<td>Indicators</td>
<td>Rating</td>
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<td>---------------------------</td>
<td>-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------</td>
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</tbody>
</table>
| IV. Financial Viability   | (a) Reasonableness of proposed budget. Criteria including:  
- appropriateness in terms of proposed items to be acquired, their quantity and budget price.  
- appropriateness in terms of no. of staff to be recruited, use of volunteers and the total package.  
- cost-effectiveness of the project relating to the end-products to be developed.  
(b) Financial capability of applicant’s organization:  
- does the applicant provide financial reports?  
- operational position of the organization, was it in a surplus or deficit position?  
- the balance sheet strength of the applicants (e.g. Was it in a net asset or liabilities position?)  
(c) Existence of any source of financing or backing (contribution from own organisation or from sponsor?)  
(d) Financial sustainability after funding period  
- existence of future funding source;  
- evidence of self-financing. |        |
| V. Other Planned Outcome  | Specify                                                                                                                                                                                                   |        |
| VI. Possible Negative (Risk) Factors | (a) Contravene Government interests/policies.  
(b) Possible conflict of interest amongst grantee, partners, volunteers, staff, participants.  
(c) Negative effect on the creditability of the Fund.  
(d) Others |        |
<table>
<thead>
<tr>
<th>Assessment Criteria</th>
<th>Indicators</th>
<th>Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td>VII. Additional Factors and Other Comments</td>
<td>Specify Perhaps can mention the risk of the Fund being used to provide gap funding for what should basically be a subvented service (?)</td>
<td></td>
</tr>
<tr>
<td>VIII. Overall Rating</td>
<td>(a) Social capital outcome is not cleared / not specified in the Proposal. (b) No clear evidence of building up networks and related bridging and linking among groups. (c) No evidence on sustainability after the funding period. (d) Unclear justification on budgeting of 1 legal officer.</td>
<td></td>
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</tbody>
</table>
Assessment Summary of CIIF Application

A. Eligibility of Applicant:
   □ under Companies Ordinance
   □ under Societies Ordinance
   □ be a member of umbrella organizations such as the Hong Kong Council of Social Service or
     federation / coalition of women groups (i.e. ____________________________)
   □ Section 88 of Inland Revenue Ordinance (i.e. ________________________)
   □ none of the above; not eligible for application (No need to continue the assessment)

B. Status of Application:
   □ new application
   □ new phase of development of an existing funded project
     (please provide info: ____________________________________________________)
   □ resubmitted application (please provide info.: ________________________________)

C. Comments from relevant Bureaux/Departments (For details, please refer to Annex A):

<table>
<thead>
<tr>
<th></th>
<th>SWD</th>
<th>LD</th>
<th>EDB</th>
<th>HAB</th>
<th>HAD</th>
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<tbody>
<tr>
<td>Strongly support</td>
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<tr>
<td>Support</td>
<td></td>
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<tr>
<td>Not support</td>
<td></td>
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<tr>
<td>No Comment</td>
<td></td>
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</tbody>
</table>

D. Outcomes of Pre-assessment Meeting with the Applicants (if any):

Date:                              Time:
CIIF Representatives:
Organization Representatives:
Discussion Content:
   (a) Understanding of Social Capital
   (b) Intervention Model & Strategies
   (c) Outcome & Indicator Measures
   (d) Financial Budget & Cost Effectiveness
   (e) Sustainability and Contribution to SC Building
   (f) Others

Follow up & Recommendations:
Outcome:
E. Assessment from CIIF Secretariat:
(Please provide reasons to justify the rating of each assessment criteria. Full mark is 100, with passing mark of each vetting category as follows: Part A: 5 ; Part B: 35 ; Part C: 8 )

<table>
<thead>
<tr>
<th>Criteria / Aspects</th>
<th>Rating</th>
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<tr>
<td></td>
<td>Initial</td>
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<td></td>
<td>(before</td>
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<td></td>
<td>pre-assessment</td>
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<td></td>
<td>meeting)</td>
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</table>

