

THE GOVERNMENT MINUTE

in response to the

**REPORT OF
THE PUBLIC ACCOUNTS COMMITTEE
No.55**

of February 2011

18 May 2011

**THE GOVERNMENT MINUTE IN RESPONSE TO THE
PUBLIC ACCOUNTS COMMITTEE (PAC) REPORT NO. 55
DATED FEBRUARY 2011**

**REPORT ON THE RESULTS OF VALUE FOR
MONEY AUDITS
(Report No. 52)**

MATTERS OUTSTANDING

Equal Opportunities Commission (Chapter 1 of Part 4 of PAC Report No. 52)

The Equal Opportunities Commission (“EOC”) engaged in 2010 an external auditor to conduct a compliance and management study and to enhance the EOC’s internal financial control and management capabilities. After the completion of the study, in light of the recommendations of the external auditor, the EOC has taken action to implement the recommendations of the study, making further enhancements in areas including procurement, procedures relating to duty visits, and regular review of the Memorandum of Administrative Arrangements.

2. The EOC is evaluating the new measures arising from the recommendations of the above study. It is also looking into the delineation of responsibilities within the senior management of the Commission. The Administration will keep the PAC informed of the progress regarding the matter and that of the creation of a new Chief Operations Officer post.

**REPORT ON THE RESULTS OF VALUE FOR
MONEY AUDITS
(Report No. 53)**

MATTERS OUTSTANDING

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

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

3. Works on the conversion of the area originally reserved as MTR entrance/exit (reserved area) in Building A for use as office/shop have been completed in April 2011. Several government departments have indicated interests in using the converted premises for office and other purposes. In line with the established policy that government accommodation should first be used to meet departments' accommodation needs, the Government Property Agency (GPA) is re-assessing whether government departments should be allowed to use the premises versus the original plan of leasing the premises through open tender.

4. As for Buildings B and C, GPA will liaise again with the concerned parties in two to three years' time with a view to seeking their consent to put the reserved areas to gainful use.

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

Strategic Management, Performance Measurement and Reporting

5. The Security Bureau (SB) and the Department of Health (DH) have continued to work with the Society for the Aid and Rehabilitation of Drug Abusers (SARDA) to expand its capacity to serve more psychotropic substance abusers (PSAs) and to enable more effective management of resources. In line with a recommendation of a review by the Efficiency Unit (EU) and following Government's advice on the strategic direction on service re-engineering, SARDA has forged ahead with Project SARDA, an initiative which began in August 2010, under which 38 places originally designated for heroin abusers in its Shek Kwu Chau Centre were converted to serve young male adult PSAs. Plans are in hand to continue with SARDA's service re-engineering. DH is considering requiring SARDA to meet certain utilisation

standards as a condition of subvention. As SARDA is part of the focus areas of Chapter 2 of Part 8 of PAC Report No.55, we recommend subsuming this part into the next progress report for PAC Report No. 55, in which we have set out all developments in relation to SARDA.

Corporate Governance

6. As recommended by EU to improve corporate governance of SARDA, DH and the Narcotics Division of SB are planning to recommend for SARDA's consideration up to three non-government officials or non-SARDA members to sit on its Executive Committee as members. SARDA will process the nominations based on its constitution for the new arrangement to take effect at the next Annual General Meeting scheduled for the end of 2011. Similarly, we recommend subsuming this part into the next progress report for Chapter 2 of Part 8 of PAC Report No. 55.

Management and Control of Government Subvention

7. In March 2011, DH and SARDA finalised and concluded a Funding and Service Agreement to codify existing arrangements and improve corporate governance of SARDA. Among other things, performance targets on detoxification and rehabilitation rates have been set for monitoring SARDA's service performance. To facilitate financial monitoring of service programmes of SARDA and further discussion of the funding mode, SARDA is working to apply an accounting template recommended by EU, starting with costing data of 2009-10. In line with the preceding sections, we recommend subsuming this part into the next progress report for Chapter 2 of Part 8 of PAC Report No. 55.

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

8. From experience gathered from the trial period, many banks have indicated that they are only prepared to provide a bank reference showing how long their customers have had business dealings with them and this essentially makes the bank reference of limited benefit. However, after the introduction of the other measures by the Lands Department (Lands D), including increase in deposit, tightening up the monitoring of compliance with tenancy conditions and the setting up of a review system, there have been no further default cases in rental payment and only a few cases of late payment in the past three years. Lands D therefore considers that the current improved measures are adequate and that it is not necessary to pursue the requirement of submission of a bank reference. On this basis, there is no outstanding action to be taken by Lands D. We recommend deleting this item from the next progress report.

Provision of public museum services (Paragraphs 9 and 10 of Part 4 of PAC Report No. 53)

Acquisition and management of museum collection items

9. The Leisure and Cultural Services Department (LCSD) cleared 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). HKFA cleared all backlog items in July 2010, HKMH in end 2010, and HKHM in May 2011. The task force formed by LCSD to monitor the progress of clearing backlog items for accession conducted two site inspections to HKHM between October 2010 and May 2011.

10. LCSD will continue to explore options for addressing the storage problem, including building new premises and sourcing suitable government buildings for storage of the museum collections. LCSD will report progress to the Panel on Home Affairs of the Legislative Council (LegCo) as and when appropriate.

Performance of LCSD museums

11. The Hong Kong Museum of Art launched a trial scheme of providing sign language services in guided tours from 30 December 2009 to 29 December 2010 and they were well received. The public guided tours with additional sign language interpretation are now on-going services to encourage hearing-impaired persons to come into closer contact with art.

12. As LCSD has cleared all the related backlog items of the museums concerned and will improve public museum services on a continuing basis, we recommend deleting this item from the next progress report.

Provision of aquatic recreational and sports facilities (Paragraphs 11 to 13 of Part 4 of PAC Report No. 53)

De-gazetting of the Kiu Tsui Beach on Sharp Island

13. Up till February 2011, Lands D did not receive any proposal from the private developer for the development of Sharp Island into a holiday resort. With the promotion campaign of the Hong Kong National Geopark, Sharp Island can be positioned as an ideal place for learning about igneous rocks. LCSD is exploring measures to enhance the usage of the Kiu Tsui beach such as using it as a landing base for organising canoeing trips to the nearby Marine Park and Geopark.

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

14. The Working Group on the Fees and Charges Review of Leisure Services continues 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). Assessments have been made to examine the impact of different fee alignment options taking into account cost recovery rates, the concessionary arrangements, utilisation of the facilities, public affordability and acceptability as well as the policy objective of promoting sports development and “Sport for All”. The review also examines all the fees for recreation and sports programmes organised by LCSD (including swimming training courses) as well as the financial implications of changing or aligning the fees. LCSD will complete the review as soon as practicable and formulate proposals for consultation with LegCo, District Councils and relevant stakeholders.

University Grants Committee funded institutions - General administrative services
(Paragraphs 16 and 17 of Part 4 of PAC Report No. 53)

Student hostels

Review of the existing policy on students’ grants and loans

15. In the context of a consultancy study to review the mechanism for setting and adjusting the levels of living expenses loans for post-secondary students, we have considered the consultant’s recommendation to provide needy students with an accommodation expenses loan under the “Tertiary Student Finance Scheme - Publicly-funded Programmes”. The consultant’s interim report of the study has been presented to the Joint Committee on Student Finance in March 2011 for consideration.

University Grants Committee funded institutions - Staff remuneration packages and stipends (Paragraphs 18 and 19 of Part 4 of PAC Report No. 53)

Pay structure

The Hong Kong Polytechnic University (PolyU)’s review on the effect of section 9(3)(c) of The Hong Kong Polytechnic University Ordinance and its proper application

16. PolyU has completed the drafting of The Hong Kong Polytechnic University (Amendment) Bill to, among other things, define more clearly the role of its Council in drawing up the University’s policy governing the terms and conditions of service of staff. The Bill was discussed by the LegCo Panel on Education on 9 November 2009. PolyU has refined the Bill in light of views received at the Education Panel meeting, and will submit it to LegCo in the 2010-11 legislative session.

Services provided by the Official Receiver's Office (Paragraphs 20 and 21 of Part 4 of PAC Report No. 53)

17. The Official Receiver's Office (ORO) will keep its outsourcing schemes under regular review. ORO is also reviewing the level of its fees and charges and will consult the LegCo Panel on Financial Affairs.

Recoverability of the outstanding advances to the United Nations High Commissioner for Refugees (Paragraphs 22 and 23 of Part 4 of PAC Report No. 53)

18. The Administration has continued to urge the United Nations High Commissioner for Refugees (UNHCR) to make renewed efforts to appeal to the international community for donations with a view to settling the outstanding advances, which remain at \$1,162 million. SB wrote to the Head of Hong Kong Sub-office of UNHCR in August 2010 and March 2011 respectively to restate the community's expectation of an early recovery of the outstanding advances and to register the Administration's concerns.

19. Although it was not optimistic that repayment can be made in the foreseeable future due to other more pressing refugees and humanitarian issues around the world faced by UNHCR, the Administration will continue to pursue early repayment of the outstanding advances from UNHCR.

Footbridge connections between five commercial buildings in the Central District (Paragraphs 24 and 25 of Part 4 of PAC Report No. 53)

20. The owner of Building II is preparing information in response to suggestions raised by the owner of Building I regarding the footbridge proposal. Lands D will coordinate a joint meeting with the owners of Buildings I and II to discuss the concerns and requirements of both owners regarding the footbridge proposal upon receipt of the relevant information from the owner of Building II. Lands D will continue to follow up the matter.

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

21. The existing Small House Policy has been in operation for a long period of time. Any major policy change would entail complex legal, land use and planning issues which require our careful examination.

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

Assessment of Contamination at the Penny's Bay Shipyard Site

22. In September 2010, the ex-lessee requested 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 hearing is scheduled for October 2012 to determine the amount payable.

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

23. As the land problems of Yi Long Wan Development involve very complex legal and operational issues, Lands D requires further legal advice which is being sought on the issues before deciding on the course of action to be taken.

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

24. As reported in the letter from the Development Bureau to PAC on 25 January 2011 (Appendix III of PAC Report No. 55), the Government is committed to enhancing the design standard of new buildings to foster a quality and sustainable built environment. 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, building set back and site coverage of greenery in new buildings, was introduced.

25. The tightening up of our policy on granting gross floor area (GFA) concessions for private buildings is one of the foci of the package of measures. Major changes include doing away with concessions for certain features, lowering the level of concessions for car parks, balconies, utility platforms and residential recreational 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 from the outer face of the external walls of buildings.

26. As a step to widely promote green buildings 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.

27. After consultation with the stakeholders through established channels, the revised practice notes stipulating the details of the proposals were promulgated on 31 January 2011 and came into effect on 1 April 2011.

28. From the 2008-09 Application List onwards, we have also specified the maximum GFA or plot ratio (or equivalent) in the conditions of sale of each sale site on the List.

29. We will continue to monitor the implementation of the various improvement measures, including the new measures mentioned in the above paragraphs.

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

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

30. The Administration reported the results of the public consultation on the proposal to introduce the Medical Priority Dispatch System (MPDS) to the LegCo Panel on Security (the Security Panel) in April 2010. We will take the views and opinions of the community and the Security Panel into careful consideration in studying the way forward and details of the long term plan. As the study will take time, we will report progress to PAC at appropriate junctures.

Timetable and result of the review of the 12-minute target response time for Emergency Ambulance Service (EAS)

31. If the proposed MPDS is accepted for implementation, it will lead to changes to the principle of ambulance dispatch and the mode of operations, and the response time targets will need to be adjusted accordingly. The Administration will revisit the target response time for EAS after the way forward for the proposed MPDS is clear. As the study will take time, we will report progress to PAC at appropriate junctures.

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

32. The Fire Services Department (FSD) has already set up additional temporary ambulance stand-by points at Ta Kwu Ling Rural Centre Government Building and Dills Corner in Kwu Tung. For the longterm, the Administration is exploring the feasibility of constructing a new ambulance depot in Sheung Shui. As FSD has taken follow-up actions on PAC's recommendation, we recommend deleting this part from the next progress report.

Review of the ambulance turnout time

33. Turnout time is part of the response time. As mentioned in paragraph 31 above, the Administration will revisit the ambulance turnout time after the way forward for the proposed MPDS is clear. As the study will take time, we will report progress to PAC at appropriate junctures.

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

Comprehensive review of the Sports Subvention Scheme

34. The Steering Committee (SC) chaired by the Director of Leisure and Cultural Services completed a review of the Sports Subvention Scheme (the Scheme) in June 2010 and recommended a number of measures to improve its overall efficiency and effectiveness. LCSD consulted the Sports Federation & Olympic Committee of Hong Kong, China (SF&OC) and the National Sports Associations (NSAs) in late 2010, and finalised the recommendations in January 2011. Details of the major improvement measures, most of which will be implemented with effect from 2011-12, are set out in the ensuing paragraphs.

(1) Allocation of Subvention

(a) Eligibility criteria

35. SC recommends that new applicants for funding under the Scheme should satisfy a set of criteria, namely, the applicant should be affiliated to SF&OC and the international federations of the respective sport; and the sport concerned should be or would likely become one of the sport of major games such as the Olympic or Asian Games. LCSD will upload these criteria onto its website in July 2011 for inviting applications for subvention in 2012-13. This provides an objective and transparent mechanism for new applicants.

(b) Performance-based approach to determine allocation of subvention

36. SC has identified four key performance areas (KPA), namely: Organisation of Programmes; Performance of Athletes; Development of Sport; and Corporate Governance and Compliance. In line with the Audit recommendations, NSAs will be required to set more objective and quantitative performance targets for each of these KPAs for inclusion in their annual plans. LCSD will take into account the targets set and NSAs' achievements of the targets when assessing the allocation of

subvention, thereby adopting a performance-based approach in determining the subvention level starting from 2011-12. LCSD has devised guidelines to assist NSAs in setting these targets.

37. To address the problem of late submission of financial and programme reports by NSAs, SC recommends including timely submission of reports as one of the targets under the KPA on Governance and Compliance, and that, consideration will be given to deduct the quarterly subvention by 1% if NSA concerned fails to submit the required reports on time and cannot make the necessary rectification within the specified timeframe despite repeated reminders. A one-year transition period will be provided for NSAs to familiarise their staff with the new system, so subvention deduction (if any) will be implemented from 2012-13 onwards. An appeal mechanism will also be put in place.

