

Chapter 4

School administration of the English Schools Foundation

The objective of this audit review was to examine the administration of the English Schools Foundation (ESF) schools. The Audit Commission (Audit) had identified areas where school administrative practices could be improved.

2. At the beginning of the Committee's public hearing, **Hon Albert Jinghan CHENG** declared that he had recently been nominated by the House Committee of the Legislative Council to serve on the Foundation, i.e. the supreme governing body of the ESF, on behalf of the Council with effect from 29 October 2004. He was also an ESF school parent. He had not participated in the activities of the ESF. In order to safeguard the impartiality and integrity of the Committee, he decided that he would not take part in the examination of the three chapters in the Director of Audit's Report No. 43 relating to the ESF. He would not participate in the public hearing, nor in the discussion and compilation of the Committee's Report on these chapters. He then withdrew from the hearing.

3. **Hon Abraham SHEK Lai-him** declared that he was appointed a school council member of the South Island School of the ESF from late November 2004. As the appointment had just taken effect, he had not attended any meeting of the school council. In order that he could take part in the examination of the three chapters relating to the ESF without compromising the impartiality and integrity of the Committee, he had already resigned from the membership of the school council.

4. **Prof Hon Arthur LI Kwok-cheung, Secretary for Education and Manpower**, declared that his son had studied at an ESF school 28 years ago. **Mrs Fanny LAW, Permanent Secretary for Education and Manpower**, also declared that her two sons had attended ESF schools.

5. The **Secretary for Education and Manpower** and **Prof Felice Lih MAK, Chairman, ESF**, respectively made an opening statement at the Committee's public hearing. Their statements are in *Appendices 32 and 33* respectively.

Corporate governance of schools

6. Paragraph 2.24 of the Director of Audit's Report (the Audit Report) stated that a school council was responsible for the overall governance of a school. To discharge their duties, school council members needed to attend regularly school council meetings. The Committee was concerned that, as revealed in paragraphs 2.26 to 2.28, in the 2001-02 and 2002-03 school years, councils of eight schools held meetings three times a year, which was

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the minimum number of meetings required by the ESF. The council of one school (School 1) had not held any meetings for a period of 23 months from 13 December 2000 to 13 November 2002.

7. Paragraph 2.32 of the Audit Report further revealed that, notwithstanding the guidance notes issued by the ESF, 12 of the 15 ESF schools did not require council members to declare their personal interests, financial or otherwise, which might conflict with their roles. The other three schools had not documented the declarations made by their council members. The Committee questioned whether the ESF agreed that these cases reflected that the administration of the ESF schools was chaotic.

8. The **Chairman, ESF** responded that:

- the ESF considered it seriously negligent on the part of some schools not to have required council members to declare their personal interests which might conflict with their roles. The ESF recognised that school councils played an important role in school governance. In the reform to be carried out, the ESF would require all school council members to declare such personal interests. It would also require all school councils to meet at least three times a year; and
- the ESF knew that there were problems with the administration of School 1 and the school principal had been dismissed in 2003. As a matter of fact, both the former ESF Chief Executive and former ESF Chairman had already resigned, thus fulfilling the requirement for accountability.

9. The Committee noted that as ESF schools were subsidised by the Government, the public were more concerned about the possible conflict of interests on the part of its school council members. The Committee asked whether the ESF had already required all school council members to declare their interests so as to ascertain whether there was any conflict of interests.

10. **Mr John Bohan, Acting Secretary and Chief Executive, ESF**, said that:

- the ESF had already sought guidance on issues such as conflict of interests through the ICAC investigations. A report had been received and three further reports were being awaited; and

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- about one-quarter of the membership of each school council were members of the school management, viz. the chairman of the council, the principal and the Secretary of the Foundation or his representative. The other constituencies were community representatives, parent representatives and teacher representatives. Therefore, even without declaring an interest directly, a member's interest was obvious as he represented his constituency.

11. In his letters of 10 January 2005 and 1 February 2005, in *Appendices 28 and 34* respectively, the **Acting Secretary and Chief Executive, ESF**, provided a summary of the progress of the actions taken by the ESF in response to Audit's recommendations and the updated position. On the question of frequency of school council meetings and declaration of conflict of interests, the Committee was advised that:

- the ESF had issued letters to school councils/ school council members reminding them of the minimum requirement for meetings, and encouraging school councils to meet six times a year and set up sub-committees to help fulfil their roles and responsibilities. In addition, Audit's recommendations would be incorporated in the revised booklet "Guidance for School Councillors". After consultation with stakeholder groups, the revised guidance would be effective by 30 June 2005; and
- declaration registers had been prepared to record the interests of school council members.

12. The Committee further asked:

- whether the resignation of the former Chief Executive and former Chairman of the ESF was due to School 1's not holding any council meeting in 23 months or other reasons; and
- about the root of the chaos and negligence in the administration of some ESF schools.

13. The **Chairman, ESF** stated that:

- the resignation of the two persons was due to many other reasons, all of which were related to mismanagement; and

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- the root of the problem was two-fold. First, there was no separation of management and governance functions in the management structure of the ESF, leading to a lack of checks and balances in the system. Second, there was a personnel problem. The lack of checks and balances had, in turn, resulted in a lack of accountability. People tended to think that they were always doing things right.