**Part A Understanding of SC Building (sub-total: 10%)**

1. Clear SC objectives with SC potential (5%)

2. Accurate assessment and able to fulfill community needs (5%)

**Part B Project Effectiveness (sub-total: 70%)**

3. Effective and innovative intervention model & networking strategies (15%)

4. Strategic programme plan in achieving project objectives (10%)

5. Concrete outcome indicators & effective evaluation tools (15%)

6. Support from key collaborators with effective synergy effects (10%)

7. Sustainability & contribution to SC building (10%)

8. Reasonableness and cost-effectiveness of the proposed budget (10%)

**Part C Organization’s Capability (sub-total: 15%)**

9. Organization’s track record, effective leadership & strategic advantages (10%)

10. Organization’s financial position & financial management capability (5 %)

**Part D Others (sub-total: 5%)**

11. Risk management (5%)

*Total Rating:*
<table>
<thead>
<tr>
<th>Overall Comments:</th>
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<tbody>
<tr>
<td><strong>Recommendation:</strong></td>
</tr>
<tr>
<td>□ Recommend to approve (70 marks or above with Part A to C achieving the passing marks)</td>
</tr>
<tr>
<td>□ Recommend to reject (below 50 marks)</td>
</tr>
<tr>
<td>□ Marginal – issues for further consideration (51-69 marks OR 70 marks or above but fail in passing one of the vetting category)</td>
</tr>
</tbody>
</table>

Prepared by APMO: ____________ Signature: ____________ Date: ____________

Verified by PMO / DPMO: ____________ Signature: ____________ Date: ____________
Ms Macy NG
Public Accounts Committee
Legislative Council Building
8 Jackson Road
Central
Hong Kong

Dear Ms NG,

The Director of Audit’s Report on the results of value for money audits (Report No.55)

The Community Investment and Inclusion Fund (Chapter 11)

I refer to your letter dated 31 December 2010 and would like to provide the required additional information at Annex for your follow-up action please. For the appendices attached in the Annex, only Chinese version is available. This is a consolidated response from the Labour and Welfare Bureau and the Community Investment and Inclusion Fund Committee.

Yours sincerely,

(Ms Karyn CHAN)
for Secretary for Labour and Welfare

Cc:
Chairman, CIIF Committee (Attn: Mr K.S. YEUNG) (Fax No: 2523 7283)
SFST (Attn: Mr C.K. WONG) (Fax No: 2147 5236)
D of Audit (Attn: Ms Olivia LEE) (Fax No: 2583 9063)

Internal
AA/SLW
SG (CIIF)
Annex

Response to Request for Information made by the Public Accounts Committee on 31 December 2010

Q(a) Please advise on the progress of the development of guidelines on approval of claims for expenditure on “one-off” activities not having long-lasting effects on social capital development.

A(a) The Community Investment and Inclusion Fund (CIIF) Secretariat (the Secretariat) issued to staff a set of internal guidelines on the handling of applications for reimbursement of funds for activities in January 2011, so as to provide them with clearer guidelines and consistent standards for approving claims for expenditure on “one-off” activities. The internal guidelines clearly set out that the CIIF will not subsidise “one-off” activities lacking long-lasting effects on social capital development. The conditions to be met for approval of claims for expenditure on activities are also specified. The guidelines are attached at Appendix 1.

Q(b) Please advise on the progress of the development of guidelines on the monetary value above which assets have to be recorded in an asset register.

A(b) The Secretariat completed the amendments to the Notes to Grantees and issued the amended Notes to the organisations/groups receiving subsidies under the CIIF in January 2011 to remind them of the need to conduct procurement in accordance with the approved list of furniture and equipment items included in the Conditions of Grant for the CIIF. All furniture and equipment items valued HK$1,000 or above should be registered on the Fixed Asset Register (see Appendix 2) for submission to the Secretariat quarterly. Funded organisations/groups are also required to appoint an asset manager to manage the project assets. The Secretariat will send staff to conduct inspections as and when necessary.