38. SC further recommends the introduction of a Mid-year Review, to be conducted by the senior directorate of LCSD in October each year starting from 2011-12, to assess NSAs' achievement of performance targets and compliance with the subvention requirements. Assistance will be provided to NSAs where needed.

(c) Standardising and rationalising the subvention approaches

39. SC has reviewed the two different calculation methods currently used (one taking income into consideration and the other not) for determining the subvention for different categories of sports programme, and recommends that they be standardised. In determining the amount of subvention to be granted to an NSA for all categories of programme in 2011-12, LCSD will take into account the estimated income that can be derived from the programmes as well as the maximum subvention level for the eligible expenditure of the category of programme concerned.

40. Based on SC's recommendations, LCSD will continue to adopt the lump-sum approach in allocating the subvention for five categories of programme, namely, international competitions held outside Hong Kong, national and junior squad training, regional squad training, training of officials, and meetings and conferences. The programmes will be processed in the form of "wish lists" whereby NSAs set out their proposals in order of priority and LCSD will provide subvention having regard to funding availability. As recommended by SC, LCSD will also continue to allocate the subvention on a programme basis for the remaining five categories of programme, namely, local international competitions, development schemes, local competitions, school sports programmes and community sports clubs projects.

(2) Monitoring the Use of Subvention and Internal Controls of NSAs

(a) Output-based approach to monitoring the use of subvention

41. To simplify the subvention system and increase the flexibility for NSAs, SC recommends the adoption of an “output-based” approach whereby LCSD will not vet the individual expenditure items against the corresponding items in the approved budget. This will enable NSAs to use the approved subvention more flexibly so long as they meet their commitment on deliverables and fulfill the broad funding principles.

42. Nevertheless, to prevent possible abuses, LCSD will set conditions for the use of certain expenditure items (e.g., air fares, hotel accommodation and pay rates for coaches and officials) to ensure that public money will be spent properly and that coaches and officials are appropriately remunerated.

(b) Streamlined and simplified reporting requirements

43. Having reviewed the purpose of and information contained in the various reports currently submitted by NSAs to LCSD, SC recommends streamlining and simplifying the reporting system to tie in with the “output-based” monitoring approach, with a view to reducing the burden on NSAs and enhancing compliance. With the revised system taking effect from 2011-12, NSAs will submit one Programme Report for each programme on a quarterly basis (instead of three reports), and an annual auditor’s report on the entire subvention. The Department has prepared a set of “Best Practices for Internal Processing of Reports and Follow-up Work” to help LCSD staff monitor NSAs.

(c) Systematic inspections

44. In addition to quality assurance inspections conducted by the Quality Assurance Section (QAS) of LCSD covering all NSAs on a three-year cycle, SC recommends adopting a new risk-based approach from 2011-12 for conducting on-site inspections of subvented programmes. The risk-based approach will help determine the frequency of on-site inspections to be undertaken by LCSD staff in a more systematic manner, taking into account the nature and complexity of the programmes as well as the risk level of NSAs concerned.

(d) Comprehensive guidelines and best practices

45. LCSD has devised a checklist of best practices of internal control for implementation by NSAs, covering procurement procedures, handling of receipts and cash, payment procedures and fixed asset control.

46. The Corruption Prevention Department (CPD) of the Independent Commission Against Corruption (ICAC) has all along been working jointly with the LCSD to address the governance issues in NSAs. CPD will in consultation with the Home Affairs Bureau and LCSD compile a best practice checklist to help NSAs further enhance their governance and internal controls. ICAC and LCSD will jointly organise workshops to help NSAs understand and implement the best practices. The ICAC is also ready to provide free and tailor-made corruption prevention advice to individual NSAs.

(e) Auditing standard and quality assurance inspections

47. Having regard to the auditing standards adopted by other subvented bodies, SC recommends that the standard for NSAs' audited accounts should be raised to the level of "providing reasonable assurance on NSAs' compliance with the relevant guidelines and requirements". To ensure that QAS's recommendations are properly followed up, LCSD has promulgated guidelines for compliance both by its staff and by staff of NSAs. Moreover, the senior management of LCSD will be kept informed regularly of the work progress of the department's QAS and the follow-up actions taken by NSAs.

(f) Briefings and IT Support for NSAs

48. LCSD conducted two workshops in March and April 2010 to remind NSAs' staff of the importance of following proper accounting procedures and best practices for addressing procedural loopholes. It will continue to organise workshops and seminars to help NSAs improve their governance and internal controls and comply with the accounting and auditing requirements stipulated in the revised Subvention Agreements. It will also hold annual briefings for NSAs to advise them of the latest government policies and initiatives for developing sport as well as to remind them of common problems relating to reporting and compliance.

49. LCSD is developing a computerised system to be implemented in two phases. Phase I will be implemented in 2011-12 and will improve LCSD's monitoring capability. Phase II will be completed in 2012-13 and will help improve NSAs' communication, operational efficiency and online reporting capability. LCSD has also provided NSAs with a list of suitable accounting software to help them enhance the management of accounts.

(3) Manpower Support

50. Recognising the increase in workload arising from the expansion and growing complexity of the Scheme over the years, and rising public expectation with regard to the monitoring of the performance and governance of NSAs, SC recommends

enhancing LCSD's monitoring capacity and providing additional resources to NSAs to allow them to strengthen their internal control and accounting capabilities. To follow up the recommendations, LCSD has allocated an additional provision of about \$10 million per annum from 2011-12 onwards.

51. LCSD will oversee the implementation of SC's recommendations and monitor NSAs' compliance with their obligations under the Scheme.

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

Building management services provided by BMM Limited

52. Hong Kong Productivity Council (HKPC) conducted a benchmarking exercise in early 2011 to review the cost effectiveness of BMM Limited (BMM). The results indicate that the building management services provided by the company is competitive and cost-effective vis-a-vis those provided by service providers in the market. Separately, HKPC has reviewed the need for maintaining BMM as its subsidiary company to provide building management services for HKPC Building. Having considered the background to the setting up of the company and with a view to streamlining the corporate structure, HKPC has decided to dissolve BMM with all existing BMM staff being offered an option of transfer of employment from BMM to HKPC on comparable terms. HKPC will review the cost-effectiveness of its building management work from time to time. As HKPC has completed the follow-up actions on this outstanding issue, we recommend deleting it from the next progress report.

Office of the Privacy Commissioner for Personal Data (Chapter 4 of Part 8 of PAC Report No. 53)

Corporate Governance

53. The Office of the Privacy Commissioner for Personal Data (PCPD) recruited a Chief Corporate Services Manager to oversee its Administration, Finance and Corporate Communications Divisions. The post holder assumed duty in December 2010, and has commenced a review of the financial and accounting regulations of PCPD to strengthen control. In particular, PCPD will set up a system of internal compliance check to enhance compliance and internal control. With the above developments, PCPD sees no need to commission separately a consultancy to review its internal procedural matters. As PCPD has taken follow-up actions to address the concern of PAC, we recommend deleting this part from the next progress report.

Complaint Management

54. On the Committee's concern relating to the proper construction of the 45-day requirement of serving the refusal notice under section 39(3) of the Personal Data (Privacy) Ordinance (PDPO), PCPD has promulgated a revised Complaint Handling Policy in February 2011 to clarify that the 45-day period should start when PCPD has received from the complainant sufficient information to satisfy the criteria of a complaint under section 37 of PDPO.

55. Separately, after taking into account public views received during the further public discussions on the review of PDPO in the last quarter of 2010, the Administration proposes to amend PDPO to remove the 45-day time limit within which PCPD has to notify the complainant if PCPD refuses to continue an investigation. The proposal will be included in an amendment bill to be introduced into LegCo in July 2011.

56. As recommendations of the Audit and PAC have been addressed and follow up actions taken, we recommend deleting this part from the next progress report.

**REPORT ON THE RESULTS OF VALUE FOR
MONEY AUDITS
(Report No. 53A)**

MATTERS OUTSTANDING

Control of western medicines (Part 4 of PAC Report No. 53A)

Review of existing regulatory control of medicines

57. The Food and Health Bureau attaches great importance to enhancing the regime for the regulation and control of medicines in Hong Kong. Many recommendations made by the Review Committee on the Regulation of Pharmaceutical Products in Hong Kong have been implemented. We are expeditiously implementing the remaining recommendations including those requiring legislative amendments or funding approval. We aim to introduce a Pharmacy and Poisons (Amendment) Bill in 2011 to strengthen the regulatory framework. An Office on Drugs is being set up under DH to carry out enhanced drug regulation functions. We have consulted the Legislative Council Panel on Health Services (the HS Panel) and will seek approval from the Finance Committee in mid-2011 for creation of new directorate posts for the Office. As the issues on necessary legislative amendments to improve the medicine control regime will be followed up with the HS Panel and other relevant committees, we recommend deleting this part from the next report.

Inspection of dealers' activities and other enforcement actions

58. DH has continued to conduct unannounced inspections as recommended by the Audit. From March 2009 to December 2010, DH conducted 125 unannounced inspections on drug manufacturers' compliance with the Good Manufacturing Practices (GMP) requirements. A consultancy service will also be commissioned in 2011 to assist DH in enhancing the GMP standards.

59. DH has considered introducing additional regulatory measures in collaboration with the Pharmacy and Poisons Board (PPB), and plans to require authorised and listed sellers of poisons to display their licences at their retail shop entrances through a Code of Practice for licensees to be introduced in 2012. As recommendations of the Audit and PAC have been addressed and further developments in this part will be followed up with the HS Panel at a suitable juncture, we recommend deleting this part from the next report.

Medicine testing, recalls and public alerts

60. DH works closely with the Government Laboratory (GL) to conduct annual reviews of the number of medicine samples for testing. Performance targets for the turnaround time of sample testing have also been set based on the risk assessment of medicines selected from the market surveillance system. As a result of a streamlined medicine testing workflow implemented by DH and GL, outsourcing of testing work is considered not necessary. As the concerns of the Audit and PAC have been addressed, we recommend deleting this part from the next report.

Public information and internal support

61. DH has started revamping its website to provide the public with more useful and up-to-date knowledge and information on medicines and dealers. Professional bodies, patient groups and consumer representatives have been consulted in the design process. The revamped website will be launched in 2011.

62. DH is also developing a website for PPB, which will include the register of pharmacists. PPB website will be launched in 2011. Furthermore, to enhance its regulatory work, DH has consulted EU and is enhancing the IT systems of Pharmaceutical Service of DH, including the Registered Drugs Database, Import/Export Control systems and Drug Procurement/Clinic Service systems, to be completed in about four years' time. As follow-up action will be taken on an on-going basis and further developments in this part will be followed up with the HS Panel at a suitable juncture, we recommend deleting this part from the next progress report.

Progress made in implementing the Audit's recommendations

63. A summary of progress on implementing the Audit's recommendations is at Enclosure 1.

Encl. 1

**REPORT ON THE RESULTS OF VALUE FOR
MONEY AUDITS
(Report No. 55)**

Chapter 1 – Administration of the Direct Subsidy Scheme and Governance and administration of Direct Subsidy Scheme schools

64. The Education Bureau (EDB) has studied in detail the recommendations made by the Audit Commission and PAC on the administration of the Direct Subsidy Scheme (DSS) and the governance and administration of DSS schools, and has taken follow-up actions for continuous improvement of the scheme.

65. EDB has set up a Working Group on Direct Subsidy Scheme (the Working Group) chaired by the Permanent Secretary for Education. Its terms of reference are to review the administration of DSS as well as the governance and administration systems of DSS schools, and to put forward recommendations on measures for continuous improvement. The review will cover, inter alia, how DSS schools should strengthen their internal control mechanism, including increasing the transparency in school management, improving the implementation of their fee remission schemes and enhancing their financial management. The Working Group has been in operation since March 2011. It is now discussing the proposed improvement measures, and will seek views from DSS schools and other stakeholders. The report prepared by the Working Group will be submitted to the Secretary for Education for consideration by the end of 2011. In the meantime, EDB will report the progress to the Panel on Education of the Legislative Council.

66. PAC has recommended that a dedicated high-level body be set up in EDB to oversee the administration of DSS as well as its control and monitoring of DSS schools. In fact, there is already a standing task force called the Task Force on Direct Subsidy Scheme (the Task Force) within EDB, which is chaired by a Deputy Secretary for Education. To enhance the effectiveness of its role in monitoring DSS schools, the Secretary for Education has decided that an annual report summarising the findings of the annual audited accounts submitted by DSS schools and the audit inspections conducted by EDB officers should be tabled for discussion at the Task Force meetings, so that EDB can have a holistic review of the financial management of DSS schools and ensure effective follow-up of various improvement measures, in addition to timely and full compliance with relevant requirements by schools. Moreover, to strengthen the collaboration among relevant sections/divisions in EDB for better monitoring, a working group comprising officers from various sections/divisions has been set up under the Task Force. At the same time, EDB will improve the mechanism for reporting key issues of DSS schools to the Secretary for Education and the Permanent Secretary for Education, and will carry out the improvement measures by phases.

Service agreement with school sponsoring body

67. After 2007, all schools intending to join DSS are required to meet the admission requirements in full, including the signing of the school sponsoring body (SSB) service agreements, before they are admitted to the scheme. Of the three schools that had not signed SSB service agreements as mentioned in PAC Report No. 55, one school signed the agreement in February 2011. As for the remaining two schools, EDB is negotiating with them regarding a clause in the School Management Committee (SMC) service agreements on the transfer of assets to the Government upon termination of the agreements. We will sign SSB service agreements with the schools once the issue is resolved.

68. As to other non-compliance cases relating to SSB service agreements, most of them have been settled. EDB will continue to follow up on the remaining cases. Since follow-up actions set out in paragraphs 67 and 68 will be taken on an on-going basis, we recommend deleting this part from the next progress report.

Service agreement with incorporated school governing body

69. Among the 13 schools that had not signed SMC/Incorporated Management Committee (IMC) service agreements as mentioned in PAC Report No. 55, seven schools signed the agreements before end-April 2011. One school is in the process of incorporation as an IMC and will, upon acquisition of that status, sign IMC service agreement. As for the remaining five schools, EDB is in negotiation with them about the clauses of the service agreements for early conclusion of the agreements.

