

For information
January 2013

Legislative Council Panel on Education

Information Note on Monitoring of Direct Subsidy Scheme (DSS) Schools - Pegasus Philip Wong Kin Hang Christian Primary School cum Junior Secondary School

Purpose

In the meeting on 6 July 2009, the Panel requested the Education Bureau (EDB) to provide a written response to explain the incident of the Pegasus Philip Wong Kin Hang Christian Primary School cum Junior Secondary School (the School) and elaborate on its measures adopted in monitoring the School. This information note serves to provide relevant information for Members' reference.

Brief Account of the Incident

2. The Pegasus Social Service Christian Organization Limited, the school sponsoring body (SSB) of the School, succeeded to bid for a new school premises in 1999 for operating an aided primary school. Before the School came into operation, the SSB applied for switching the mode of operation from aided to DSS. Upon approval of the application, the SSB entered into a SSB Service Agreement with the then Education and Manpower Bureau (EMB) in 2001. The School commenced operation in the 2001/02 school year.

3. In May 2002, the SSB applied to expand the School's operation to include junior secondary classes and adopt the "through-train" mode. In October the same year, the then EMB agreed to the School's proposal to expand its curriculum to offer junior secondary classes on a year-by-year basis from the 2003/04 school year onwards. In this connection, the School had to alter certain parts of the school facilities to cater for the needs of junior secondary students. In February 2004, the SSB applied to the then EMB for operating senior secondary classes at the same premises of the School. The then EMB replied in July the same year, stating that it had no objection in principle to the School's proposed operation of senior secondary classes. The SSB was requested to submit a concrete proposal detailing the design of the senior secondary curriculum, the relevant financial and manpower arrangements as well as the use of the school premises for further consideration of the Bureau. However, as the School had never been able to satisfy the aforesaid requirements, no approval was granted for it to operate senior secondary classes.

4. Since the School had come into service, deficiencies in administrative and financial management were identified and complaints from parents were received from time to time. To address the problems, officers from the then EMB had provided support and assistance to the School. For instance, professional development on integrated education was arranged for teachers of the School with a view to enhancing their support for students with special educational needs. Officers of the then EMB also visited the School to discuss and work out with it plans to improve the school administration and management. Apart from the efforts mentioned above, four advisory letters were issued to the Principal/ Supervisor/ SSB/ School Management Committee (SMC) during the period from 2004 to 2007 requesting the School to make improvements. However, the School's progress in addressing the problems identified fell short of expectation. During the period from 2006 to 2009, we issued six warning letters to the Principal/ Supervisor/ SSB/ SMC regarding the school's non-compliance cases. Details are provided in Paragraph 7 below.

5. Despite the fact that there were deficiencies or disorder in the administration and financial management of the School, students' learning had not been seriously affected. In order not to affect students' learning directly, we had not imposed more serious sanctions, such as termination of subsidies to the School or withdrawal of school sponsorship. To make further and more direct improvements to the effectiveness of the School's governance, we appointed two school managers to the SMC of the School in April 2008, and even went so far as to appoint another two veteran principals to the SMC on 20 May 2009 with a view to rationalising promptly the School's financial situation and other administration and governance problems.

6. Upon the announcement by the SSB to surrender the sponsorship of the School on 23 May 2009, EDB set up a task force spontaneously and appointed three more officers, including a Senior Treasury Accountant and experienced Education Officers to the SMC on 27 May 2009 to assist the SMC in handling issues related to the closure of the School and the transfer of sponsorship to the new sponsoring body. EDB took back the sponsorship on 14 July the same year.

Major Cases of Non-compliance

7. Below is a brief account of EDB's monitoring efforts made in the context of the School's major non-compliance:

(a) SMC Service Agreement

The SSB entered into an SSB Service Agreement with the then EMB in 2001. According to established procedures, the SSB should thereafter promptly form an SMC incorporated under the Companies Ordinance together with the acquisition of the tax exemption status for the SMC as a charitable institution under Section 88 of the Inland Revenue Ordinance, and as such enter into an SMC Service Agreement with EDB. However, up to 14 July 2009 when the SSB surrendered its sponsorship, its SMC had yet to complete the incorporation procedures. As regards the signing of the SMC Service Agreement, despite our repeated reminders on 2 March and 11 July 2007 and the issuance of a warning letter to the SSB on 10 April 2008, the SSB had failed to actively follow up on the matter.