Labour and Welfare Bureau
The Community Investment and Inclusion Fund Committee
January 2011

*Note by Clerk, PAC: Appendices 1 and 2 in Chinese version only.*
社區投資共享基金秘書處
有關處理申請發還活動款項之內部指引

處理申請發還活動款項時需注意事項：

1. 受資助者必須善用撥款，並只可按照基金協議附表三《核准預算》內所批准之支出項目申請發還款項。所有在基金協議生效日期之前及期滿或終止之後所招致的開支將不獲發還。

2. 計劃主任在審批發還活動開支的申請時須考慮以下因素：
   2.1 有關活動的主要程序設計能為參加者提供一個建立互助網絡及發展持久關係的平台，以及符合核准計劃的預期目標及策略，從而達致長期的社會資本效益；
   2.2 申請發還的活動開支沒有超出已批核的支出項目預算；
   2.3 有關活動開支須具成本效益；及
   2.4 為參加者舉辦活動（例如導賞活動及家庭配對日營）時，受資助者應考慮活動性質及參加者的經濟能力，由參加者自行承擔部分費用（例如入場費及膳食費用；但如一般分享會及交流茶聚等活動，若符合上述第 2.1 至 2.3 段的要求，則可考慮全數資助有關活動。）

3. 計劃主任必須謹記，基金不會資助單次性而缺乏長期社會資本效益的活動。如計劃透過參加者負責/協助籌備或舉辦活動，從而達致建立及鞏固彼此之間的互助互信網絡，讓參加者體驗當家作主的精神，以建立社會資本的效益，則可獲基金撥款資助，但必須符合上述第 2 段所列之條件。

4. 計劃主任在處理申請時應參考核准計劃書內有關計劃的目的及策略，並按需要要求受資助者提交有關活動報告，報告內容應包括活動的目的、程序及內容、參加人數及類別、收入和支出、出席者的參與程度（例如有否負責或協助籌備或舉辦該項活動）、義工名單，以及活動的成效評估等，以決定有關活動是否符合上述第 2 段所列條件及應否獲發還款項。

5. 處理特殊個案時需特別留意之事項：
   5.1 此內部指引旨在協助各計劃主任在處理受資助者申請發還活動款項時能有清晰的指引及一致的準則。由於受
資助者申請發還款項的活動種類繁多而不能一一錄，計劃主任必須考慮個別計劃的性質、目的及策略，從而作出專業的判斷。例如，基金一般不會資助如盤菜及蛇宴等以飲食為主之活動，但如有關計劃是以「飲食文化」為主要介入手法，而已獲批核的計劃書內亦有詳述活動的策略、內容及預算開支，則不在此限。否則，這類活動必須事前獲得秘書處的書面批准。

5.2 如計劃主任在處理受資助者申請發還活動款項時有任何疑問，應向助理秘書長（計劃管理）或秘書長尋求協助。

社區投資共享基金秘書處
2011年1月
社區投資共享基金
固定資產登記表

*受資助者須按基金協議所載的核准家具及設備清單進行採購，每一項的家具及設備如價值在港幣$1,000 或以上，均須在此表格登記，並須於每季連同計數進行報告一併提交予基金祕書處。

計劃名稱(編號) : ___________________________ ( )  季度報告涵蓋期間：____年____月____日至____年____月____日

受資助機構名稱： ___________________________  資產管理人姓名、職銜及聯絡電話： ___________________________

<table>
<thead>
<tr>
<th>編號</th>
<th>物品名稱 (請詳列該物品的牌子、型號及顏色等)</th>
<th>單價</th>
<th>數量</th>
<th>總值</th>
<th>購買日期 (日/月/年)</th>
<th>供應商發票編號</th>
<th>物品存放地點</th>
<th>已備有最少三份報價單? (請在適當位置加上「✓」號)</th>
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總值：港幣 HK$ ____________ 元
### 報銷資產記錄