70. To ensure that newly joined DSS schools will conclude SMC/IMC service agreements within the first year of operation in DSS mode, EDB will accord priority to implementing a reminder system as an improvement measure. Since follow-up actions set out in paragraphs 69 and 70 will be taken on an on-going basis, we recommend deleting this part from the next progress report.

School Fee Remission/Scholarship Schemes

71. 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. As free education is provided by the Government for students attending Government or aided schools, normally no special grant for school fees would be provided under CSSA Scheme to students who choose to attend DSS schools. Notwithstanding the above, where the students have been attending DSS schools before receiving CSSA, the Social Welfare Department (SWD) will give them sufficient time to make suitable arrangements. Normally, they will be given a special grant for school fees up to the end of the current school year; in the interim, the students can apply for

fee remission from their DSS schools like other needy students, or apply for transition to a Government or an aided school in the next school year. A special grant for school fees can be given to students attending Primary 5 and 6 to complete the primary education; and also those attending Secondary 5 and 6 to complete the secondary education.

72. In response to the Audit's and PAC's concerns, EDB has taken measures to enhance the reporting requirements in audited accounts regarding the resources set aside for the school fee remission/scholarship schemes. In submitting their 2009/10 audited accounts to EDB this year, DSS schools have reported the information on the fee remission/scholarship schemes according to the new requirements. The Working Group has also started discussion on how to improve the implementation of the fee remission/scholarship schemes of DSS Schools, including ways to ensure that no students (including those receiving CSSA) will be deprived of the opportunity to attend DSS schools because of lack of means. DSS schools and other stakeholders will be consulted. We will inform PAC of the progress in due course.

Revision of school fees

73. As from this year, EDB has introduced two measures to improve the school fee revision mechanism of DSS schools. Firstly, EDB has explicitly required DSS schools to consult parents on school fee revision and provide them with appropriate and sufficient financial information of the schools, including the accumulated surplus, justifications for fee increase and additional resources required, etc. If planning or undertaking a large-scale capital works project is one of the major reasons for fee increase, schools will be required to explain in detail the purpose, scale, construction period and cash flow of the project in order to avoid causing unnecessary pressure on the level of school fee. Secondly, EDB has required schools to report on their channels to collect parents' views and provide records of the consultation process.

74. As for the financial projections made by schools in their applications for fee increase, those schools with track records of a substantial amount of under-spending will be required to provide full justifications for such applications. Since follow-up actions set out in paragraphs 73 and 74 will be taken on an on-going basis, we recommend deleting this part from the next progress report.

Financial management

75. To ensure that DSS schools will use their resources in an open and transparent manner, the Working Group will explore measures to improve their management framework, training for school personnel and internal control mechanism. The ceiling on the accumulated reserves that DSS schools can keep will also be reviewed. We will inform PAC of the progress in due course.

Admission process

76. After 2007, all schools intending to join DSS are required to meet the admission requirements in full before they are approved for joining the scheme. Regarding the five schools which have yet to acquire non-profit-making status, legal advice on the revised Deed of Novation and a draft Assignment is being sought. EDB will continue to closely liaise with the schools for early completion of all the necessary procedures.

77. EDB has revised the procedures for vetting the applications for joining DSS. An applicant school will be subject to a new school inspection for assessment purpose if the school has no previous External School Review (ESR) report or the latest ESR was conducted more than six years ago. (An ESR cycle covers a period of six years.) Since follow-up actions will be taken on an on-going basis, we recommend deleting this part from the next progress report.

Monitoring school performance

78. To better monitor financial management in DSS schools, EDB has taken measures to enhance the reporting requirements in the 2009/10 DSS school audited accounts. Moreover, we have put in place a systematic risk analysis mechanism for selecting schools for audit inspections with a view to strengthening the monitoring of the use of funds by DSS schools. In addition, the Working Group is studying measures to strengthen the internal control mechanism in DSS schools to ensure their proper use of funds. We will inform PAC of the progress in due course.

Direct subsidy scheme subsidy

79. EDB has been and will be doing its utmost to ensure that accurate information is provided to the LegCo. We recommend deleting this part from the next progress report.

International schools in the direct subsidy scheme

80. The Working Group will review the validity of the justifications for allowing School I to remain in DSS. We will inform PAC of the progress in due course.

Human resources management

81. In order to familiarise DSS schools with the various EDB requirements in respect of human resources management for the purpose of strengthening their internal control mechanism, the Working Group will explore appropriate training for their staff. We will inform PAC of the progress in due course.

General administration

82. The cases identified in the Audit Report have been settled by the schools concerned. EDB has reminded DSS schools from time to time of their need to comply with the requirements on trading operations. In November 2010, EDB issued a circular to remind DSS schools, among other things, of the requirements on trading operation in schools. The Working Group will explore measures to help schools meet the requirements by strengthening their internal control mechanism. We will inform PAC of the progress in due course.

Other governance issues

83. In April 2010, EDB issued a circular to remind DSS schools, among other things, of the need to include all key stakeholders as SMC members in order to meet public expectation. The Working Group will explore measures to help schools comply with the requirements in respect of the composition and operation of their SMCs/IMCs through strengthening their internal control mechanism. We will inform PAC of the progress in due course.

Progress made in implementing the Audit's recommendations

Encl. 2 84. A summary of the progress of implementing the Audit's recommendations is at Enclosure 2.

Chapter 2 – Residential treatment and rehabilitation services for drugs abusers

Policy formulation and coordination

85. The Narcotics Division (ND), under the leadership of the Secretary for Security, is responsible for formulating the anti-drug policy and coordinating efforts across bureaux/departments and the non-governmental organisation (NGO) sector. As and when necessary, leadership would be taken up at even more senior levels, such as the Task Force chaired by the Secretary for Justice in 2007-08, and the escalated community-wide anti-drug campaign led personally by the Chief Executive in 2009. The Administration will ensure that anti-drug policy and coordination will be dealt with effectively at an appropriate level of government.

86. Institutionally, an Inter-departmental Working Group led by SB involving key government parties (including SWD, DH and EDB, is in place to steer, coordinate and implement the reinvigorated anti-drug initiatives. To ensure seamless concerted efforts along the direction recommended by the Audit and PAC, we have strengthened the platform and continued to work in partnership with the NGOs that

operate drug treatment and rehabilitation centres (DTRCs), as we all share the same commitment to helping those fallen victim to drugs. DH, SWD, EDB, ND and Lands D will dutifully perform their respective monitoring and enforcement roles towards this common goal as appropriate.

87. The preparation of the 6th Three-year Plan on Drug Treatment and Rehabilitation Services in Hong Kong (2012-14) will begin in mid 2011, which will also provide an important opportunity to engage Government departments and NGOs in the field to review services, map out future strategy and coordinate efforts.

88. As regards educational programmes provided by DTRCs to school-aged young drug abusers, EDB has increased the level of subvention by some 40% from \$335,251 per programme to \$465,480 per programme since 2010/11 school year, as part of its contribution to collaborative efforts across the Administration to address the youth drug problem. With the enhanced provision, DTRCs are required to strengthen the programme structure and design by broadening the programme scope, adding more vocational elements and other learning experiences to accommodate the diverse needs of the school-aged residents. EDB inspectors have paid advisory visits to the 13 DTRCs operating subvented education programmes to help them develop capacity in this respect. Three workshops, including a visit to a School for Social Development, were also organised for teachers working in DTRCs. EDB will continue to organise networking activities among the teaching staff of DTRCs to facilitate the sharing of good practices and to enhance professional dialogues.

Resource alignment

89. To tackle the gradual shift from heroin abuse to psychotropic substance abuse, especially among youngsters, the Government has since 2008-09 substantially enhanced treatment and rehabilitation services for PSAs, including increasing the number of counselling centres for PSAs from five to 11 within two years, increasing the number of substance abuse clinics covering all seven hospital clusters and also increasing the number of clinic sessions, enhancing social work manpower for day and overnight outreaching teams and psychiatric medical social work services, launching a pilot scheme on enhanced probation service for young drug offenders, etc. The additional recurrent provision amounts to around \$90 million per annum. Moreover, in 2011-12, the school social work service in all secondary schools will be enhanced by a 20% increase in manpower to help prevent and tackle student drug abuse and related problems. The additional recurrent provision is \$49.8 million per annum. In addition, \$3 billion was injected into the Beat Drugs Fund (BDF) in 2010 to increase the capital base for generating a larger income to support anti-drug work with a particular focus on tackling psychotropic substance abuse.

90. At the same time, substantial efforts were made among residential DTRCs to devote more existing resources to PSAs. Of the 40 DTRCs, 39 have re-engineered their programmes to serve PSAs, who have become the major users of the centres. We are actively taking steps to assist the remaining one to transform some of the bedspaces originally for heroin abusers to serve PSAs instead, and also to improve its utilisation.

Allocation of Resources to the Society for the Aid and Rehabilitation of Drug Abusers (SARDA)

Service re-engineering of Centre 1 and support to SARDA

91. SARDA has forged ahead with Project SARDA, an initiative which began in August 2010 to convert 38 places originally designated for heroin abusers in Centre 1 to serve young male adult PSAs aged 21 to 35. As at 21 March 2011, 22 PSAs and 164 heroin abusers were admitted to Centre 1 under different programmes, resulting in an overall occupancy rate of 58.9%.

92. DH has been working with SARDA to review the resources of Centre 1. Plans are in hand to expand Project SARDA by converting more places for its use. DH is considering requiring SARDA to meet certain utilisation standards for its DTRCs as a condition for subvention upon completion of the review. We will keep PAC informed of progress.

Management and governance issues of SARDA

93. In March 2011, DH and SARDA concluded a Funding and Service Agreement to codify existing arrangements and improve corporate governance. Among other things, performance targets on detoxification and rehabilitation rates have been set for monitoring SARDA's service performance. To facilitate the financial monitoring of its service programmes and further discussion on a new funding mode, SARDA is working to apply an accounting template recommended by EU, starting with costing data of 2009-10.

94. To further improve SARDA's corporate governance, DH and ND of SB are planning to follow up on another recommendation by the EU to recommend for consideration by SARDA up to three non-government officials or non-SARDA members to sit on its Executive Committee as members. SARDA will process the nominations based on its constitution for the new arrangement to take effect at the next Annual General Meeting scheduled for the end of 2011. We will keep PAC informed of progress.

Usage of treatment centres

95. As at end February 2011, there were 40 DTRCs with a total capacity of 1 644 places, representing a net increase of nine licensed places (five for male and four for female drug abusers) since the release of the Audit Report in November 2010.

96. To even out the workload among centres, SWD is disseminating updated information about occupancy rates of DTRCs and programmes to probation officers (POs) on a quarterly basis to assist them in recommending appropriate DTRCs for probationers.

97. To closely monitor the waiting time and usage of DTRCs by POs, SWD has since December 2010 started to collect from the probation offices relevant statistics on the waiting time of each DTRC on a monthly basis.

98. On the Government's information collection and sharing system, we are undertaking a review of the pilot project on the Service Information System. We will also review, in collaboration with bureaux/departments and relevant stakeholders, the information required, streamline the information collection procedures, and promote the collection and sharing of information among relevant parties.

99. DTRCs receiving subvention to run education programmes are required to submit to EDB information on their progress, including enrolment figures, the number of discharges and their exit pathway. As a priority supplementary measure, SWD has since April 2011 started to share with EDB every six months information on the number of drug abusers aged under 18 residing in DTRCs as collected during licensing inspections. This may provide a general overview covering also DTRCs not receiving any education subvention.

Treatment centres on government sites/premises

100. SWD is reviewing the degree of monitoring over existing non-subvented DTRCs and will work out a better monitoring mechanism on the future granting of government sites/premises to new centres with policy support from ND and professional input from Lands D.

101. Regarding 11 existing DTRCs which have land grants or tenancy agreements with Lands D, Lands D has completed inspection of them and confirmed with SWD, DH and ND as the case may be, support for continual use by the existing grantees or tenants for DTRC purposes. Among the 11 DTRCs, two non-subvented ones have low utilisation rates. SWD has written to NGOs concerned seeking cooperation with them to make improvements. Relevant departments will continue to follow up any land use irregularities that may arise in future and, where appropriate, liaise with Lands D as the lessor/landlord.

102. Regarding new applications for land grant or tenancy for DTRC purposes, Lands D will continue to consult the relevant bureau/department (such as SWD, DH and ND) on the conditions that need to be specified in the land document. Unless otherwise advised by the relevant bureau/department, the land documents will include a user clause, restriction upon alienation clause, commence-to-operate clause, and cessation or diminution of user clause.

103. On Case 3, the site concerned has been returned to Lands D. Lands D has circulated information on the site to Government departments and asked through the Home Affairs Department and SWD to see if any party is interested in making use of it.

104. On Case 4, SWD has requested NGO 2 to submit the audited account and a report on the operation of Centre 21 in accordance with the relevant Conditions of Grant. SWD has also engaged NGO 2 in exploring ways to make more effective use of the capacity in Centre 21 to meet the demand for residential treatment and rehabilitation services. Moreover, SWD has encouraged NGO 2 to extend its referral network; and arranged around 50 social workers from SWD's service units (including probation offices and integrated family service centres) to join a service briefing at Centre 21, so as to strengthen the latter's communication and collaboration with frontline social workers.

105. As Centre 21 is intended not only to be a DTRC but also a training and rehabilitation centre for displaced persons in general, SWD is actively liaising with NGO 2 to facilitate their service review and work out the optimal numbers of places to be designated as a DTRC and for other purposes respectively, having regard to the changing service demand. The scale of operation of the centre will be monitored on this basis. This arrangement can better reflect the nature of the centre and preserve sufficient capacity for drug abusers, having due regard to the manpower situation of the centre.

106. As regards Centre 37, SWD renewed its Certificate of Exemption (CoE) for six months from December 2010 (instead of 12 months in normal course) in view of building safety concerns and demanded improvements. In March 2011, as required by SWD, the Centre submitted a document signed by an Authorised Person/Registered Structural Engineer certifying that its structure was safe, together with a renewal application for CoE. Relevant documents have been passed to departments concerned for follow up actions. SWD will critically review the propriety of granting further renewal of its CoE when due.