(b) Senior Secondary Curriculum

As mentioned in Paragraph 3 above, the School submitted an application for operating senior secondary classes in February 2004. Since then, we had discussed the offering of the senior secondary curriculum with the SSB on a number of occasions, urging the SSB to furnish us with a concrete proposal for our consideration as soon as possible. However, it was not until March 2009 when the SSB submitted to us a more concrete proposal on the operation of senior secondary classes. We took prompt action and completed vetting the proposal in the same month, and issued a letter to the SSB demanding that supplementary information and supporting documents be submitted in April 2009 in response to our queries on, among others, curriculum design, school facilities, financial and manpower arrangements. However, no formal response from the SSB had been received as at 23 May 2009 when the SSB announced that it would surrender its sponsorship. It is worth noting that meanwhile the School disseminated misleading information to parents in the process. The School made a false representation that the then EMB had approved its proposal to operate Senior Secondary 4 classes in the same school premises from September 2006 onwards; and started to promote the Pegasus Christian Sear Rogers International Primary-cum-Secondary School, which had not been formally registered. In view of that, the then EMB issued two warning letters to the School on 11 and 25 July 2006 respectively, and the School finally deleted the false information from the School's webpage accordingly.

(c) School Management

Management problems gradually surfaced after the School came into operation. The problems concerned and the complaints lodged by parents are summarised as follows:

- (i) Financial management was chaotic. The School failed to meet the deadlines for submitting the audited accounts for the 2005/06, 2006/07, 2007/08 and 2008/09 school years and collected fees for “standard supplies” from students without approval. In December 2006, the School Audit Section of the then EMB carried out an audit inspection of the School’s financial management, during which a number of problems were identified and the School was required to give an explanation. The School, however, failed to provide a reasonable explanation for most of the problems, and merely replied that they would be brought up at the SMC meetings. The EDB thus issued a warning letter to the school supervisor on 10 April 2008.
- (ii) The post of principal had been left vacant since 22 July 2008 and it remained so despite repeated verbal warnings from the EDB. To follow up on the matter, the EDB issued two warning letters to the school supervisor/all members of the SMC on 10 October 2008 and 6 March 2009 respectively, and a new principal was eventually appointed in April 2009.
- (iii) A complaint was received from several parents in May 2007 against the then school supervisor serving between 2001 and 2004 for non-compliance. Upon investigation, the EDB concluded that some of these complaints were substantiated and the School replied in November 2007 that they would follow the issue up and put a halt to certain non-compliances. The Government received a complaint against the said school supervisor and the SSB in March 2009 accusing them of deceiving parents and hindering the governance and development of the School. Prior to the receipt of the above complaint, EDB had written to the said school supervisor and the SSB requesting an explanation on the matters in question as the non-compliance cases had already come to EDB’s attention. On 23 May 2009, the said school supervisor made an announcement in her capacity as the Chairman of the SSB that they would surrender the sponsorship. No further response had been given up to the closure of the School. As to case(s) of criminal nature concerning the said school supervisor, we understand that action had been taken by the relevant law enforcement agency.

Last Chapter of the Incident

8. In response to the SSB’s announcement of surrendering the sponsorship of the School on 23 May 2009, EDB launched a School Allocation Exercise to openly invite interested sponsors to apply for taking over the sponsorship of the School. After going

through the established selection procedures, EDB conferred the sponsorship to the selected applicant body, namely the Fukien Chamber of Commerce Education Fund Limited, on the recommendation of the School Allocation Committee, on 14 July 2009. The new school has registered, renamed as Fukien Secondary School Affiliated School. It has taken up all existing students and staff and started its operation since 1 September 2009. The new school has been running smoothly, with its junior secondary section closed in the end of the 2011/12 school year. It is now a primary school with a “through-train” arrangement with Fukien Secondary School.