14. The **Acting Secretary and Chief Executive, ESF** supplemented that the ESF was established in 1967 with the enactment of The English Schools Foundation Ordinance (the ESF Ordinance). At that time, the ESF only had two schools which were managed according to the Ordinance and a set of regulations made under the Ordinance. The ESF had continued to grow in the past few decades, but the management structure had not changed. The management structure which had been suitable for a small organisation was no longer suitable for a big one. There was already a will within the ESF to change.

15. Given that the ESF received substantial government subsidies annually, the Committee enquired how the ESF ensured that there would be proper monitoring and control systems in future, thereby preventing the recurrence of chaos and negligence in school administration. The Committee also asked the Chairman, ESF whether, after assuming the ESF chairmanship for nine months, she was satisfied with the management of the ESF schools.

16. The **Chairman, ESF** responded that:

- as revealed in the Audit Report, the management standard of different schools varied. Some schools were well-managed while some were not. The ESF would step up its monitoring of individual schools. In addition, the principals of many schools had been changed and the new principals were very experienced in governance and management. For example, the administration of School 1 had seen significant improvement in the last 18 months after the change of its school principal. It scored high marks in the recent school review conducted by inspectors from the United Kingdom (UK);
- a reform of the ESF governance structure had begun following the Foundation's approval of the Draft Guidelines for the Restructuring of the Governance and Management of the ESF at its meeting on 9 December 2004. The most fundamental change to be effected was the separation of governance and management roles. An ESF Council was to be set up and it would

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replace the current 132-strong Foundation as the ESF's supreme governing body. The Council would comprise no more than 25 members with a clear majority of external members. Each of the members would serve on an ad personam basis, not representing any constituency. The Council would not participate in operational management. A Senior Management Team, headed by the Chief Executive and accountable to the Council, would be set up to take charge of the day-to-day running of the schools;

- a task force would be appointed by the ESF Executive Committee (ExCom) to work out the details of the restructuring in consultation with the Chief Executive designate who would assume office in February 2005. Consultation would also be held. Hopefully, the new management structure would be approved by the autumn of 2005. Amendments to the ESF Ordinance would also be necessary; and
- although there were deficiencies relating to school administration and management, ESF school teachers were of a high professional standard. ESF schools had consistently been providing high-quality education in the past 30 odd years and would continue to do so. The good examination results and high university entrance rates of ESF graduates were all evidence of the quality of education provided by ESF Schools.

17. As the Government provided a significant amount of recurrent subsidies (totalling \$299 million in the 2002-03 ESF school year) to the ESF, the Committee asked whether the Education and Manpower Bureau (EMB) had any representation on the councils of the 15 ESF schools and, if not, whether it would consider sending representatives to sit on the councils so as to step up monitoring of the schools.

18. The Committee also referred to paragraph 2.35(c) of the Audit Report in which the Secretary for Education and Manpower had said that he was concerned that the ESF Headquarters might not have given sufficient or sufficiently clear guidelines to ESF schools. The Committee enquired why the EMB had not been able to discover and rectify the ESF's management and governance problems earlier.

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19. The **Secretary for Education and Manpower** and the **Permanent Secretary for Education and Manpower** stated that:

- the EMB had a representative on the ExCom but none in the school councils. The EMB did not participate in the school management committee of individual schools, nor their day-to-day operational management, be they ESF or aided schools; and
- it was not the EMB's intention to micro-manage schools. Moreover, as government subsidies constituted only about 30% of the ESF's income, the EMB had been declined access to the ESF's finances.

20. **Mrs Cherry TSE, Deputy Secretary for Education and Manpower**, added that:

- as the EMB's representative, she attended the Foundation meeting on 9 December 2004. While the Foundation had approved the guidelines and principles for the new governance structure, the details of the restructuring were to be worked out by a task force; and
- according to section 7 of the ESF Ordinance, the Foundation should establish an ExCom and school councils. The Foundation should be the supreme governing body over the ExCom, the school councils, the schools and any committees established thereunder. The ExCom, the school councils, the schools and the other committees should comply with any resolutions made by the Foundation. Such provisions in the ESF Ordinance reflected that the ESF enjoyed a high degree of autonomy.

21. The Committee asked whether:

- after the establishment of the new governance structure of the ESF, the EMB could issue clear guidelines on school management to the ESF Headquarters to ensure that mistakes committed in the past would not recur; and
- the ESF considered it appropriate for the EMB to issue guidelines on governance and management to the ESF.

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22. The **Secretary for Education and Manpower** said that the EMB would like to co-operate fully with all school sponsoring bodies, including the ESF. As a matter of fact, the EMB did not have the statutory power to issue guidelines on the monitoring and operation of the ESF. He hoped that the ESF would want to co-operate with the EMB.

23. The **Chairman, ESF** said that guidelines should be agreed by both parties. If, through discussion, the ESF and the EMB could draw up some guidelines which were agreeable to both parties, she would not rule out the possibility of accepting such guidelines.