Licensing of treatment centres

107. SWD has stepped up collaboration with relevant departments to assist and advise DTRC operators on licensing issues through consultation meetings. In the first quarter of 2011, three meetings were arranged with two operators. Separately, through

working with the professionals engaged by DTRCs, all except two DTRCs with CoEs have been able to submit realistic works schedules since May 2010 when they applied for CoE extension. It is anticipated that two of DTRCs now operating on CoEs will be issued with a licence by the end of 2011, to be followed by another five in 2012.

108. In February 2011, ND and SWD worked out a new coordinating mechanism with a view to improving the identification of new DTRC sites/premises, the follow-up of potential sites/premises being considered and the monitoring of the licensing progress and needs of treatment centres operating on CoEs. To keep track of the progress of identification and acquisition of suitable sites for re-provisioning DTRCs, an action checklist has been put in place since April 2011. SWD has also set up an improved record system to document the reasons for rejecting vacant sites/premises for use as treatment centres.

109. In April 2011, ND commissioned an agency to produce a new set of Announcements in the Public Interest (APIs) to promote the important role played by the drug treatment and rehabilitation facilities (including DTRCs) and call for local support for setting up these facilities. The new APIs would be broadcast from June 2011 onwards.

110. In April 2011, ND finalised the detailed arrangements for the expanded Special Funding Scheme (SFS) of BDF. The new set of SFS procedures is modeled on the Lotteries Fund mechanism, with necessary adjustment to expedite the planning and construction processes in view of the special circumstances of DTRCs while maintaining due monitoring and control over the use of funds. DTRC operators may apply for BDF funding to carry out technical feasibility studies, commission Authorised Persons, employ project coordinators, carry out construction works and run programmes that would promote community support for DTRCs and for their works projects. The new SFS will be launched shortly.

Chapter 3 – The Community Investment and Inclusion Fund

111. The Labour and Welfare Bureau (LWB) welcomes the views and recommendations made by the Audit Commission and the Legislative Council Public Accounts Committee on improving the governance and administration of the Community Investment and Inclusion Fund (CIIF). LWB is taking follow-up actions together with the Community Investment and Inclusion Fund Committee (the CIIF Committee) and actively implementing various improvement measures to enhance the operation of CIIF to ensure good governance.

Development of Social Capital

112. The CIIF aims to build up social capital in Hong Kong with clear objectives and positioning and does not overlap with other existing funds. When assessing applications, the CIIF Committee will accord priority to the effectiveness of the projects in terms of promotion of multi-partite collaboration and sustainable development of social capital rather than focusing on the number of projects approved. Political consideration has never been an assessment criterion of the CIIF. We are pleased to see that various measures to enhance publicity and promotion have achieved initial results. The number of applications received in the recent (i.e. 17th) batch was 43, representing an increase of 16% over 37 applications received in the 16th batch. Among the 43 applications, nearly half of them (i.e. 21) came from new applicants which have not applied for the CIIF before, showing a remarkable increase as compared to 12 applications received from new applicants in the 16th batch. This also reflects the enhanced awareness and recognition of the CIIF. We have commissioned consultants to conduct a half-yearly CIIF brand building exercise with a view to enhancing public understanding of the CIIF and social capital.

113. Separately, we will further enhance support to applicants and grantees, including providing individual consultation service and regularly organising briefing and sharing sessions as well as training workshops. Following the development of the CIIF, many effective approaches for social capital development have been accumulated for applicants' reference. From time to time, academics, grantees and prospective applicants are invited to briefing sessions to share their experience in the good modes of operation and implementation of successful projects. We will also review from time to time the possibility of streamlining administrative procedures to enable applicants to have a better understanding of the CIIF's requirements. In March 2011, we provided grantees with clearer definitions of performance indicators for reporting project achievements so as to ensure accuracy and consistency. On advance payment of grant, the CIIF Committee will, as always, consider and process applications for partial payment in advance on a case-by-case basis to prevent abuse of public funds. Among the 17th batch of approved projects, the CIIF has received an application for advance payment, which was approved by the CIIF Committee at its meeting held on 25 February 2011 for an early disbursement of the first three months' estimated expenditure. In view of the follow-up measures taken by LWB and the CIIF Committee, we propose that the parts set out in paragraphs 112 and 113 above be deleted in the next progress report.

114. We are now devising guidelines and framework on project assessment to require grantees to spell out their achievements in terms of quality and quantity as well as project sustainability. To have a more comprehensive understanding of the CIIF's effectiveness in promoting social capital development, LWB has commissioned independent consultants to conduct the second evaluation study of the CIIF. The study

has commenced in October 2010 and is expected to complete in early 2012. We will actively follow up on the findings of the independent evaluation study and consider the way forward for and injection into the CIIF in due course. Taking into account the target, scale and timing of the evaluation study, we are of the view that the independent consultants should continue with their work and consider it inappropriate for LWB and the CIIF Committee to conduct in parallel a self-evaluation before the completion of the independent evaluation to avoid duplication of resources and ensure the independence of the review findings. We will report the progress of the study to the Public Accounts Committee in due course.

Assessment and Monitoring of Projects

115. Turning to the Public Accounts Committee's recommendation that we should assist applicants to launch projects in collaboration with local stakeholders, the CIIF has actively stepped up networking efforts in the districts. For instance, the CIIF co-organised the Wong Tai Sin District Summit with the Wong Tai Sin District Office and the Social Welfare Department in December 2010 where discussions were held with stakeholders on cross-sectoral collaboration and cost reduction in project implementation. According to our understanding, some local organisations in Wong Tai Sin District are actively considering to implement collaborative projects with a view to developing and promoting social capital at the district level. The CIIF will continue to provide necessary assistance to these organisations. In view of the follow-up measures taken by LWB and the CIIF Committee, we propose that this part be deleted in the next progress report.

Governance of the CIIF and Use of Funds by Grantees

116. We have all along been attaching great importance to the governance and operation of the CIIF to ensure the prudent use of public funds. To further enhance the governance of the CIIF, we have put in place the two-tier reporting mechanism for declaration of interests. Since December 2010, we have prepared for each member a personalised declaration form to avoid inconsistencies in declaration of interests and reminded members to verify and confirm the items by signature at the meetings. Since February 2011, the CIIF Secretariat has issued to members guidelines on declaration of interests as well as relevant forms and documents before meetings to remind them to declare any conflict of interests at the meetings. We will also clarify with members on the declaration of interests where necessary. In addition, we have already uploaded information that measures the efficiency and effectiveness of the CIIF operation and project performance onto the CIIF's website. We have also taken measures to urge grantees to properly publicise their staff vacancies and put in place a system of declaration of conflict of interests. We have devised guidelines for the Secretariat staff to handle claims for expenditure on one-off activities and revised the "Notes to Grantees" regarding the parts on procurement and asset management. In view of the follow-up measures taken by LWB and the CIIF Committee, we propose that this part be deleted in the next progress report.

Progress in Implementing the Audit Commission's Recommendations

117. Of the 49 recommendations put forward in the Audit Report, 43 have been implemented while six are being actively followed up. The progress in implementing the Audit Commission's recommendations is set out at Enclosure 3.

Encl. 3

Control of Western Medicines

Updated Progress of Implementing Audit Recommendations

DoA's Report Para.	Audit Recommendations	Progress to date
Part 1 : Introduction		
1.17	<p><i>Review of existing regulatory control of medicines</i></p> <p>Audit <i>recommends</i> 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</p>	<p>Accepted. The Food and Health Bureau attaches great importance to enhancing the regime for the regulation and control of medicines and takes into serious consideration the observations and recommendations of the Audit in formulating Government's strategy to tighten up control. We aim to introduce a Pharmacy and Poisons (Amendment) Bill in 2011 to strengthen the regulatory framework. The issues will be followed up with the LegCo Panel on Health Services (HS Panel) and other relevant committees.</p>
Part 3: Inspection of Dealers' Activities and Other Enforcement Actions		
3.14	<p><i>Inspections of manufacturers' licensed premises</i></p> <p>Audit <i>recommends</i> that the Director of Health (DH) should:</p> <p>(a) uphold the DH efforts in conducting surprise inspections of manufacturers' premises;</p> <p>(b) for manufacturing processes that have been outsourced to contractors</p>	<p>(a) Implemented. DH continues to conduct unannounced inspections as recommended by the Audit. 125 unannounced Good Manufacturing Practices (GMP) inspections had been conducted from March 2009 to December 2010.</p> <p>(b) Accepted. As recommended by the Review Committee on Regulation</p>

DoA's Report Para.	Audit Recommendations	Progress to date
	<p>outside Hong Kong, consider conducting inspections of the contractors' premises; and</p> <p>(c) improve the effectiveness and quality of 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 GMP system in Hong Kong</p>	<p>of Pharmaceutical Products in Hong Kong, 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 Organization (WHO) and the Pharmaceutical Inspection Co-operation Scheme (PIC/S). According to WHO and PIC/S requirements, DH should conduct inspections of the overseas contractors who take up the outsourced manufacturing process.</p> <p>(c) Accepted. A consultancy service will be commissioned in 2011 to further assist DH in enhancing GMP standards.</p>
3.25	<p><i>Inspections of wholesalers' and importers/exporters' (I/Es) licensed premises</i></p> <p>Audit <i>recommends</i> that the DH should improve the effectiveness and quality of DH inspections on wholesalers' and I/Es' premises, including the conduct of more frequent and more comprehensive inspections (particularly on those wholesalers with high risk)</p>	<p>Implemented as reported in last GM.</p>
3.35	<p><i>Inspections of authorised sellers of poisons (ASPs) and listed sellers of poisons (LSPs)</i></p> <p>Audit <i>recommends</i> that the DH should:</p> <p>(a) take steps to strengthen the DH regulatory controls to prevent illegal</p>	<p>(a) Implemented as reported in last GM.</p>

DoA's Report Para.	Audit Recommendations	Progress to date
	<p>sales of medicines, including, for example, inspecting convicted ASPs more frequently;</p> <p>(b) conduct more publicity programmes to enhance the public's knowledge of medicines;</p> <p>(c) explore the desirability of imposing a requirement for ASPs/LSPs to display their licences at the entrance of their retail shops;</p> <p>(d) 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</p> <p>(e) review how the quality of the DH routine inspections of ASPs and LSPs can be enhanced.</p>	<p>(b) Accepted. DH has consulted other professional bodies and consumer associations on the proposed revisions on DH's website. The revamped website of DH will be launched in 2011.</p> <p>(c) Accepted. DH will, in collaboration with the Pharmacy and Poisons Board (PPB), explore additional regulatory measures, including requiring ASPs/LSPs to display their licences at the entrance of their retail shops through introducing a Code of Practice for licensees in 2012.</p> <p>(d) Implemented. DH has already enhanced inspections and test purchases at the removed LSPs. Names of removed LSPs will be removed from the list of LSPs published on DH's website.</p> <p>(e) Implemented as reported in last GM.</p>
3.40	<p><i>Market Surveillance</i></p> <p>Audit <i>recommends</i> that as a good management practice, the DH should document the DH market surveillance strategy and regularly review and update it to meet changing circumstances.</p>	<p>Implemented as reported in last GM.</p>

DoA's Report Para.	Audit Recommendations	Progress to date
3.46	<p><i>Test purchase</i></p> <p>Audit <i>recommends</i> that the DH should review and improve the existing mode of conducting test purchases. In particular, he should consider:</p> <p>(a) Conducting test purchases during weekends and night-time; and</p> <p>(b) Purchasing different medicine items (based on risk assessment) at different times and different places</p>	Implemented as reported in last GM.
Part 4: Medicine Testing, Recalls and Public Alerts		
4.15	<p><i>Collection of medicine samples for testing</i></p> <p>Audit <i>recommends</i> that the DH should:</p> <p>(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;</p> <p>(b) for testing of samples collected for medicine registration, conduct a post-implementation review to assess whether the streamlined procedures are effective;</p> <p>(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 IT to improve the DH's information sharing (such as information relating to the movements of samples and dissemination of the test results) with GL.</p>	<p>(a) Implemented. DH is working closely with GL and has initiated an annual review of the number of test samples based on the risk assessment. DH and GL have agreed to increase the number of samples for testing by 700.</p> <p>(b) Completed as reported in last GM.</p> <p>(c) Implemented as reported in last GM.</p>

DoA's Report Para.	Audit Recommendations	Progress to date
4.29	<p><i>Medicine recalls and public alerts</i></p> <p>Audit <i>recommends</i> that the DH should:</p> <p>(a) remind the DH staff of the need to request the manufacturers /wholesalers to take recall actions when a defective/sub-standard medicines are found, even if the registration of the medicines concerned has not been renewed;</p> <p>(b) remind manufacturers/ wholesalers to recall medicines with expired registration; and</p> <p>(c) sustain the DH's enhanced efforts to monitor the recall actions taken by manufacturers/wholesalers</p>	Implemented as reported in last GM.
Part 6: Public Information and Internal Support		
6.6	<p><i>Public information on medicines and dealers</i></p> <p>Audit <i>recommends</i> that the DH, in collaboration with the Board:</p> <p>(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</p> <p>(b) consider setting up a website for the Board and upload the register of pharmacists onto the website</p>	<p>(a) Accepted. DH had consulted the stakeholders on enhancing information on medicines and dealers on DH's website.</p> <p>(b) Accepted. The website of PPB is being developed and will include the register of pharmacists. The new website will be launched in 2011.</p>
6.12	<p><i>Internal support for regulatory work</i></p> <p>Audit <i>recommends</i> that the DH should:</p> <p>(a) conduct an overall review of the DH systems with a view to enhancing</p>	(a), (b) & (c) Review completed and enhancements will be implemented.