9. With the assistance of the EDB-appointed school managers, the SMC of the School engaged an accounting firm to handle issues concerning final audit and school closure management. Through this firm, a law firm was commissioned by the SMC to provide legal services required. Major tasks of the closure of the School included:

- (a) To protect the School’s assets and follow up related issues;
- (b) To handle the School’s external debt and liabilities; and
- (c) To complete the audited accounts for the 2006/07, 2007/08 and 2008/09 school years.

10. It has taken almost three years for the accounting firm to complete the report on the closure of the School. File records kept by the School being incomplete is a major reason. Furthermore, enquiries or requests for information by the SMC were often at best partly answered by the SSB and the ex-school supervisor despite repeated reminders, not to mention the numerous clarifications and confirmations entailed. In addition, motions put forth by school managers either at SMC meetings or through e-mails usually yielded no response from the ex-school supervisor. Worse still, the SSB raised objection to the relevant motion through its legal representative at the final stage of the closure of the School. The SMC thus had to seek legal advice and then instructed the law firm to respond to the queries accordingly. In view of the above, EDB could not submit this written response to the Panel to explain the incident of the School earlier.

11. After the accounting firm had completed its assignment and submitted a report, a SMC meeting was held on 7 June 2012 at which proposed arrangements regarding the closure of the school were endorsed. Audit by the accounting firm found out that the School had a surplus of HK\$14,149,118.1. After confirmation by the SMC, the amount of the surplus was transferred to the new SSB, i.e. the Fukien Chamber of Commerce Education Fund Limited, on 28 December 2012 for future development of the Fukien Secondary School Affiliated School in accordance with the requirement of the SSB Service Agreement entered between the former SSB and the then EMB on 13 September 2001.

12. Since the School's assets and final financial arrangements had been settled, we accepted the application of the SMC to cancel the registration of the School in late 2012.

Continuous Improvement in the Support and Monitoring of DSS Schools

13. Apart from following up on individual schools' non-compliance and malpractices, in the spirit of continuous improvement, we have been implementing the measures set out in Paragraphs 14 to 19 below since 2009 to enhance support for and monitoring of DSS schools at the system level.

14. To achieve more effective monitoring of the performance of DSS schools, we have strengthened communication and co-ordination among different divisions and sections within the EDB, for example by enhancing the follow-up mechanism for audited accounts across divisions and sections. In addition, an annual report summarising the findings of the annual audited accounts submitted by DSS schools and the audit inspections conducted by EDB officers is tabled for discussion by a standing task force chaired by a Deputy Secretary for Education. This enables the EDB to have a holistic view of the financial arrangements of DSS schools and ensure that DSS schools will follow up on various improvement measures effectively and comply with the relevant provisions in a timely manner.

15. Between April 2010 and July 2011, we issued three EDB Circulars on the operation of DSS schools to recapitulate the prevailing rules and regulations as well as guidelines, and remind DSS schools of their responsibilities in using government and non-government funds. We also conducted briefing sessions for DSS schools to familiarise them with resources management. As regards the monitoring of financial management, we have put in place a systematic risk analysis mechanism whereby different risk profiles of schools are taken into account for selecting schools for audit inspection purpose. We have also stepped up measures to closely monitor and follow up with schools to ensure that they have promptly and properly rectified the malpractices identified in audit inspections. These measures include conveying the findings to the SMCs/incorporated management committees (IMCs) and conducting follow-up audit inspections.