24. The Committee noted Audit's recommendations in paragraph 2.22 of the Audit Report that the ESF should encourage its school councils to participate actively in the management and implementation of significant school activities and consider setting up appropriate sub-committees to further their involvement in key decisions on significant school matters. The Committee enquired about the progress made in implementing these recommendations.

25. The **Acting Secretary and Chief Executive, ESF** replied at the hearing and in his letter of 10 January 2005 that the recommendations would be implemented through the revision of the booklet "Guidance for School Councillors". To meet the training needs of school council members, the existing training programme for school councillors would be extended, beginning with the course on 22 January 2005.

Strategic planning

26. According to paragraph 3.26 of the Audit Report, in developing school plans, all the 15 ESF schools had set out the criteria for assessing the performance of school programmes and the persons responsible for implementing, monitoring and evaluating the programmes. Most schools had conducted the evaluations. However, three schools had not carried out any evaluation of their programmes.

27. In paragraph 3.30, the Secretary for Education and Manpower had said that periodic external validation was a necessary ingredient of a holistic quality assurance mechanism. He also suggested that the ESF might consider inviting the relevant authorities (e.g. the Office for Standards in Education (Ofsted) of the UK and/or the European Council of International Schools) to conduct regular, periodic external evaluation of ESF schools.

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28. The Committee asked:

- why the EMB did not conduct external evaluation of ESF schools by making reference to the standards adopted by the relevant authorities in overseas countries; and
- whether the EMB wanted to play any role in the evaluation of ESF schools, as in the case of government and aided schools.

29. **The Secretary for Education and Manpower, the Permanent Secretary for Education and Manpower and the Deputy Secretary for Education and Manpower** stated that:

- the EMB only conducted inspections on public sector schools. Each of the public sector schools would be inspected in all aspects once every four years. The EMB did not have the legal power to direct how the ESF should evaluate its schools. Similarly, private independent schools and schools under the Direct Subsidy Scheme were responsible for evaluating their schools by themselves; and
- the EMB cared about the standard of governance of all schools in Hong Kong. Therefore, it would be happy to offer professional assistance to any school or school sponsoring body if requested. However, if the EMB was asked to help in evaluating the quality of the non-local curriculum offered by the ESF, it would need to discuss with the ESF before deciding on the appropriate degree of participation.

30. To ascertain whether the ESF's system of school evaluation was effective, the Committee asked:

- how the ESF conducted school evaluation; and
- about the results of the school evaluations conducted in the past and whether any school had failed to meet the required standard.

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31. The **Acting Secretary and Chief Executive, ESF** responded that:

- the ESF implemented a three-tier approach to school evaluation. At the first level, each school carried out self-evaluation and measured itself against its development plan. At the second level, the central education team conducted reviews of schools on a regular cycle to validate the school's self-evaluation. There were set parameters and criteria for such reviews. Not many such reviews had been carried out as the education team had only been brought up to full strength recently. There would be more reviews in the future. At the final level, the ESF invited Ofsted inspectors from the UK to conduct external evaluation of the schools; and
- school self-evaluation was not seen as a "pass or fail" exercise. Its purpose was to identify areas for improvement and to strive for continuous improvement. As for external evaluation, only one school had received a poor report. The Beacon Hill School had been given a very poor report by the Ofsted inspectors in 2002. After improvement programme had been implemented, the Ofsted inspectors were invited to review the school again in 2004. The Ofsted inspectors commented that the school had made enormous progress since the last inspection and it was now a highly effective school. This reflected that the ESF's quality assurance mechanism was effective.

32. In response to the Committee's request, the **Acting Secretary and Chief Executive, ESF** provided, in his letter of 20 December 2004 in *Appendix 35*, the inspection/review reports on ESF schools conducted in the past three years. In the same letter, he also provided a note written by the ESF's Education Development Director explaining the details of the three-tier approach to school evaluation, and the procedures governing the review conducted by the ESF's central education team.

33. Noting that the EMB had representation on both the Foundation and the ExCom, the Committee enquired whether the EMB had monitored the performance of ESF schools through such channels.

34. The **Secretary for Education and Manpower** and the **Deputy Secretary for Education and Manpower** said that:

- the Foundation was the supreme governing body within the ESF establishment. Its membership comprised representatives from a wide cross-section of the community, including government officials, to allow the

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ESF the benefit of the views of all sectors of the community. The ratio of EMB representatives and other members on the Foundation was 3:132. The influence of EMB representatives on the Foundation was very small;

- the EMB had one representative on the ExCom. The EMB had been participating in the ExCom on the basis of trust and co-operation. According to the ESF Regulations, the Chief Executive of the ESF or his representative sat on every school council. It was reasonable for the EMB to expect that the Chief Executive or his colleagues would bring up problems, if necessary, to the ExCom. The ExCom would not know that there were problems with the management of schools if it was not informed of such problems; and
- before attending an ExCom meeting, the EMB representative studied all the relevant documents carefully and, where necessary, sought clarification. However, it was impossible for the EMB representative to ask at every ExCom meeting whether there were any schools which had problems or had received poor evaluation reports.