DoA's Report Para.	Audit Recommendations	Progress to date
	<p>them to effectively support its regulatory work;</p> <p>(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</p> <p>(c) seek support and assistance from the Efficiency Unit, if appropriate, to explore for instance the use of IT to support the DH inspection work</p>	<p>New IT systems of the Pharmaceutical Service of DH, including the Registered Drugs Database, Import/Export Control systems and Drug Procurement/Clinic Service systems, will be developed in about four years' time. Further developments in this part will be followed up with the HS Panel at a suitable juncture.</p>

Chapter 1: Administration of the Direct Subsidy Scheme

AC's Recommendations	Progress to date
Admission Process	
<p>2.6 - Audit has <i>recommended</i> that the Secretary for Education should consider taking action to ensure that the assessment on DSS applicant schools' track records of performance is based on up-to-date and relevant information. Where necessary, the QAD should carry out a new school inspection for assessment purpose.</p>	<p>The EDB has revised the procedures of vetting the applications for joining the DSS. An applicant school will be subject to a new school inspection for assessment purpose if the school has no previous External School Review (ESR) record or the latest ESR was conducted more than six years ago. (An ESR covers a period of six years.)</p> <p>Since the follow-up will become part of the routine, we recommend deleting this part from the next progress report.</p>
<p>2.15 - Audit has <i>recommended</i> that the Secretary for Education should:</p> <p>(a) take further action to facilitate the five schools to complete their procedures to acquire the non-profit-making status as soon as practicable; and</p> <p>(b) take proactive action to facilitate DSS schools to secure self-owned school premises within the specified period.</p>	<p>(a) Progress has been made in the case. The schools provided the re-draft Deed of Novation and a draft Assignment to the EDB on 11 February 2011. Legal advice on the drafts is being sought by the EDB. In the letter of 4 March 2011, the schools confirmed that the Inland Revenue Department has accepted the proposed amendments to the Memorandum and Articles of Association (M&AA) of the new sponsoring bodies. The amended M&AA has been submitted to the Companies Registry for comment and approval.</p> <p>(b) The EDB has issued letters to the two schools concerned, requesting them to provide plans on how to comply with the requirement of securing their self-owned school premises. Both schools have indicated that they would apply for vacant school premises through the School Allocation Exercise to be conducted by the EDB. One school has also indicated that the landlord of its school premises had verbally promised to renew the present tenancy agreement upon expiry in 2012. The other school has just renewed its tenancy agreement for three years</p>

AC's Recommendations	Progress to date
	starting from September 2011. The EDB is closely liaising with the two schools with a view to ensuring that they have a security of tenure as a safeguard against disruption of education services.
Service Agreement with School Sponsoring Body	
<p>3.13 - Audit has <i>recommended</i> that the Secretary for Education should:</p> <p>(a) take effective measures to expedite the entering into an SSB Service Agreement with each of the SSBs of the five DSS schools that are required to enter into such an agreement;</p> <p>(b) ensure that proper documentation of the justifications and approvals is kept for those exceptional cases where the SSBs of DSS schools are allowed to sign the SSB Service Agreements voluntarily; and</p> <p>(c) in future, ensure that SSB Service Agreements are entered into with the SSBs of all DSS schools immediately upon:</p> <p>(i) their admission to the DSS;</p> <p>(ii) allocation of school premises; or</p> <p>(iii) approval of capital subvention of more than \$21 million.</p>	<p>(a) The school sponsoring bodies (SSBs) of three schools signed the SSB Service Agreements (SAs) with the EDB on 3 September 2010, 16 November 2010 and 14 February 2011 respectively. As for the remaining two schools, their SSBs are concerned about a clause in the School Management Committee (SMC) SAs on the transfer of assets and inventories upon termination of the SMC SAs, and are in negotiation with the EDB about the clause.</p> <p>(b) The EDB will enhance its in-house documentation mechanism to ensure that the handling of exceptional cases relating to the signing of SSB SAs is properly documented.</p> <p>(c) The following measures have already been put in place:</p> <p>(i) Upon receipt of applications for joining the DSS, the EDB will inform applicant schools that no changes to the terms and conditions of the standard SSB SAs are allowed unless under very special circumstances.</p> <p>(ii) & (iii) The EDB will make it clear in its correspondence with SSBs and relevant documents (e.g. guidelines and application forms of the School Allocation Exercise) that schools are required to enter into SSB SAs before submissions are made to the Public Works Subcommittee (PWSC) of the Legislative Council or before land/school premises are handed over. Submissions will be made to the</p>

AC's Recommendations	Progress to date
	<p>PWSC and land/school premises will be handed over to the schools only after they have signed the SSB SAs.</p> <p>Since the follow-up in respect of (b) and (c) will become part of the routine, we recommend deleting these parts from the next progress report.</p>
<p>3.29 - Audit has <i>recommended</i> that the Secretary for Education should ensure that all the requirements stipulated in the SSB Service Agreement are complied with by the DSS schools. Such requirements include:</p> <p>(a) the governing body of a school should be incorporated as an SMC before the school commences operation under the DSS;</p> <p>(b) the SMC/IMC of a DSS school should acquire a tax exemption status under the Inland Revenue Ordinance in a timely manner;</p> <p>(c) the SSB should donate to the SMC/IMC according to the time schedule specified in the agreement a sum equivalent to the costs of furnishing and equipping the school to the standard not lower than that of an aided school as recommended by the EDB;</p> <p>(d) the SMC/IMC should establish a PTA within three years after commencement of school operation;</p>	<p>(a) The EDB has strengthened the procedure by setting out clearly at its website and in the approval letter for joining the DSS that the SSB of a turned DSS school must submit to the EDB a draft M&AA of the SMC or such other documents as appropriate for approval no later than six months before the school commences operation under the DSS, and that the SSB must ensure the incorporation of an SMC at a reasonable time before the school joins the DSS.</p> <p>(b) Currently, the EDB issues letters to new DSS and turned DSS schools, reminding them to apply for tax exemption status as soon as they commence operation (for new DSS schools) or have signed the SSB SAs (for turned DSS schools). This practice will continue.</p> <p>(c) The EDB will issue letters to the SSBs concerned, reminding them to donate the required sum to the SMCs/Incorporated Management Committees (IMCs) according to the time schedule specified in the agreements as soon as the schools commence operation (for new DSS schools).</p> <p>(d) The EDB will issue letters to the relevant SMCs/IMCs as soon as their schools commence operation (for new DSS schools), reminding them to establish parent-teacher associations</p>

AC's Recommendations	Progress to date
<p>(e) the SSB should enter into a service agreement with the SMC/IMC within a reasonable time after school operation has commenced;</p> <p>(f) the SMC/IMC should submit the school development plan in a timely manner;</p> <p>(g) the SMC/IMC should provide all the required information in the school development plan; and</p> <p>(h) the SSB should obtain prior approval from the EDB for any additions, alterations or improvement works to be carried out at the school premises.</p>	<p>(PTAs) within three years after the schools have commenced operation.</p> <p>(e) A letter was issued to all DSS schools on 22 February 2011 with outstanding SAs (i.e. the agreements between the SSBs and the SMCs/IMCs) requesting them to take expeditious actions to sign the agreements. Schools which have not signed the agreements are required to provide the planned dates of signing. According to the reply slips received so far, 13 schools have signed the agreements. As for those which have not done so, about half of them have indicated their plans to conclude the agreements by the end of June 2011, and the rest by the end of December 2011.</p> <p>(f) The EDB will issue letters to the schools concerned, reminding them to submit the school development plans to their respective Senior School Development Officers (SSDOs) for approval as soon as they commence operation (for new DSS schools) or have signed the SSB SAs (for turned DSS schools).</p> <p>(g) Respective SSDOs will ensure that SMCs/IMCs have provided all the required information in the school development plans before granting approval.</p> <p>Since the measures in respect of (a) to (d), (f) and (g) will become part of the routine, we recommend deleting these parts from the next progress report.</p> <p>(h) The Working Group on DSS is now reviewing how to enhance the internal control mechanism of DSS schools, for instance, by providing an internal control checklist to them for better administration (e.g. additions to school premises), personnel management and financial management. The Working Group will examine the tool.</p>

AC's Recommendations	Progress to date
<p>3.33 - Audit has <i>recommended</i> that the Secretary for Education should ensure that the Director of Audit is provided with the right of access to the records and accounts of all the DSS schools.</p>	<p>The EDB has already taken actions to ensure that the Director of Audit is provided with the right of access to the records and accounts of all DSS schools. In the EDB Circular No. 12/2010 on Use of Non-government Funds in Direct Subsidy Scheme (DSS) Schools of November 2010, it is set out that DSS schools should keep proper administrative and financial records and provide them for the examination of the Director of Audit when required.</p> <p>Since the measure will become part of the routine, we recommend deleting this part from the next progress report.</p>
<p>Service Agreement with Incorporated School Governing Body</p>	
<p>4.7 - Audit has <i>recommended</i> that the Secretary for Education should take effective action to:</p> <p>(a) expedite the entering into an SMC/IMC Service Agreement with each of the school governing bodies of the 10 DSS schools that are required to enter into such an agreement; and</p> <p>(b) in future, ensure that SMC/IMC Service Agreements are entered into with the school governing bodies within one year after the schools have commenced operation under the DSS.</p>	<p>(a)</p> <ul style="list-style-type: none"> • Four schools have signed the SMC/IMC SAs. • One school is in the process of incorporation as an IMC to sign the IMC SA. • Five schools are in negotiation with the EDB about the clauses of the SAs. <p>(b) The EDB has strengthened the procedure by setting out clearly at its website and in the approval letter for joining the DSS that the SSB of a turned DSS school must submit to the EDB a draft M&AA of the SMC or such other documents as appropriate for approval no later than six months before the school commences operation under the DSS, and that the SSB must ensure the incorporation of an SMC at a reasonable time before the school joins the DSS. Once the school has commenced operation under the DSS, the EDB will issue another letter to its SMC, reminding it of the requirement to enter into the SMC/IMC SA within one year after the school has commenced operation.</p>

AC's Recommendations	Progress to date
	<p>Since the follow-up measure in respect of (b) will become part of the routine, we recommend deleting this part from the next progress report.</p>
<p>4.15 - Audit has <i>recommended</i> that the Secretary for Education should follow up with the schools to ensure that the compositions of the IMCs and SMCs comply with the requirements stipulated in the Education Ordinance and the SMC Service Agreements respectively.</p>	<p>The EDB has issued letters to the schools concerned, requiring them to ensure that the composition of their SMCs/IMCs complies with the requirements stipulated in the Education Ordinance and the SMC/IMC SAs respectively. Apart from some newly operated schools that require a longer timeline for the election and registration of the alumni managers, other schools have completed the registration of all managers.</p> <p>Since the follow-up measure will become part of the routine, we recommend deleting this part from the next progress report.</p>
<p>4.22 - Audit has <i>recommended</i> that the Secretary for Education should:</p> <p>(a) ensure that tenancy agreements are signed in a timely manner;</p> <p>(b) take effective measures to expedite the signing of the outstanding tenancy agreements; and</p>	<p>(a) The EDB will make it clear in its correspondence with SSBs/SMCs/IMCs and relevant documents (e.g. guidelines and application forms of the School Allocation Exercise) that schools are required to enter into Tenancy Agreements (TAs) before the handover of land/school premises. Land/school premises will be handed over to schools only after they have signed the TAs.</p> <p>Since the follow-up in respect of (a) will become part of the routine, we recommend deleting this part from the next progress report.</p> <p>(b) For the outstanding TA cases, the EDB has been strengthening communication with the relevant schools. As at March 2011, amongst the 8 schools which did not execute any TAs, 5 schools have already signed the TAs with the Government; and amongst the 7 schools which have signed the SSB TAs but not yet the SMC/IMC TAs, 6 schools have already signed the TAs with the Government. For the remaining cases, the EDB will continue to actively discuss with the schools to expedite the</p>

AC's Recommendations	Progress to date
<p>(c) ensure that the schools comply with the terms of the tenancy agreements and obtain prior approval from the EDB before carrying out, or permitting anyone to carry out, activity other than school operation in the school premises.</p>	<p>execution of all TAs.</p> <p>(c) The Working Group on DSS is examining the internal control checklist prepared by the EDB, which is meant to be used by DSS schools for better administration, personnel management and financial management.</p>
<p>Monitoring School Performance</p>	
<p>5.13 - Audit has <i>recommended</i> that the Secretary for Education should:</p> <p>(a) establish a systematic risk analysis mechanism for selecting DSS schools for school audits;</p> <p>(b) ensure that the time target for the issue of school audit reports to DSS schools is met. For cases where there is a long delay, the reasons of the delay and the remedial action taken should be documented; and</p> <p>(c) monitor closely the follow-up action taken by schools where any glaring practice is found during school audits. If necessary, a follow-up school audit should be carried out.</p>	<p>(a) The EDB has put in place a more systematic risk analysis mechanism whereby different risk aspects of schools will be analysed for selecting DSS schools for audit inspections.</p> <p>(b) The EDB will ensure that the time target for issuing school audit reports to DSS schools is met and the reasons of any delays and the remedial actions taken are documented.</p> <p>(c)</p> <ul style="list-style-type: none"> • The EDB has stepped up measures to monitor closely the follow-up actions taken by schools where glaring practices are found during school audits, including conveying findings to the SMCs/IMCs, withholding payment of subsidy, as well as carrying out follow-up audits, if necessary. • The EDB will tighten its control by following closely the procedures stipulated in the Flowchart for School Audit Inspections and Follow-up Actions Against Schools with Glaring/Repeated Glaring Irregularities of July 2009. • Advisory/warning letters will be issued to the schools concerned for cases with no appropriate actions taken by them to rectify glaring irregularities.