<table>
<thead>
<tr>
<th>編號</th>
<th>物品名稱</th>
<th>報銷原因</th>
<th>處理方法</th>
<th>報銷日期</th>
<th>資產管理人簽署</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(請詳述該物品的牌子、型號及顏色等)</td>
<td>(請闡述事件經過、事發日期等資料)</td>
<td>(請闡述曾作出的跟進行動及結果等)</td>
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</tbody>
</table>

### 申請保留固定資產

必須於遞交計劃最後季度進度報告時填寫此欄，只選一項，並在適當方格內加 ✓ 號。

此計劃的資助期將於____年____月____日屆滿，本機構——

- □ 仍會繼續進行此計劃至少兩年，現向特區政府申請保留此計劃之所有固定資產，讓計劃的成果得以持續發展。
- □ 仍會繼續進行此計劃至少兩年，現向特區政府申請保留此計劃之部分固定資產，包括(請列明保留的固定資產編號)____________________，讓計劃的成果得以持續發展，其餘的固定資產將安排歸還特區政府。

擬把此計劃之所有固定資產歸還特區政府。

### 核實申報資料

本人乃上述計劃的統籌人，確認上述呈報資料真實無誤。

姓名：__________________  簽署：__________________
職銜：__________________  日期：__________________

### 申請保留固定資產審批結果

由社區投資共享基金秘書處填寫

- □ 批准申請保留所有/部分固定資產，請通知有關機構妥善保存、處理及記錄有關資產。如計劃在資助期滿後仍繼續進行達兩年，秘書處將根據《社區投資共享基金協議》第13.2條行使酌情權，將機構申請保留之固定資產的所有權及權益轉讓予該機構，如只申請保留部分固定資產，請通知有關機構將其餘固定資產交還特區政府。

- □ 批准申請歸還所有固定資產，請通知有關責任機構於____年____月____日或該日之前，將此計劃之固定資產準備妥當並交出，以便特區政府或其代名人移走。

秘書處負責人姓名：__________________  職銜：__________________  簽署：__________________  日期：__________________

注一：根據《社區投資共享基金協議》第8條，受資助者採購每份定價價值高於港幣$5,000的貨品均須要取得不少于三份書面報價，受資助者必須接受符合規格及票價最低的要約，但如獲秘書處的事先書面批准則屬例外。