35. The Committee asked whether the ESF would welcome the EMB's participation in the evaluation of its schools. The **Chairman, ESF** and the **Acting Secretary and Chief Executive, ESF** said that the ESF would welcome participation by EMB inspectors in the evaluation of its schools. There was no need to amend the ESF Ordinance in order to implement such an arrangement.

36. In his letters of 20 December 2004 and 4 January 2005, in *Appendices 35 and 36* respectively, the **Acting Secretary and Chief Executive, ESF** informed the Committee that in November 2004, the ESF and the EMB had agreed on a mutual exchange of evaluators on school inspections. On 9 December 2004, the ESF's Education Development Director had sent an invitation to the Chief Inspector of the EMB for the latter's inspectors to participate in the ESF's school reviews.

37. Having regard to the statements that the EMB could not exercise control over the ESF due to its small representation on the Foundation and the ExCom and it had to rely on the co-operation of the ESF, the Committee asked about the relationship between the EMB and the ESF in the past.

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38. The **Permanent Secretary for Education and Manpower** stated that although the EMB and the ESF had a harmonious relationship in their daily encounters, the EMB had had difficulties in obtaining information from the ESF. The scope for co-operation had widened since the current ESF Chairman had assumed office.

39. The **Chairman, ESF** stated that:

- she did not have a good understanding of the conflicts between the ESF and the EMB in the past. As both the ESF and the EMB worked for the benefits of students and for the provision of quality education, she saw a large scope for their co-operation; and
- in many aspects, the ESF and the EMB had a partnership relationship. For example, when the Canadian Overseas International College went bankrupt, the EMB had turned to the ESF to launch the rescue operation that resulted in the opening of the Phoenix International School in 2002. The Bauhinia School was opened in response to Invest Hong Kong's appeal for more international school places for the expatriate community. All these reflected that there was trust between the ESF and the EMB.

40. The Committee noted from paragraph 3.12 of the Audit Report that different schools had different planning cycles for their school development plans. It asked how the ESF would unify the cycles. The **Acting Secretary and Chief Executive, ESF** replied that the development plans produced recently had already adopted a uniform planning cycle.

Budgeting and cash management

41. According to paragraphs 4.16 to 4.18 of the Audit Report, with the exception of three schools, ESF schools adopted a bidding system to assess the funding needs of their departments. The bidding system ensured that a school's budget allocation was more responsive to its overall strategies and the competing needs of its individual departments. Audit had recommended that the ESF should require the three schools to adopt such a system for budget allocation purpose.

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42. The Committee noted that the ESF had stated in paragraph 4.19 that it would consider Audit's recommendations, having regard to the fact that school councils and principals required a degree of independence to meet the unique circumstances of each school. It appeared to the Committee that the ESF did not fully agree to Audit's recommendation. The Committee asked:

- about the ESF's position on the matter and whether it agreed that a school's adoption of a bidding system for budget allocation would not undermine the school's autonomy; and
- the ESF's criteria for determining whether a school should use a bidding system.

43. The **Acting Secretary and Chief Executive, ESF** explained that:

- the bidding system was a reasonable approach and a good way for helping the school management determine the priorities between the funding needs of individual departments within the school. However, a school's priorities were identified through the school planning process and set out in its development plan. The school would decide how to spend its funds having regard to the plan. Therefore, in determining whether to use a bidding system, an important consideration would be to avoid overturning the priorities set in the school development plan by such a system; and
- the ESF had been careful in its response to Audit's recommendation because different schools had different circumstances and different culture. Some schools were more used to bidding systems but some teachers did not like them. While this was not a reason for not accepting the recommendation, some flexibility should be given to the school council and the management to determine the extent to which the bidding system should be used.

44. The **Chairman, ESF** supplemented that only three of the 15 schools had not adopted the bidding system in their budget allocation process. It would not be too difficult to encourage them to adopt the system, particularly as two of the three school principals had already been changed. However, the unique circumstances of the schools should be taken into account in deciding how far the system should be adopted e.g. whether it should apply to major expenditure items only or to small items as well.

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45. The Committee noted from paragraph 4.36 of the Audit Report that the ESF had a high level of overdraft at the end of its financial year. It asked:

- about the reasons for the overdraft and the amount of overdraft interest paid in the past two years; and
- whether the schools had been requested to share the interest.

46. The **Acting Secretary and Chief Executive, ESF** responded that:

- the ESF had not experienced financial difficulties. The use of bank overdraft was a normal commercial operation which most firms would use. The overdraft facility had been used during the summer months when fee income was low and expenses (e.g. payment of staff gratuities and building maintenance works) were high. The duration of the overdraft in the last five years ranged from zero, three, six, up to the maximum of 59 days; and
- schools had not been asked to share the interest costs of the overdraft. The amount of overdraft interest paid in the last five years varied from \$0, \$6,000, up to the maximum of \$362,000. The amount was insignificant compared to the ESF's budget of \$1 billion.