AC's Recommendations	Progress to date
	<ul style="list-style-type: none"> • Follow-up audit inspections and/or school visits will be conducted if necessary. <p>Since the follow-up in respect of (a) to (c) will become part of the routine, we recommend deleting these parts from the next progress report.</p>
<p>5.23 - Audit has <i>recommended</i> that the Secretary for Education should:</p> <p>(a) request DSS schools to establish a mechanism to:</p> <p style="padding-left: 20px;">(i) monitor their compliance on uploading school documents to the schools' websites in a timely manner;</p> <p style="padding-left: 20px;">(ii) ensure that school documents uploaded to their websites are easily accessible and contain all the information that is required under the SDA framework; and</p> <p>(b) ensure that all DSS schools are subject to the ESRs, including schools which offer non-local curriculum or only sixth form classes.</p>	<p>(a) The EDB has devised an internal control checklist to be used by DSS schools for better administration, personnel management and financial management, which includes a self-assessment by schools to see whether they have complied with the requirements for uploading school documents to their websites and including all the required information in the documents. The checklist is being examined by the Working Group on DSS.</p> <p>(b) The EDB will conduct ESRs for DSS schools which have not undergone Comprehensive Reviews (CRs) or ESRs before the current ESR cycle ends in the 2013/14 school year.</p> <p>Since the follow-up in respect of (b) will become part of the routine, we recommend deleting this part from the next progress report.</p>
<p>5.29 - Audit has <i>recommended</i> that the Secretary for Education should take action to ensure that:</p> <p>(a) CR proposals and final reports (for CRs carried out by consultants) are submitted to the EDB in a timely manner; and</p>	<p>(a)</p> <ul style="list-style-type: none"> • Starting from the 2011/12 school year, the EDB will advance its notification to DSS schools due for CRs from July to May to provide ample time for them to prepare the CR proposals. • The EDB will keep close track of the implementation progress of schools that have commissioned consultants to conduct CRs. The EDB will also remind the schools to

AC's Recommendations	Progress to date
<p>(b) CR final reports are uploaded to the EDB website in a timely manner.</p>	<p>monitor closely the different stages of CR for timely completion of the reviews and submission of final reports.</p> <p>(b) CR final reports will be uploaded to the EDB website at the end of the issuing month.</p> <p>Since the follow-up in respect of (a) and (b) will become part of the routine, we recommend deleting these parts from the next progress report.</p>
Direct Subsidy Scheme Subsidy	
<p>6.8 - Audit has <i>recommended</i> that the Secretary for Education should ensure that accurate and complete information is always provided to the Legislative Council.</p>	<p>The EDB will continue to ensure that accurate and complete information is provided to the Legislative Council.</p> <p>We recommend deleting this part from the next progress report.</p>
<p>6.15 - Audit has <i>recommended</i> that the Secretary for Education should ensure that:</p> <p>(a) approval from the FC is obtained for new measures under the DSS where there is financial implication to the Government; and</p> <p>(b) full information is provided to the FC when seeking approval for new measures introduced under the DSS.</p>	<p>(a) The EDB will continue to ensure that prior approval has been obtained from the Finance Committee (FC) before introducing new measures under the DSS that have financial implication for the Government.</p> <p>(b) The EDB will continue to ensure that full information is provided to the FC when seeking approval for new measures introduced under the DSS.</p> <p>Since the follow-up in respect of (a) and (b) will become part of the routine, we recommend deleting these parts from the next progress report.</p>

AC's Recommendations	Progress to date
International Schools in Direct Subsidy Scheme	
<p>7.16 - Audit has <i>recommended</i> that the Secretary for Education should:</p> <p>(a) ensure that the Legislative Council is informed when there are major changes in the information previously provided to it;</p> <p>(b) ensure that the Executive Council is provided with full information when seeking its advice; and</p> <p>(c) critically review the justifications for continuing to allow School I to remain in the DSS and take action to address the matter, if necessary.</p>	<p>(a) The EDB will inform the Legislative Council of major changes in the information previously provided to it.</p> <p>(b) The EDB will continue to ensure that full information is provided to the Executive Council when seeking its advice.</p> <p>Since the EDB has all along ensured and will continue to ensure that accurate and complete information is provided to the Executive and Legislative Councils, we recommend deleting (a) and (b) from the next progress report.</p> <p>(c) The Working Group on DSS will critically review the justifications for continuing to allow School I to remain in the DSS. The recommendation will be submitted to the Secretary for Education by the end of 2011.</p>

Chapter 2: Governance and Administration of Direct Subsidy Scheme Schools

AC's Recommendations	Progress to date
Governance of Direct Subsidy Scheme Schools	
<p>2.8 - Audit has <i>recommended</i> that the Secretary for Education should urge all DSS schools to:</p> <p>(a) include representatives of key stakeholders in their school governing bodies; and</p> <p>(b) disclose to the public information of their governing bodies, including the name, tenure of office and category of each school manager.</p>	<p>(a) & (b)</p> <ul style="list-style-type: none"> • In the EDB Circular No. 4/2010 on Use of Government Funds in Direct Subsidy Scheme (DSS) Schools dated 29 April 2010, we have already reminded DSS schools that “All DSS schools are required to establish an SMC/IMC to manage and operate the school. To meet the public expectation and/or specific SMC composition requirements applicable to individual schools, DSS schools should include all key stakeholders as SMC members. Those DSS schools bound by the Service Agreement are hereby reminded that it is a requirement for the SMC to comprise the principal, representatives from the school sponsoring bodies, parents, teachers, other community members or professionals, and where appropriate, the alumni.” • In the EDB Circular No. 12/2010 on Use of Non-government Funds in Direct Subsidy Scheme (DSS) Schools dated 5 November 2010, we have once again reminded DSS schools that “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)” and “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

AC's Recommendations	Progress to date
	<p>appropriate) and where the managers' consent is available, their name and tenure of office.”</p> <ul style="list-style-type: none"> • The Working Group on DSS discussed measures to further transparentise the operation of the school governing bodies in mid-April 2011 and will submit recommendations for improvement to the Secretary for Education by the end of 2011.
<p>2.15 - Audit has <i>recommended</i> that the Secretary for Education should remind DSS schools to:</p> <p>(a) ensure that parent school managers of the IMC are elected through a secret-ballot election conducted by the PTA of the school, in which all parents can participate, and keep proper records of the election;</p> <p>(b) ensure that all school managers are registered; and</p> <p>(c) inform the EDB within a month after a person ceases to be a school manager.</p>	<p>(a) to (c)</p> <p>The Working Group on DSS is now reviewing how to enhance the internal control mechanism of DSS schools, for instance, by providing an internal control checklist to them for better administration, personnel management and financial management. The Working Group is examining the tool.</p>
<p>2.23 - Audit has <i>recommended</i> that the Secretary for Education should remind DSS schools to:</p> <p>(a) monitor the attendance of school managers at school governing body meetings and take action, where necessary, to improve the attendance rate;</p> <p>(b) rectify the decisions made at their school governing body meetings where a quorum was not present;</p> <p>(c) take necessary measures to ensure that, in future, a quorum is present at every school governing body meeting; and</p> <p>(d) issue draft minutes of school governing body meetings in a timely manner and to properly record the deliberations and</p>	<p>(a) to (d)</p> <p>The Working Group on DSS is now reviewing how to enhance the internal control mechanism of DSS schools, for instance, by providing an internal control checklist to them for better administration, personnel management and financial management. The Working Group is examining the tool.</p>

AC's Recommendations	Progress to date
decisions made at these meetings.	
<p>2.28 - Audit has <i>recommended</i> that the Secretary for Education should remind DSS schools to ensure that:</p> <p>(a) a proper system is put in place for managing potential conflict of interest of school managers; and</p> <p>(b) the procedures for managing conflict of interest of school managers are complied with.</p>	<p>(a) & (b)</p> <p>The Working Group on DSS is now reviewing how to enhance the internal control mechanism of DSS schools, for instance, by providing an internal control checklist to them for better administration, personnel management and financial management. The Working Group is examining the tool.</p>
School Fee Remission / Scholarship Schemes	
<p>3.9 - Audit has <i>recommended</i> that the Secretary for Education should:</p> <p>(a) take action to ensure that DSS schools set aside the required amounts of school fee income according to the levels of their school fees for the fee remission/scholarship schemes;</p> <p>(b) follow up with DSS schools to look into the causes of the low utilisation of their fee remission/scholarship schemes and advise them to make improvement, where appropriate; and</p> <p>(c) ensure that DSS schools submit deployment plans on the excessive reserves for their fee remission</p>	<p>(a)</p> <ul style="list-style-type: none"> • DSS schools have been required to provide more detailed information on their fee remission/scholarship schemes in their 2009/10 audited accounts. The EDB has also requested school auditors to verify in their reports whether the amount set aside by schools for the fee remission/scholarship schemes meets EDB's requirement. • The Working Group on DSS has started discussion on how to improve the implementation of the fee remission/scholarship schemes, and will seek views from DSS schools and other stakeholders at a later stage. <p>(b) Schools were requested to look into the causes of the low utilisation of their fee remission/scholarship schemes and to make necessary improvement, where appropriate. The schools responded positively. A number of schools have relaxed the application criteria of their schemes to benefit more students.</p> <p>(c)</p> <ul style="list-style-type: none"> • The EDB has further improved its internal communication mechanism. As from this school year, the Task Force on DSS chaired

AC's Recommendations	Progress to date
<p>/scholarship schemes.</p>	<p>by a Deputy Secretary for Education will discuss the annual summary of findings on the annual audited accounts submitted by DSS schools and the audit inspections conducted by EDB officers, so that the EDB can have a holistic review of the financial management of DSS schools and ensure effective follow-up of various improvement measures in addition to timely and full compliance of relevant requirements by schools.</p> <ul style="list-style-type: none"> • Upon notification of excessive reserves for fee remission by the Finance Division (FD) of the EDB, the Regional Education Offices (REOs) of the EDB will issue letters to the schools concerned, requesting them to submit deployment plans endorsed by their IMCs/SMCs within two months. <p>Since the follow-up in respect of (b) and (c) will become part of the routine, we recommend deleting these parts from the next progress report.</p>
<p>3.17 - Audit has <i>recommended</i> that the Secretary for Education should:</p> <p>(a) monitor the DSS schools' implementation and publicity of their fee remission/scholarship schemes; and</p> <p>(b) remind DSS schools to:</p> <p>(i) establish a mechanism for monitoring the proper implementation of their fee remission/scholarship schemes;</p> <p>(ii) provide full details (e.g. the eligibility criteria and the maximum percentage of fee remission) of their fee remission/scholarship schemes in their school prospectuses;</p> <p>(iii) upload details of their fee remission/scholarship schemes</p>	<p>(a) & (b)</p> <p>The EDB has taken actions to enhance the reporting requirements in audited accounts regarding the resources set aside for school fee remission/scholarship schemes. The Working Group on DSS has started discussion on how to improve the implementation of the fee remission/scholarship schemes, and will seek views from DSS schools and other stakeholders at a later stage.</p>

AC's Recommendations	Progress to date
<p>to their websites; and</p> <p>(iv) ensure that the eligibility criteria of their fee remission /scholarship schemes are not less favourable than the government financial assistance schemes to students.</p>	
Revision of School Fees	
<p>4.7 - Audit has <i>recommended</i> that the Secretary for Education should:</p> <p>(a) consider requiring all schools to follow the practice of some schools to submit records of the majority consent of the parents or the consultation with the PTA/parent representatives, as appropriate, in their applications for school fee increases; and</p> <p>(b) require schools to provide relevant financial information (e.g. major items of income and expenditure in the audited accounts or the budget) to the parents or the PTA/parent representatives during the consultation process for school fee increases.</p>	<p>(a) & (b)</p> <p>The EDB has introduced two measures to improve the school fee revision mechanism of DSS schools as from this year. Firstly, the EDB has explicitly required DSS schools to provide parents, in the consultation process, with appropriate financial information of the schools, including the accumulated surplus, justifications for fee increase and additional resources required. Secondly, the EDB has required DSS schools to elaborate on their channels to collect parents' views and provide records of the consultation process.</p> <p>Since the follow-up in respect of (a) and (b) will become part of the routine, we recommend deleting these parts from the next progress report.</p>
<p>4.14 - Audit has <i>recommended</i> that the Secretary for Education should ensure that the financial projections made by DSS schools in their applications for school fee increases are properly justified and reasonable.</p>	<p>A new mechanism has been devised, whereby the EDB will issue advisory letters to DSS schools identified to have a substantial amount of under-spending compared with their original budgets. For schools with records of a substantial amount of under-spending, they will be required to provide strong justifications for their applications for fee increase.</p> <p>Since the follow-up will become part of the routine, we recommend deleting this part from the next progress report.</p>

AC's Recommendations	Progress to date
Financial Management	
<p>5.8 - Audit has <i>recommended</i> that the Secretary for Education should:</p> <p>(a) in consultation with the FSTB, consider the need for setting a reserve ceiling for the accumulated operating reserves of DSS schools, and requiring the schools to return any surplus in excess of the ceiling to the Government according to Financial Circular No. 9/2004;</p> <p>(b) take necessary action to ensure that DSS schools with accumulated operating reserves exceeding an amount equivalent to a full year's operating expenses submit development plans setting out how the reserves will be used for school development; and</p>	<p>(a) The Working Group on DSS will critically assess the need to set a reserve ceiling for the accumulated operating reserves of DSS schools. It will submit recommendations for improvement to the Secretary for Education by the end of 2011.</p> <p>(b)</p> <ul style="list-style-type: none"> • Under the prevailing mechanism, DSS schools are required to disclose their accumulated reserves under government fund and non-government fund accounts, and development plans are required from DSS schools with accumulated operating reserves exceeding the annual total expenditure. • The EDB has further improved its internal communication mechanism. As from this school year, the Task Force on DSS chaired by a Deputy Secretary for Education will discuss the annual summary of findings on the annual audited accounts submitted by DSS schools and the audit inspections conducted by EDB officers, so that the EDB can have a holistic review of the financial management of DSS schools and ensure effective follow-up of various improvement measures in addition to timely and full compliance of relevant requirements by schools. • Upon notification of large accumulated reserves by the FD, the REOs will issue letters to the schools concerned, requesting them to submit a plan setting out how the reserves will be used for school development. The REOs will also follow up with the schools on their implementation.

AC's Recommendations	Progress to date
<p>(c) take necessary action to ensure that sufficient information is provided in the development plans submitted by the schools to facilitate the EDB's monitoring of the implementation of the development plans.</p>	<p>Since the follow-up in respect of (b) will become part of the routine, we recommend deleting this part from the next progress report.</p> <p>(c) A template is being developed for schools with accumulated operating reserves exceeding the annual total expenditure to report their plans on deploying the accumulated reserves with a view to ensuring that sufficient information is included.</p>
<p>5.13 - Audit has <i>recommended</i> that the Secretary for Education should take necessary measures to ensure that:</p> <p>(a) DSS schools maintain sufficient operating reserves to meet at least two months' operating expenses; and</p> <p>(b) the SSBs finance any possible deficit of the schools so that the schools will meet the operating reserve requirement.</p>	<p>(a) & (b)</p> <ul style="list-style-type: none"> • Under the existing practice, if it is noted from the audited accounts and the estimates/budgets of a school that the school has not maintained or will not have sufficient operating reserves, the FD would inform the relevant REO for necessary action. • The REO will then issue a letter to the school, urging it to maintain sufficient operating reserves to meet at least two months' operating expenses and requesting its SSB to finance any possible deficit of the school. • The EDB has further improved its internal communication mechanism. As from this school year, the Task Force on DSS chaired by a Deputy Secretary for Education will discuss the annual summary of findings on the annual audited accounts submitted by DSS schools and the audit inspections conducted by EDB officers, so that the EDB can have a holistic review of the financial management of DSS schools and ensure effective follow-up of various improvement measures in addition to timely and full compliance of relevant requirements by schools.