16. Regarding the improvement in the monitoring of DSS schools, the Working Group on Direct Subsidy Scheme¹ (Working Group) considered that such work should be

¹ In response to the recommendations in the Director of Audit's Report No.55 by the Audit Commission and the Public Accounts Committee (PAC) Report No.55 by the PAC of the Legislative Council about DSS schools, the EDB set up the Working Group on Direct Subsidy Scheme in February 2011 to review the administration of the DSS as well as the governance and administration systems of DSS schools. The Working Group submitted its recommendations to the Secretary for Education in December 2011, and the Secretary for Education accepted all the recommendations on 17 February 2012.

complemented by DSS schools' own governance and internal accountability. To this end, we are putting the relevant recommendations of the Working Group as set out in the following paragraphs into practice.

17. To enhance their internal governance, the EDB is assisting DSS schools in setting up a framework comprising three inter-related aspects. The first aspect of the framework is about completing a self-evaluation checklist. From the 2012/13 school year onwards, DSS schools are required to complete a self-evaluation checklist, which sets out the processes/policies essential to the integrity of schools' various management systems, to help avoid oversights in essential operational processes occasioned by a change of SMC members, principals or other supporting staff. The second aspect of the framework is about the setting up of a governance review sub-committee accountable to the SMC/IMC by the end of the 2013/14 school year for conducting system review of various key management and financial control systems and processes including whether the various checks and balances are working as intended. The third aspect of the framework is about providing schools with a list of essential items. The list sets out essential issues, among others, on financial and human resources management which schools are required to submit to the SMC/IMC for discussion and approval from the 2012/13 school year onwards. This will forestall the inadvertent oversight of essential administrative and management issues that are subject to the supervision of the SMC/IMC.

18. In addition, the EDB will strengthen the existing audit inspections of DSS schools. Starting from the 2014/15 school year, the audit inspection will be replaced by a management and financial audit, which will cover management aspects as well as the use of resources including funds and other forms of resources such as human resources.

19. To fortify the existing mechanism to address non-compliance, the EDB will implement the following measures from the 2012/13 school year onwards to ensure compliance and timely rectification:

- (a) escalation of advisory letters to supervisors at the earliest opportunity;
- (b) if (a) does not work, escalation of warning letters to SMC/IMC members at the earliest opportunity;
- (c) disclosure of the non-compliance or malpractice with the school concerned named on the EDB's website after exhaustion of the steps in (a) and (b) above and if the malpractice remains to be rectified; and
- (d) suspension of part of the DSS subsidy if a school fails to comply with an important requirement or rectify serious malpractice after exhaustion of the steps mentioned in (a) and (b) above until rectification is made. In order to ensure that the interests of students are not unduly affected, the EDB will assess the financial situation of the school before withholding the school's

DSS subsidy. The EDB may decide to take the measure in (c) prior to, or in addition to, withholding part of the DSS subsidy.

Conclusion

20. The handling of the incident was premised on the interests of students and their learning not being affected as far as possible. When malpractices were noted in school administration and management, EDB had maintained contact with the sponsoring body and management of the School to understand and follow up on the issues. In parallel, we initiated the established monitoring mechanism to conduct investigation and take follow-up actions. Support and assistance were rendered to the School at the initial stage. When problems of non-compliance were identified, we issued advisory letters as well as verbal and written warnings to the sponsoring body and SMC, demanding explanations and improvements. When the School failed to offer a sound explanation and make satisfactory improvements, EDB had stepped up action and appointed school managers to the SMC to sort out the problems and get directly involved in the improvement initiatives. Meanwhile, EDB conducted audit inspection to check the financial management of the School. With the interests of students in mind, we had strived to steer the school back onto the right track and because of this, no severe sanctions had been imposed, such as terminating the DSS subsidy or withdrawing the school sponsorship immediately so as not to affect students' learning directly. After the SSB had surrendered its sponsorship, the EDB assisted the SMC through the appointed school managers to take care of and ensure a smooth completion of all the formalities regarding the closure of the School. All in all, the incident has come to an end. Improvement measures on DSS schools are being rolled out. We anticipate that continuous improvement will be made as to both EDB's monitoring mechanism as well as DSS schools' self-monitoring and checks and balances devices.

21. Members are invited to take note of this information note.

Education Bureau
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