47. The Committee noted from paragraph 4.34 of the Audit Report that each school managed its own surplus funds and maintained its own bank account. The Committee enquired whether the ESF would request its schools to place their surplus funds with it to help reduce its overdraft, as recommended by Audit.

48. The **Acting Secretary and Chief Executive, ESF** replied that:

- the ESF had not formally demanded that schools should place their surplus with its bank account at the end of the year, although this had been done on an informal basis for a number of years; and
- the ESF was considering as a matter of priority an alternative arrangement with its bankers to offset credit balances on the ESF's accounts with any debit balances on other accounts, so that the ESF would pay interest on the smallest possible amount.

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49. In his letter of 1 February 2005, the **Acting Secretary and Chief Executive, ESF** informed the Committee that the ESF had entered into the alternative arrangement with its bankers on 20 January 2005.

50. In response to the Committee's question about the reasons for the different amounts of surplus funds retained by the 15 schools, the **Acting Secretary and Chief Executive, ESF** said that:

- the ESF gave the schools the same budgets for the same class structures. The amount of surplus funds that a school retained depended on how it had decided to spend it. The ESF encouraged the schools to spend their money according to their school development plans. For instance, some schools had a saving for capital projects and might want to change all the furniture at the school. Thus, they would not spend all their saving in one year but would carry it forward. That was reasonable; and
- at the central level, the ESF could improve the situation by exercising a closer supervision of the schools' financial plans to make sure that they tied in more closely with their development plans.

Financial and administrative matters

51. The Committee was concerned that some ESF schools had not properly managed the reimbursement of travelling expenditure for official duties. As revealed in paragraph 5.33 of the Audit Report, of the six schools visited by Audit, one did not always require its staff to properly substantiate claims for reimbursement of taxi fares. As shown in Case 1, the claimant submitted claims for taxi fares amounting to \$1,450 and \$863 in the 2002-03 and 2003-04 school years respectively. However, 90% of the claims were not supported by receipts or details of the journeys. The Committee asked whether some staff members had abused the system of reimbursement of travelling expenditure.

52. The **Acting Secretary and Chief Executive, ESF** responded that:

- he could not conclude from this case whether there was an abuse. He considered the case to be a failure to keep proper records; and
- the ESF agreed with Audit's recommendation that it should require its schools to ensure that, in processing claims for reimbursement of travelling expenditure, the claimant submit receipts and details of journeys. A policy on the reimbursement of travelling expenditure was being implemented.

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53. The Committee noted from paragraph 5.36 of the Audit Report that, in the 2002-03 school year, School 14 had organised two meetings for its Senior Management Team in a hotel and the total cost was \$15,776. After realising that the cost of arranging meetings in the hotel was high, in the following school year, the school held its Senior Management Team meetings at the school sports hall. The Committee was concerned that there might have been similar cases in the past in which schools were not frugal on staff functions. The Committee asked whether the ESF could ensure that schools would practise frugality in future.

54. The **Chairman, ESF** agreed that schools should be frugal. The ESF would not be complacent even when some schools had several millions of surplus funds. It would check if there were opportunities where schools could achieve greater savings. One of the duties of the ESF's new audit committee would be to ensure value for money.

55. According to paragraph 5.21 of the Audit Report, in March 2004, the ExCom decided that the ESF should not reimburse entertainment expenses on staff functions. However, according to paragraph 5.22, the ExCom decided that the revised policy would take effect from September 2004. The Committee questioned:

- why the ExCom did not implement the revised policy immediately after it had made a decision in March 2004; and
- whether the six-month lag between the decision and the implementation of the decision indicated a lack of resolve on the part of the ESF to plug the loophole in reimbursement of entertainment expenditure.

56. The **Acting Secretary and Chief Executive, ESF** explained that:

- the previous guidelines on the use of principals' entertainment allowances had been in force since the 1980s. Under the guidelines, principals were allowed to use the funds to entertain their staff. For example, they might use funds for a Chinese New Year lunch for their office staff, or entertain their teaching staff at the end of an academic year. On 8 March 2004, the ExCom decided very quickly to change that policy and implement a new one. Subsequently, a number of principals complained bitterly that the ExCom had changed the policy in the middle of the financial year and upset their plans for specific functions. After considering their complaint, the ExCom decided that the revised policy should be implemented from the beginning of the new financial year; and

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- there was not a lack of resolve on the part of the ExCom. The concession was made because the ExCom understood the feelings of the staff affected by the new policy. Actually, the ExCom was very firmly behind the new policy which was now enforced completely across the board.

57. Noting that Audit had identified a number of problems in the school administration of the ESF and put up many recommendations, the Committee asked about the time frame for the ESF to implement Audit's recommendations, and whether the ESF had a system in place to ensure that the irregularities identified in the Audit Report would be rectified.

58. The **Chairman, ESF** said that:

- the ESF had a system of project tracking. A list of things to do against dates was considered at every ExCom meeting. Audit's recommendations would be incorporated into the list so as to enable the ExCom to check whether and when actions were taken; and
- in the past, the ESF did not have an audit committee. On 23 November 2004, the ExCom approved the establishment of such a committee. The committee would be able to help the ESF monitor its finances and improve the cost-effectiveness of its operation.