AC's Recommendations	Progress to date
	<p>Since the follow-up in respect of (a) and (b) will become part of the routine, we recommend deleting these parts from the next progress report.</p>
<p>5.17 - Audit has <i>recommended</i> that the Secretary for Education should:</p> <p>(a) remind DSS schools of the requirements relating to self-financing activities stipulated in Financial Circular No. 9/2004; and</p> <p>(b) require them to keep separate accounts for their private classes and to ensure that there is no cross-subsidisation of the private classes by the DSS classes in money or in kind.</p>	<p>(a) The Working Group on DSS is now reviewing how to enhance the internal control mechanism of DSS schools, for instance, by providing an internal control checklist to them for better administration, personnel management and financial management. The Working Group is examining the tool.</p> <p>(b) DSS schools have been required to provide separate accounts for private classes in their 2009/10 audited accounts.</p> <p>Since the follow-up in respect of (b) will become part of the routine, we recommend deleting this part from the next progress report.</p>
<p>5.22 - Audit has <i>recommended</i> that the Secretary for Education should consider requiring DSS schools to ensure that their non-local students are not cross-subsidised by the government subsidy for local students. For example, the EDB may require those schools which admit non-local students to collect from the non-local students an amount of school fees not less than the DSS unit subsidy plus the approved school fees for local students.</p>	<p>Regarding this recommendation, the EDB will discuss feasible measures with the Hong Kong DSS Schools Council to ensure that non-local students are not cross-subsidised by the government subsidy for local students.</p>
<p>5.28 - Audit has <i>recommended</i> that the Secretary for Education should take necessary measures to ensure that DSS schools:</p> <p>(a) submit their annual audited accounts in a timely manner; and</p>	<p>(a) The EDB has established procedures to follow up outstanding audited accounts from DSS schools.</p>

AC's Recommendations	Progress to date
<p>(b) comply with the requirement to include a statement in their auditor's reports stating whether they have used the government subsidies in accordance with the rules promulgated for the DSS.</p>	<p>(b) The EDB has reminded auditors to comply with the requirement in the 2009/10 audited accounts.</p> <p>Since the follow-up in respect of (a) and (b) will become part of the routine, we recommend deleting these parts from the next progress report.</p>
<p>5.32 - Audit has <i>recommended</i> that the Secretary for Education should remind DSS schools to ensure that all interest income from government funds is recorded in the government fund accounts.</p>	<p>The EDB will continue to remind DSS schools to report interest income generated from government funds under government fund accounts.</p> <p>Since the follow-up will become part of the routine, we recommend deleting this part from the next progress report.</p>
<p>5.36 - Audit has <i>recommended</i> that the Secretary for Education should remind DSS schools to ensure that only approved expenditure items are charged to the government fund accounts.</p>	<p>The EDB will continue to remind DSS schools only to charge approved expenditure items to the government fund accounts.</p> <p>Since the follow-up will become part of the routine, we recommend deleting this part from the next progress report.</p>
<p>5.44 - Audit has <i>recommended</i> that the Secretary for Education should:</p> <p>(a) require DSS schools to formulate guidelines on the use of non-government funds; and</p> <p>(b) consider requiring DSS schools to disclose to their stakeholders the major expenditure items funded by non-government funds with a view to improving their accountability and transparency.</p>	<p>(a) The Working Group on DSS is now reviewing how to enhance the internal control mechanism of DSS schools, for instance, by providing an internal control checklist to them for better administration, personnel management and financial management. The Working Group is examining the tool.</p> <p>(b) In the EDB Circular No. 12/2010 on Use of Non-government Funds in Direct Subsidy Scheme (DSS) Schools dated 5 November 2010, we have advised DSS schools 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</p>

AC's Recommendations	Progress to date
	<p>value and purpose of the donations received, etc.”</p> <p>Since the follow-up in respect of (b) will become part of the routine, we recommend deleting this part from the next progress report.</p>
<p>5.48 - Audit has <i>recommended</i> that the Secretary for Education should take necessary measures to ensure that the EDB's guidelines on investment of surplus funds of schools are complied with by DSS schools.</p>	<ul style="list-style-type: none"> • DSS schools have been required to disclose details of their investment in the 2009/10 audited accounts. Should malpractices be identified, the FD will notify relevant REOs. • Upon notification by the FD, the REOs will issue letters to the schools concerned, requesting them to rectify the malpractices. • The EDB has further improved its internal communication mechanism. As from this school year, the Task Force on DSS chaired by a Deputy Secretary for Education will discuss the annual summary of findings on the annual audited accounts submitted by DSS schools and the audit inspections conducted by EDB officers, so that the EDB can have a holistic review of the financial management of DSS schools and ensure effective follow-up of various improvement measures in addition to timely and full compliance with relevant requirements by schools. <p>Since the follow-up will become part of the routine, we recommend deleting this part from the next progress report.</p>
<p>5.52 - Audit has <i>recommended</i> that the Secretary for Education should remind DSS schools to:</p> <p>(a) correctly record the fixed assets under their control in a fixed asset register; and</p> <p>(b) conduct physical stocktake at least once a year and investigate any discrepancies found, and report the results of stocktake to the school governing bodies.</p>	<p>(a) & (b)</p> <p>The Working Group on DSS is now reviewing how to enhance the internal control mechanism of DSS schools, for instance, by providing an internal control checklist to them for better administration, personnel management and financial management. The Working Group is examining the tool.</p>

AC's Recommendations	Progress to date
<p>5.60 - Audit has <i>recommended</i> that the Secretary for Education should remind DSS schools to:</p> <ul style="list-style-type: none"> (a) prepare a financial statement for each fund raising activity and display the statement for a reasonable period of time on the schools' notice boards for the information of teachers, parents and students; (b) retain the financial statements for fund raising activities for audit purposes; (c) seek written permission from the EDB for the fund raising activities held for other organisations which are not approved charitable institutions, or not specifically approved by the EDB; and (d) formulate guidelines on fund raising activities and require their staff to comply with the guidelines. 	<p>(a) to (d)</p> <p>The Working Group on DSS is now reviewing how to enhance the internal control mechanism of DSS schools, for instance, by providing an internal control checklist to them for better administration, personnel management and financial management. The Working Group is examining the tool.</p>
Human Resource Management	
<p>6.12 - Audit has <i>recommended</i> that the Secretary for Education should remind DSS schools to:</p> <ul style="list-style-type: none"> (a) formulate a proper staff recruitment policy and keep all the recruitment records which are consistent with the best practices promulgated by the EDB; (b) carry out recruitment of staff in an open and fair manner; (c) ensure that applicants are interviewed by selection panels appointed by the school governing bodies; (d) report to their school governing 	<p>(a) to (f)</p> <p>The Working Group on DSS is now reviewing how to enhance the internal control mechanism of DSS schools, for instance, by providing an internal control checklist to them for better administration, personnel management and financial management. The Working Group is examining the tool.</p>

AC's Recommendations	Progress to date
<p>bodies the results of staff recruitment;</p> <p>(e) ensure that approval from school governing bodies is obtained before a teacher is appointed for a term of not less than six months; and</p> <p>(f) provide accurate information to the school governing bodies in seeking their approval for appointing new teachers.</p>	
<p>6.17 - Audit has <i>recommended</i> that the Secretary for Education should remind DSS schools to:</p> <p>(a) put in place a proper mechanism for determining the remuneration packages for their staff to ensure that the packages are fair and justifiable;</p> <p>(b) clearly set out the criteria (e.g. qualifications, experience, performance and expertise) and approval authority for determining the remuneration package of an appointee and any subsequent salary adjustment; and</p> <p>(c) ensure that all policies and measures on staff remuneration and administration are properly endorsed, documented and implemented.</p>	<p>(a) to (c)</p> <p>The Working Group on DSS is now reviewing how to enhance the internal control mechanism of DSS schools, for instance, by providing an internal control checklist to them for better administration, personnel management and financial management. The Working Group is examining the tool.</p>
<p>6.21 - Audit has <i>recommended</i> that the Secretary for Education should remind DSS schools to:</p> <p>(a) establish and implement an effective performance management system for their staff; and</p> <p>(b) review the operation of the performance management system periodically by making reference to the guidelines issued by the EDB.</p>	<p>(a) & (b)</p> <p>The Working Group on DSS is now reviewing how to enhance the internal control mechanism of DSS schools, for instance, by providing an internal control checklist to them for better administration, personnel management and financial management. The Working Group is examining the tool.</p>

AC's Recommendations	Progress to date
<p>6.25 - Audit has <i>recommended</i> that the Secretary for Education should remind DSS schools to:</p> <p>(a) submit the staff performance appraisal results for the school governing bodies' consideration when seeking their decisions on matters of staff contract renewal; and</p> <p>(b) properly document the justifications for contract renewal decisions to prevent allegations of favouritism or unfairness.</p>	<p>(a) & (b)</p> <p>The Working Group on DSS is now reviewing how to enhance the internal control mechanism of DSS schools, for instance, by providing an internal control checklist to them for better administration, personnel management and financial management. The Working Group is examining the tool.</p>
General Administration	
<p>7.12 - Audit has <i>recommended</i> that the Secretary for Education should remind DSS schools to follow the EDB's guidelines on procurement as far as possible to ensure that all procurements are carried out in a fair, open and transparent manner. In particular, the EDB should remind schools to:</p> <p>(a) obtain sufficient number of quotations or tenders and document the justification and approval for any departure from the procurement procedures;</p> <p>(b) include evaluation criteria in tender documents for information of the tenderers;</p> <p>(c) set up two separate committees for tender opening and vetting, and tender approval for all tender exercises;</p> <p>(d) maintain the history of the appointments of the tender opening and vetting committee; and</p> <p>(e) require staff involved in purchasing and supplies duties to sign an undertaking that they will declare to the school governing body any current or future connections they</p>	<p>(a) to (e)</p> <p>The Working Group on DSS is now reviewing how to enhance the internal control mechanism of DSS schools, for instance, by providing an internal control checklist to them for better administration, personnel management and financial management. The Working Group is examining the tool.</p>

AC's Recommendations	Progress to date
or their immediate families have/will have with the suppliers, and bring the requirement to the notice of the relevant staff annually.	
<p>7.23 - Audit has <i>recommended</i> that the Secretary for Education should remind DSS schools to:</p> <ul style="list-style-type: none">(a) prior approval from the EDB or the IMC is needed for trading operations and that profits from trading operations should only be applied for the purposes of directly benefiting the students;(b) profit from sale of trading items (other than textbooks) should be limited to 15% of the cost of purchase;(c) trading operators/suppliers should be selected through competitive tender/quotation exercises at regular intervals, preferably not exceeding three years;(d) acceptance of donations or advantages from trading operators /suppliers should be considered only in very exceptional circumstances with justification of compelling reasons; and(e) details of donations received from trading operators/suppliers should be disclosed in the school reports.	<p>(a) to (e)</p> <p>The Working Group on DSS is now reviewing how to enhance the internal control mechanism of DSS schools, for instance, by providing an internal control checklist to them for better administration, personnel management and financial management. The Working Group is examining the tool.</p>

Community Investment and Inclusion Fund
Latest Progress in Implementing the Audit Commission's Recommendations

Para. No. of Director of Audit's Report	Director of Audit's Recommendations	Latest Progress
Part 2: Governance of the Community Investment and Inclusion Fund		
2.16	<p><u>Management of conflict of interests</u></p> <p>(a) consider adopting the two-tier reporting system for declaring interests by committee members;</p> <p>(b) monitor declaration of interests by committee members and clarify with the members concerned if inconsistencies are noted (including those mentioned in para. 2.7)</p> <p>(c) regularly remind committee members of the need to declare conflict of interests at committee meetings;</p> <p><u>Quorum of committee meetings</u></p> <p>(d) set a quorum requirement for the Assessment and Evaluation Sub-committee and the Promotion and Development Sub-committee meetings;</p>	<p>(a) to (c) The CIIF Committee has adopted the proposal of two-tier reporting mechanism for declaration of interests. Since December 2010, we have prepared for each member a personalised declaration form to set out their declared items on record to avoid inconsistencies in declaration of interests and reminded members to verify and confirm the items by signature at the meetings. We will also clarify with members on the declaration of interests when necessary. Since February 2011, the CIIF Secretariat has issued to members guidelines on declaration of interests as well as relevant forms and documents before meetings to remind them to declare any conflict of interests at the meetings. It is proposed that this part be deleted in the next progress report.</p> <p>(d) The CIIF Committee set a quorum requirement (i.e. 50% of the membership) for the two Sub-committees' meetings at the meeting held on 25 February 2011. The quorum requirement is applicable to all meetings of the committees under the CIIF. It is proposed that this part be deleted in the next progress report.</p>

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	<p><u>Minutes of meetings</u></p> <p>(e) prepare draft minutes of meetings promptly and have the confirmed minutes of meetings signed by the Chairpersons of the relevant committees of the CIIF;</p> <p><u>Performance management</u></p> <p>(f) compile and publish performance information that measures the efficiency and effectiveness of the CIIF operation; and</p> <p>(g) publish more performance information (e.g. CIIF statistics that have been compiled but not published).</p>	<p>(e) The CIIF Secretariat has laid down internal guidelines to ensure that draft minutes will be promptly prepared and circulated via emails for members' comments and confirmation. All confirmed minutes will be endorsed and signed by the Chairperson of respective committee/sub-committee and the representative of the Secretariat. The arrangement has been implemented since the CIIF Committee meeting held on 27 August 2010. It is proposed that this part be deleted in the next progress report.</p> <p>(f) & (g) The CIIF Secretariat had already uploaded 17 pieces of information on the performance of CIIF projects and 5 statistics on the efficiency and effectiveness of the CIIF operation as recommended by the Audit Commission onto CIIF website in February and April 2011 respectively. It is proposed that this part be deleted in the next progress report.</p>
Part 3: Development of Social Capital		
3.7	<p><u>Community participation</u></p> <p>(a) monitor the number of applications;</p> <p>(b) encourage more eligible organisations to apply for CIIF funding; and</p>	<p>(a) & (b) To encourage more eligible organisations to apply for CIIF funding and promote social capital, the CIIF Secretariat has already implemented a series of measures, including updating and extending the list of contact organisations, stepping up publicity to social service agencies and district organisations, enhancing co-operation with community stakeholders and accepting media interviews etc., since</p>