注二：傢俱及設備如有任何損失、損毀或被盜竊，受資助者必須於獲悉該事故後立即以書面方式知會特區政府(正常損耗除外)。
<table>
<thead>
<tr>
<th>Acronym</th>
<th>Full Form</th>
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<tbody>
<tr>
<td>AMIS</td>
<td>Ambulance Management Information System</td>
</tr>
<tr>
<td>Audit</td>
<td>Audit Commission</td>
</tr>
<tr>
<td>BPS</td>
<td>Bought Place Scheme</td>
</tr>
<tr>
<td>C&amp;ED</td>
<td>Customs and Excise Department</td>
</tr>
<tr>
<td>CCSM</td>
<td>Chief Corporate Services Manager</td>
</tr>
<tr>
<td>CE</td>
<td>Chief Executive</td>
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<tr>
<td>CIIF</td>
<td>Community Investment and Inclusion Fund</td>
</tr>
<tr>
<td>CMAB</td>
<td>Constitutional and Mainland Affairs Bureau</td>
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<td>CoE</td>
<td>Certificate of Exemption</td>
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<td>COO</td>
<td>Chief Operations Officer</td>
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<tr>
<td>CSD</td>
<td>Council for Sustainable Development</td>
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<tr>
<td>CSSA</td>
<td>Comprehensive Social Security Assistance</td>
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<td>DH</td>
<td>Department of Health</td>
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<tr>
<td>DoJ</td>
<td>Department of Justice</td>
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<tr>
<td>DSS</td>
<td>Direct Subsidy Scheme</td>
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<tr>
<td>EAS</td>
<td>Emergency ambulance service</td>
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<td>Education Bureau</td>
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<td>EOC</td>
<td>Equal Opportunities Commission</td>
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<td>External School Review</td>
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<td>Efficiency Unit</td>
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<td>FHB</td>
<td>Food and Health Bureau</td>
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<td>FSA</td>
<td>Funding and Service Agreement</td>
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<td>FSD</td>
<td>Fire Services Department</td>
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<td>GHS</td>
<td>Good Hope School</td>
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<td>Acronym</td>
<td>Description</td>
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<tr>
<td>GPA</td>
<td>Government Property Agency</td>
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<tr>
<td>GRA</td>
<td>General Revenue Account</td>
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<td>HKCCCU</td>
<td>Hong Kong Chinese Union</td>
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<td>HKFA</td>
<td>Hong Kong Film Archive</td>
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<td>HKHM</td>
<td>Hong Kong Heritage Museum</td>
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<td>HKJCCT</td>
<td>Hong Kong Jockey Club Charities Trust</td>
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<td>HKMH</td>
<td>Hong Kong Museum of History</td>
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<tr>
<td>HKPC</td>
<td>Hong Kong Productivity Council</td>
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<tr>
<td>ICAC</td>
<td>Independent Commission Against Corruption</td>
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<tr>
<td>IH</td>
<td>Interim Housing</td>
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<tr>
<td>IMC</td>
<td>Incorporated Management Committee</td>
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<tr>
<td>IO</td>
<td>Incorporated Owners</td>
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<tr>
<td>IRO</td>
<td>Inland Revenue Ordinance</td>
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<tr>
<td>LACO</td>
<td>Legal Advisory and Conveyancing Office</td>
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<td>Lands D</td>
<td>Lands Department</td>
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<td>LCSD</td>
<td>Leisure and Cultural Services Department</td>
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<td>LegCo</td>
<td>Legislative Council</td>
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<td>LWB</td>
<td>Labour and Welfare Bureau</td>
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<tr>
<td>M&amp;AA</td>
<td>Memorandum and Articles of Association</td>
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<td>MPDS</td>
<td>Medical Priority Dispatch System</td>
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<td>MTR</td>
<td>Mass Transit Railway</td>
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<tr>
<td>ND</td>
<td>Narcotics Division</td>
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<tr>
<td>NGOs</td>
<td>Non-governmental organisations</td>
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<tr>
<td>NSAs</td>
<td>National Sports Associations</td>
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<tr>
<td>ORO</td>
<td>Official Receiver's Office</td>
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<td>PA</td>
<td>Parents Association</td>
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**ACRONYMS AND ABBREVIATIONS**

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<thead>
<tr>
<th>Abbreviation</th>
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<tbody>
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<td>PCPD</td>
<td>Privacy Commissioner for Personal Data</td>
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<tr>
<td>POs</td>
<td>Probation officers</td>
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<tr>
<td>PPB</td>
<td>Pharmacy and Poisons Board</td>
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<tr>
<td>PSA</td>
<td>Psychotropic substance abuse</td>
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<tr>
<td>PTG</td>
<td>Private treaty grant</td>
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<tr>
<td>QAD</td>
<td>Quality Assurance Division</td>
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<td>REOs</td>
<td>Regional education offices</td>
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<tr>
<td>S for J</td>
<td>Secretary for Justice</td>
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<tr>
<td>SARDA</td>
<td>The Society for the Aid and Rehabilitation of Drug Abusers</td>
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<tr>
<td>SB</td>
<td>Security Bureau</td>
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<tr>
<td>SF&amp;OC</td>
<td>Sports Federation &amp; Olympic Committee of Hong Kong, China</td>
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<td>SIS</td>
<td>Service Information System</td>
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<td>School Management Committee</td>
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<td>SSB</td>
<td>School sponsoring body</td>
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<td>STT</td>
<td>Short term tenancy</td>
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<td>Social Welfare Department</td>
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<td>T&amp;R</td>
<td>Treatment and rehabilitation</td>
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<tr>
<td>TID</td>
<td>Trade and Industry Department</td>
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<tr>
<td>UNHCR</td>
<td>United Nations High Commissioner for Refugees</td>
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