59. The Committee further asked:

- about the ESF's internal audit arrangements, including the number of staff discharging such function, before the establishment of the audit committee;
- whether the ESF considered that its Headquarters staff had the necessary financial expertise to run an organisation with an annual budget \$1 billion and whether the Foundation Office should be strengthened; and
- whether the ESF would consider other more effective and efficient alternatives of managing its finances.

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60. The **Chairman, ESF** responded that:

- at present, Headquarters expenditure accounted for 4.1% of the ESF's total budget. While the ESF's total budget was large, the management of the finances might not be too complicated as 70% of the budget was spent on teachers' pay, school expenses, etc. The ESF had a treasurer who was very experienced in financial management. When the new Chief Executive assumed office, she would have to consider the reorganisation of the Foundation Office; and
- in the past, there had not been a structure in the ESF for carrying out the internal audit function. There was only one internal auditor who reported to the Financial Controller directly. The internal auditor had no supporting staff. The newly appointed audit committee comprised three members with sound audit, financial or accounting experience. It would be responsible for examining the annual accounts and monitoring the scope and effectiveness of the work of the internal audit service. It would also consider any audit related matters, including issues arising from the Audit Report and the Public Accounts Committee's Report. The audit committee was expected to produce a preliminary report after December 2004.

61. In response to the Committee's request, the **Acting Secretary and Chief Executive, ESF**, in his letter of 23 December 2004 in *Appendix 37*, provided an ExCom paper which set out the powers and duties of the ESF's audit committee. He also advised that the audit committee would report to the ExCom.

Human resources management

62. According to paragraphs 7.18 to 7.22 of the Audit Report, the ESF had not set any guidelines on the conduct of performance appraisal of school staff. While most of the 15 ESF schools conducted regular performance appraisal of their teachers, 10 schools and 11 schools did not regularly appraise the performance of their principals and non-teaching staff respectively. In six schools, the principals had never been formally appraised. There was even one school principal whose performance had never been appraised in the past 17 years. The Committee considered that in any accountable organisation, there should be a proper system for appraising the performance of different ranks of staff, particularly the supervisory staff. The Committee queried why there was a lack of such system in the ESF and how the ESF ensured the quality of the school principals.

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63. The **Acting Secretary and Chief Executive, ESF** responded that:

- it was true that the ESF had not set up a performance appraisal programme across the board. To rectify the situation, guidelines on the conduct of performance appraisal would be established through the relevant committees of the Foundation. The ESF had also included in its development plan for the period 2004 to 2007 the setting up of a formal performance appraisal system based on the guidelines and the conduct of regular performance appraisals of school staff. The development plan would be processed through the relevant committees of the Foundation;
- although there had been a lack of a formal appraisal system, some school councils had been vigorous in checking the performance of their school principals. About a year ago, a school council conducted an exhaustive review on its principal and then recommended that the ExCom should not renew that principal's contract; and
- a performance appraisal on its own did not tell the full picture. The ESF had put in place the system of school self-evaluation and school review by the central education team. These were other pillars of the system.

64. In response to the Committee's question, the **Chairman, ESF** stated that if performance appraisals were not conducted in future, the Chief Executive of the ESF should be held responsible. In fact, in the past two years, the ESF had already dismissed those school principals whose performance was not satisfactory. The Beacon Hill School was an example. The school's performance had improved significantly after the change of the school principal.

65. The Committee further enquired about the performance appraisal system in respect of public sector schools and whether the ESF would consider adopting that system.

66. The **Permanent Secretary for Education and Manpower** said that since the promotion of school-based management in 2000, the EMB had required all its schools to put in place a performance appraisal system for staff. The school principal's performance was appraised by the school supervisor. Some school principals had even taken the initiative to conduct 360-degree appraisal on themselves so that their staff could also assess their performance.

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67. The **Chairman, ESF** said that it would not be difficult to devise and implement a performance appraisal system. What mattered was the co-operation of the staff. In the past, staff had strong objection to adopting an appraisal system. However, perhaps due to the change in culture, they had now accepted that all staff members should have their performance assessed.

68. **Conclusions and recommendations** The Committee:

- acknowledges that the objective of the audit review is to examine the administration of English Schools Foundation (ESF) schools, and the Committee has therefore focused on matters pertaining to that objective rather than the quality of education provided by ESF schools;

Overall audit observations

- expresses serious dismay that:
 - (a) there were chaos and negligence in the administration of some ESF schools; and
 - (b) the school administration guidelines provided by the ESF were fundamentally inadequate and that some schools had not taken more initiative to ensure propriety and to achieve value for money in their operation;
- acknowledges that:
 - (a) the ESF is revising the Schools' Circulars/Administrative Memoranda to help schools deal with various administrative matters;
 - (b) the ESF will provide adequate support to schools in implementing its guidelines through more systematically programmed seminars and school visits; and
 - (c) the newly created audit committee of the ESF will oversee the programme of internal audits;

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Corporate governance of schools