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	<p>(c) provide effective guidance and support to help grantees resolve their problems and improve their project performance.</p>	<p>August 2010. The measures have achieved initial results and will continue to be implemented. We will continue to monitor the number of applications and suitably adjust the relevant measures. It is proposed that this part be deleted in the next progress report.</p> <p>(c) The CIIF Secretariat will continue to implement supporting measures for grantees, including arranging project mentors to hold review meetings or pay site visits in accordance with project performance and organising workshops and experience sharing sessions. We organised a workshop on “evaluating project effectiveness on social capital building” for grantees in March 2011. In addition, the CIIF established the matching platform “SC.Net Buddy for You” on a pilot basis in late 2010 to match grantees with suitable SC.Net members who would provide various kinds of assistance, including sharing their practical experience and good operational modes of social capital development, acting as voluntary navigators/advisors for social capital projects, assisting in liaising with respective stakeholders and offering assistance in other forms. It is proposed that this part be deleted in the next progress report.</p>
3.16	<p><u>Assessing project sustainability</u></p> <p>(a) keep the weightings of the marking scheme for CIIF applications under regular review to ensure that they duly reflect the significance of project sustainability;</p>	<p>(a) The CIIF Committee conducted a comprehensive review of its assessment criteria and marking system in late 2009 and considered the three new criteria useful to the assessment of project sustainability. The CIIF Committee will regularly review its marking system to ensure that they duly reflect the significance of project sustainability. It is proposed that this part</p>

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	<p>(b) validate the CIIF information to be submitted to the LegCo Panel (particularly information relating to project sustainability);</p> <p>(c) conduct reviews of project sustainability on a more regular basis; and</p> <p>(d) include project sustainability in the compilation and publication of performance information.</p>	<p>be deleted in the next progress report.</p> <p>(b) & (c) The CIIF Secretariat will require grantees to spell out project sustainability in the final performance reports to be submitted in four months after completion of the projects, and will issue questionnaires on project sustainability to the operating organisations within two years upon the expiry of the funding period. In parallel, the CIIF Secretariat will randomly check the data collected to ensure their accuracy. We will report the progress to the Public Accounts Committee in due course.</p> <p>(d) The CIIF is collecting the relevant data through its second evaluation study. The performance information is expected to be released within 2011 subject to regular updating thereafter. We will report the progress to the Public Accounts Committee in due course.</p>
3.21	<p><u>Reporting achievements on social capital development</u></p> <p>(a) regularly remind grantees to follow the Condition of Grant (COG) requirements in reporting project achievements;</p> <p>(b) require grantees to maintain records to support the information reported to the CIIF;</p> <p>(c) urge grantees to validate project achievements to be</p>	<p>(a) and (b) The CIIF Secretariat has issued grantees with the newly revised "Notes to Grantees" in January 2011 to remind them to comply with the COG requirements in reporting project achievements and require them to maintain records to support the information reported to the CIIF. The CIIF Secretariat has uploaded the "Notes to Grantees" onto CIIF website for grantees to download and will regularly send them the "Notes" as reminders on submission of quarterly reports before the deadlines. It is proposed that this part be deleted in the next progress report.</p> <p>(c) to (e) The CIIF Secretariat provided clearer definitions of performance indicators</p>

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	<p>reported (e.g. by ensuring that there is no double counting of volunteers);</p> <p>(d) test check the accuracy of information included in the grantees' project achievement reports; and</p> <p>(e) provide clear definitions of performance indicators to be used by grantees to ensure that project achievements are reported on a consistent basis.</p>	<p>in March 2011, e.g. defining "volunteers" and requiring grantees not to double count volunteers in reporting. We have also revised our internal assessment forms and required Secretariat Project Officers to randomly check the information reported by grantees on a quarterly basis to ensure accuracy and consistency. It is proposed that this part be deleted in the next progress report.</p>
3.27	<p><u>Pace of fund disbursement</u></p> <p>(a) review the overall achievement of the CIIF objectives and the need for planning new funding injection to sustain the CIIF's social function; and</p> <p>(b) depending on the outcome of the review, reconsider the scale of the CIIF operation.</p>	<p>(a) & (b) To have a more comprehensive understanding of the CIIF's effectiveness in promoting social capital, LWB has commissioned independent consultants to conduct an evaluation study for the CIIF. The study has commenced in October 2010 for completion in early 2012. LWB will, in consultation with the CIIF Committee, consider the way forward for and injection into the CIIF in due course with reference to the findings and recommendations of the evaluation study. We will report the study progress to the Public Accounts Committee in due course.</p>
Part 4: Assessment and Monitoring of Projects		
4.5	<p><u>Prevention of resource and service duplication</u></p> <p>(a) ensure the completeness of project lists referred to the Sustainable Development Fund, the Enhancing Self-Reliance Through</p>	<p>(a) The CIIF Secretariat has accepted the Audit Commission's recommendations and, starting from the 17th batch of applications (i.e. late 2010), reviewed and refined internal processes to ensure the</p>

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	<p>District Partnership Programme and the Partnership Fund for the Disadvantaged for checking to prevent resource and service duplication;</p> <p>(b) seek clarifications from relevant bureaux/ departments (B/Ds) concerning the "no comment" responses to questions included in the questionnaires;</p> <p>(c) improve the design of the questionnaires to be sent to relevant B/Ds by, for example, deleting the "No comment" checkbox from the answer section;</p> <p>(d) consider conducting another checking with relevant B/Ds and the three public funds on existing CIIF projects which seek additional funding so as to prevent resource and service duplication; and</p> <p>(e) document the justifications for approving projects which were found to have been funded by other government sources.</p>	<p>completeness of the information sent to the three public funds for checking. It is proposed that this part be deleted in the next progress report.</p> <p>(b) & (c) The Secretariat, starting from the 17th batch of applications, has revised the design of the questionnaires for consulting relevant B/Ds and secretariats, deleting the "no comment" checkbox from the answer section, and seeking clarifications from relevant B/Ds offering no comments to questions included in the questionnaires. It is proposed that this part be deleted in the next progress report.</p> <p>(d) The CIIF will check with relevant B/Ds and the three public funds again if any existing CIIF project seeks additional funding so as to avoid duplication of resources and services. It is proposed that this part be deleted in the next progress report.</p> <p>(e) All written records and justifications relating to approval of the projects have already been properly documented. It is proposed that this part be deleted in the next progress report.</p>
4.10	<p><u>Review of grantees' audited accounts</u></p> <p>(a) urge grantees to submit their annual and final audited accounts in a timely</p>	<p>(a), (c) & (d) The CIIF Secretariat has issued to grantees the newly revised "Notes to Grantees" in January 2011 to remind</p>

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	<p>manner;</p> <p>(b) consider taking regulatory action (e.g. deferring quarterly reimbursements) on those grantees who repeatedly failed to submit audited accounts on time;</p> <p>(c) cross-check the grantees' reimbursement claim forms against their audited accounts and make adjustments, if appropriate, in subsequent reimbursements; and</p> <p>(d) remind grantees submitting project accounts as part of their audited accounts (see para. 4.9(c)) to obtain their auditors' opinion on whether the projects have complied with the COG requirements.</p>	<p>them to comply with the COG requirements, including submitting their accounts in a timely manner, and as required, obtaining their auditors' independent opinions for CIIF projects. The CIIF Secretariat has revised internal guidelines to remind its staff to verify the information on accounts submitted by grantees and ensure consistency between reimbursements claimed and audited accounts, or otherwise to seek clarifications from grantees and make adjustments in subsequent reimbursements. It is proposed that this part be deleted in the next progress report.</p> <p>(b) The CIIF Secretariat has introduced an internal mechanism to remind its staff to monitor the submission of accounts. The Secretariat will record cases of late submission which will be taken into account in future assessment of applications. The Secretariat is reviewing the COG and considering whether it is necessary to include a clause to take actions against grantees who repeatedly failed to submit reports or delayed submissions. We will report the progress to the Public Accounts Committee in due course.</p>
4.14	<p><u>Conduct of site visits</u></p> <p>(a) ascertain the rationale for not conducting site visits (after the visit in February 2007) to the grantee in Case 4;</p> <p>(b) pay visits to grantees as planned; and</p> <p>(c) establish a bring-up system</p>	<p>(a) to (c) It is confirmed that site visits to the grantee in Case 4 were not conducted as originally planned owing to an oversight of the matter caused by staff changes in the CIIF Secretariat. In late 2009, the CIIF Secretariat put in place a new mechanism to plan in advance at the end of each year the site visits for the following year and review the progress regularly at internal staff meetings so as to ensure that all site visits</p>

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	to ensure that planned visits are conducted.	will be conducted according to the planned schedule. Since the measure was implemented, there has not been any case of unreasonable suspension of site visit. It is proposed that this part be deleted in the next progress report.
Part 5: Use of Funds by Grantees		
5.5	<p><u>Budgetary control</u></p> <p>(a) regularly remind grantees to obtain prior approval for a re-allocation of funds in accordance with the laid-down procedures;</p> <p>(b) seek proper authority for approving re-allocation of funds;</p> <p>(c) process applications for fund re-allocation in a timely manner; and</p> <p>(d) document the approvals given for fund re-allocations.</p>	<p>(a) to (d) The CIIF Secretariat has issued the newly revised "Notes to Grantees" in January 2011 to remind grantees to comply with the COG requirements in the financial re-allocation of approved items of project estimates, which will be regularly issued as a reminder. In addition, the CIIF Committee had reviewed and revised the procedures of handling applications for fund re-allocation at the meeting on 25 February 2011. The Secretariat will ensure that CIIF applications will be processed in a timely and appropriate manner with approvals documented in accordance with the new guidelines. It is proposed that this part be deleted in the next progress report.</p>
5.9	<p><u>Staff recruitment</u></p> <p>(a) urge grantees to properly publicise their staff vacancies (e.g. in newspapers and on their websites);</p> <p>(b) urge grantees to establish a system (with documented procedures) of declaration of conflict of interests for recruitment exercises; and</p>	<p>(a) and (b) The CIIF Secretariat has taken various measures to urge grantees to properly publicise their staff vacancies, including attaching the "Notes to Grantees" to the "Approved Project Notice" and explaining the requirements at briefing sessions on newly approved projects, and to put in place a system of declaration of conflict of interests. It is proposed that this part be deleted in the next progress report.</p>

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	(c) confirm with the grantee mentioned in paragraph 5.8(d) whether the proportion of its project officer's salaries paid out of the CIIF funding is correct.	(c) The grantee had provided information required by the CIIF Secretariat on the proportion of its project officer's salaries paid out of the CIIF funding in September 2010. The CIIF Secretariat considered the arrangement appropriate after reviewing the information. It is proposed that this part be deleted in the next progress report.
5.13	<p><u>Insurance coverage</u></p> <p>(a) require grantees to renew the required insurance policies in a timely manner;</p> <p>(b) urge grantees to submit copies of insurance policies on time; and</p> <p>(c) establish a system to follow up grantees' submission of insurance policies.</p>	<p>(a) to (c) The CIIF Secretariat issued to grantees the newly revised "Notes to Grantees" in January 2011 to remind them to purchase insurance for CIIF projects and ensure the validity of the insurance policies throughout the project period. The Secretariat also emailed reminders to all grantees in March 2011 and urged them to submit certified copies of valid insurance policies to the CIIF Secretariat. In addition, the CIIF Secretariat has revised the evaluation form for internal use to ensure that Secretariat Project Officers will monitor the submission of insurance policies by grantees when their quarterly performance reports are examined. It is proposed that this part be deleted in the next progress report.</p>
5.17	<p><u>Expenditure on one-off activities</u></p> <p>It is recommended that the CIIF should review the existing arrangements on approving reimbursement claims for expenditure on one-off activities, with a view to establishing a set of guidelines for the CIIF Secretariat staff to follow.</p>	<p>The CIIF Secretariat completed the review of the principles and procedures on approving reimbursement claims for expenditure on one-off activities in January 2011 and devised guidelines for the Secretariat staff to ensure the adoption of consistent criteria for handling the claims. The guidelines have been incorporated into the CIIF Operation Manual. It is proposed that this part be deleted in the next progress</p>

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5.23	<p><u>Procurement and asset management</u></p> <p>(a) urge grantees to obtain written quotations for the purchase of goods and services in accordance with the COG requirement;</p> <p>(b) set out in the asset management guidelines the monetary value above which assets have to be recorded;</p> <p>(c) remind grantees to keep a register of assets purchased under the CIIF projects and to submit the updated register on a quarterly basis; and</p> <p>(d) require grantees to report on the deployment of assets upon project completion, and explore ways to put unused assets to more gainful use (e.g. establishing a database of assets on the CIIF's website to facilitate borrowing by interested grantees).</p>	<p>report.</p> <p>(a) to (c) The CIIF Secretariat has issued to grantees the newly revised "Notes to Grantees" in January 2011 to remind them to comply with the COG requirements in implementing their projects, including obtaining written quotations for the purchase of goods and services in accordance with the requirements, setting out the minimum monetary value (HK\$1,000 or above) of the assets to be recorded, and reminding grantees to submit the updated register of assets on a quarterly basis. It is proposed that this part be deleted in the next progress report.</p> <p>(d) The CIIF has developed a set of guidelines for grantees to follow and incorporated them into the newly revised "Notes to Grantees" sent to grantees in January 2011. It is proposed that this part be deleted in the next progress report.</p>
5.27	<p><u>Publicity materials</u></p> <p>It is recommended that the CIIF should remind grantees that they should seek the CIIF Secretariat's approval of their publicity materials before production.</p>	<p>The CIIF Secretariat has issued to grantees the newly revised "Notes to Grantees" and "Guidelines for Producing Publicity Materials" in January 2011 to remind them to comply with the COG requirements in implementing their projects. Detailed guidelines on the approval procedures for</p>

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		producing publicity materials have been set out. It is proposed that this part be deleted in the next progress report.