- expresses serious concern that:
 - (a) with the exception of one school, the composition of school councils did not include alumni;
 - (b) most ESF school councils had not specifically set out their delegated decision-making powers; and
 - (c) some school councils did not participate in major school activities as recommended by the ESF, e.g. councils of most schools did not participate in formulating staff development policies and plans (11 councils) and in setting targets and priorities for curriculum development (8 councils);
- expresses dismay that:
 - (a) the council of one school did not hold any meetings during a period of 23 months when the post of Chairman of the school council was vacant; and
 - (b) most schools did not require council members to declare their personal interests which might conflict with their roles;
- acknowledges that:
 - (a) more alumni may be invited to join school councils once alumni lists are complete;
 - (b) each school council will itemise delegated decision-making powers, and a bi-annual agenda item will be initiated by ESF representative to review the delegated powers of the school council;
 - (c) the ESF will rewrite the roles of school council members so as to encourage them to participate actively in significant school activities;
 - (d) sub-committees will be set up to help school councils fulfil their roles and responsibilities more effectively;

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- (e) the ESF has issued letters to school councils reminding them of the minimum requirement of meetings and encouraging them to meet six times a year; and
- (f) school council members will be required to declare their personal interests which may conflict with their roles, and declaration registers have been prepared to record the interests of the members;

Strategic planning, budgeting and cash management

- expresses concern that:
 - (a) some schools had not consulted their councils, non-teaching staff, parents of students, students and the ESF in the development of their school plans;
 - (b) some schools produced development plans covering only one to two years, and that different schools had different planning cycles, which were also inconsistent with the ESF's cycle;
 - (c) some schools produced less comprehensive development plans focusing only on certain areas of school activities;
 - (d) some schools had not carried out any evaluation of their programmes in accordance with their development plans;
 - (e) some schools had not regularly sought the views from some stakeholders regarding their needs and expectations;
 - (f) many schools had not developed formal procedures for budgetary planning and control;
 - (g) most schools did not provide a clear linkage of their budgets to their development plans;
 - (h) some schools did not have a bidding system to assess the funding needs of their departments;
 - (i) many schools did not submit their budgets to their councils for approval, nor regularly inform their councils of the use of school funds against the approved budgets;

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- (j) some school councils had not been involved in monitoring the use of funds against the school financial plans or budgets in the past three school years;
 - (k) some schools did not have effective control measures to ensure that budget holders managed their budgets effectively;
 - (l) some schools did not have any specific plans for using their surplus funds; and
 - (m) most schools did not have the practice of preparing cash-flow projection to help them manage their cash more effectively;
- acknowledges that:
- (a) a working group will produce guidance on school development planning to assist schools in the planning process;
 - (b) the ESF will require its schools to produce a longer-term development plan which will be in alignment with the ESF education development plan;
 - (c) the ESF will issue good practice guides to its schools to help them ensure that all significant aspects of school activities are included in their development plans;
 - (d) procedures for performing school reviews have been written to ensure that schools conduct evaluations of their programmes against their current development plans. In November 2004, the ESF and the Education and Manpower Bureau agreed on a mutual exchange of evaluators on school inspections;
 - (e) a revised self-evaluation strategy will be drafted to ensure that schools seek stakeholders' views regarding their needs and expectations, and that schools will incorporate stakeholders' views into their school development plans;
 - (f) the ESF will issue guidelines to assist schools in budgetary planning and control, and that all school councils will need a finance sub-committee to deal with budgetary matters;

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- (g) the ESF will require all schools to cost their development plans and use the cost projections in compiling annual budgets;
 - (h) the role of principals in school budgeting will be included in the revised guidance for school councils;
 - (i) from September 2005, all schools will start to report regularly their financial performance to their councils;
 - (j) the ESF will revise the guidance to school councils on the approval of school budgets and ensure consistent implementation at schools;
 - (k) monitoring the use of school funds against the approved budgets will be a regular agenda item in school council meetings;
 - (l) the ESF will remind schools of the best practice for recording and monitoring the expenses incurred by budget holders;
 - (m) the ESF will discuss with schools the strategic use of their reserves, and that schools will also have to report to school councils their need for retaining surplus funds;
 - (n) the ESF has entered into an alternative arrangement with its bankers to offset credit balances on its accounts with any debit balances on other accounts;
 - (o) training on cash-flow projections will be provided to school councils and administrative staff, where necessary; and
 - (p) the ESF will revise the guidance to school councils to provide for the setting up of finance sub-committees in schools to help monitor the use of school funds and the cash-flow position;
- urges the ESF to require its schools:
- (a) which do not have a bidding system for assessing the funding needs of their departments to adopt such a system for budget allocation purpose; and
 - (b) to establish formal policies and control procedures on virements of funds between budgets;

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Financial and administrative matters, procurement and energy management

- expresses serious dismay that:
 - (a) the ESF did not regularly revise its school circulars and administrative memoranda to ensure that they are up-to-date, and some of them had not been revised since the 1980s and 1990s;
 - (b) some ESF schools had not set up their own internal control procedures to suit their particular circumstances;
 - (c) the guidelines on internal control principles/procedures provided by the ESF to schools were inadequate, and that the internal control procedures of some schools were generally crude;
 - (d) some schools had spent too generously on staff functions;
 - (e) the ESF had not set any guidelines on the provision of staff welfare and benefits by schools, and that the provision was made solely at schools' discretion;
 - (f) the propriety in managing travelling expenditure for official duties by school staff could have been improved;
 - (g) some schools did not record and check their assets properly, thus rendering their asset registers not reliable as a tool for asset management;
 - (h) the ESF had not drawn up a set of clear and comprehensive procurement guidelines to facilitate schools in procuring goods and services at best prices;
 - (i) schools generally did not properly document the quotations obtained for the procurement of goods and services;
 - (j) schools had not, as far as possible, coordinated their purchase orders for similar goods and services and had not taken advantage of bulk-purchase discounts to achieve savings; and
 - (k) many schools had not conducted cost-benefit analysis of leasing versus outright purchase of school equipment;

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- expresses dismay that:
 - (a) instead of charging the expenditure on staff functions to a single account to facilitate monitoring and control, the six schools visited by the Audit Commission (Audit) had charged the expenditure to different accounts;
 - (b) schools had incurred expenses for those goods and services which were desirable but not essential;
 - (c) some schools had not selected the most economical tariff available for their electricity accounts; and
 - (d) some schools had not implemented energy saving measures;
- acknowledges that:
 - (a) an audit committee was established in late November 2004 and it will report to the ESF Executive Committee;
 - (b) the ESF internal auditor is updating the school circulars and administrative memoranda;
 - (c) the ESF will place all updated and new circulars and memoranda on its website as soon as they are approved;
 - (d) the ESF internal auditor has already started to update internal control procedures for schools;
 - (e) the ESF plans to consider systematic auditing of internal control and to review the use of time in auditing;
 - (f) the ESF will revise the structure of accounts of its schools so that all entertainment expenditure is charged to one single account;
 - (g) the ESF will consider the appropriateness of setting aside an annual sum to be spent by its schools on staff functions;
 - (h) the ESF will formulate a policy on the provision of staff welfare and benefits by its schools;
 - (i) a policy on the reimbursement of travelling expenditure is being implemented;

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- (j) the ESF will review the spending patterns of schools;
- (k) the ESF has issued revised procedure on asset recording and checking;
- (l) the ESF has issued procurement guidelines for schools;
- (m) the requirement for schools to properly document the quotations for the procurement of goods and services has been made mandatory;
- (n) the practice of central purchasing is being implemented for purchase of high-value items such as information and communication technology equipment;
- (o) the ESF will consider setting up a mechanism in the long run to coordinate the purchase of other goods and services of high volume and/or high value;
- (p) the ESF will urge individual schools to always plan and coordinate the purchasing requirements;
- (q) the ESF will give more guidance on documenting the practice of conducting cost-benefit analysis of leasing versus outright purchase of school equipment;
- (r) the ESF will require its schools to select the most economical tariff available for their electricity accounts; and
- (s) the ESF will disseminate the practices of energy saving measures implemented by some of its schools to other schools;

Human resources management, other income and support

- expresses alarm and finds it unacceptable that:
 - (a) some schools did not properly record, in an assessment form, the interviewer's assessment of an applicant showing his relative merits together with the reasons for recommending or not recommending him for appointment;
 - (b) most schools did not seek the approval of their school councils to endorse the most suitable applicant for appointment to school posts;

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- (c) the ESF had not set any guidelines on the conduct of performance appraisal of school staff. As a result, some schools did not have a proper arrangement for conducting regular performance appraisal of their staff;
 - (d) salary increments were granted to ESF staff automatically, taking no account of work performance;
 - (e) some candidates on the ESF supply teacher list had not been registered with the Education and Manpower Bureau as registered teachers; and
 - (f) some unregistered teachers had worked as supply teachers in some ESF schools;
- acknowledges that:
- (a) the ESF has issued a school circular to require its schools to document in an assessment form the assessment of an applicant for school posts;
 - (b) the ESF recognises the need for school councils' involvement in decisions on staff appointments and will establish appointment sub-groups in school councils for ratifying the appointments;
 - (c) the guidelines on the conduct of performance appraisal will be established through the relevant committees of the Foundation;
 - (d) the setting up of a formal performance appraisal system based on the guidelines and the conduct of regular performance appraisals of school staff are stated initiatives in the ESF's Development Plan 2004-07 which will be processed through the relevant committees of the Foundation;
 - (e) the ESF agrees in principle that a mechanism for awarding salary increments to its staff should be devised;
 - (f) the establishment and utilisation of supply teacher lists is now being reviewed;
 - (g) the ESF has insisted that the policy on the employment of only qualified teachers is strictly enforced, and will give serious consideration to establishing a centrally administered supply teacher list; and

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- (h) the ESF will implement the audit recommendations stated in paragraphs 8.8, 8.15 and 8.21 of the Director of Audit's Report;
- urges the ESF to devise a mechanism for awarding salary increments to its staff; and

Follow-up action

- wishes to be kept informed of any further development and progress made in implementing the various recommendations made by Audit and other improvement measures.