



中華人民共和國香港特別行政區政府總部教育局
Education Bureau
Government Secretariat, Government of the Hong Kong Special Administrative Region
The People's Republic of China

本局檔號 Our Ref.:
來函檔號 Your Ref.:

電話 Telephone: 2892 6663
傳真 Fax Line: 2116 0615

10 December 2010

Ms Miranda HON
Clerk to Public Accounts Committee
Legislative Council
8 Jackson Road
Central
Hong Kong

By Fax (No. 2537 1204)

Dear Ms Hon,

**The Director of Audit's Report on the
Results of Value for Money Audits (Report No. 55)**

**Administration of the Direct Subsidy Scheme (Chapter 1)
And Governance and administration of Direct Subsidy
Scheme schools (Chapter 2)**

I refer to your letters dated 1, 3 and 6 December 2010 on the above matter and our replies dated 7 and 8 December 2010.

The information requested in the above-mentioned letters will be grouped as follows and provided at Annex A to Annex E:

- Annex A: Fee remission and related matters
- Items (e) and (f) in letter of 1 December 2010
 - Items (a) and (b) in letter of 3 December 2010
 - Items (a) to (d) in letter of 6 December 2010

Annex B: Fee revision and related matters

- Items (c) to (e) in letter of 3 December 2010

Annex C: School audit and related matters

- Item (f) in letter of 3 December 2010

Annex D: Handling of irregularities and related matters

- Items (g) and (h) in letter of 1 December 2010
- Item (g) in letter of 3 December 2010

Annex E: Measures taken and to be taken to follow up the Audit recommendation

- Item (h) in letter of 3 December 2010

We are now enclosing Annexes D & E. The remaining Annexes will be available by noon tomorrow.

Yours sincerely,



(Mrs. Michelle WONG)
for Secretary for Education

c.c. Secretary for Financial Services and the Treasury (Fax no.: 2147 5239)
Director of Audit (Fax no.: 2583 9063)

Handling of irregularities and related matters

Response to the letter of 1 December 2010 from Public Accounts Committee regarding paragraph 1(g)

(g) *it was mentioned at the hearing that the EDB had so far issued two warning letters to DSS schools. Please provide a copy of the two warning letters*

Warning letter 1

X X X X X X

Warning letter 2

X X X X X X

***Note by Clerk, PAC: Warning letters 1 and 2 not attached.**

Response to the letter of 1 December 2010 from Public Accounts Committee regarding paragraph 1(h)

(h) the number of advisory letters that had been issued to DSS schools so far and the relevant malpractices or non-compliance, and whether they fell under the areas examined in Chapters 1 and 2 of the Audit Report.

Number of advisory letters issued to DSS schools by the Education Bureau in the past three years from 2007/08 to 2009/10

	Major Content of Advisory Letters	Relevant Chapter of Audit Report	Number of Advisory Letters Issued
1	School Sponsoring Body Service Agreement should be entered with Education Bureau	Chapter 1 - Part 3: Service Agreement with School Sponsoring Body	23
2	School Management Committee/ Incorporated Management Committee Service Agreement should be entered with Education Bureau	Chapter 1 - Part 4: Service Agreement with Incorporated School Governing Body	41
3	The amounts of school fee income set aside for fee remission/scholarship schemes less than those required according to the levels of school fees	Chapter 2 - Part 3: School Fee Remission / Scholarship Schemes	31
4	Reserve for fee remission accumulated to an amount exceeding half of the annual school fee income	Chapter 2 - Part 3: School Fee Remission / Scholarship Schemes	7
5	School financial issues (including financial arrangements for follow up after inspection of the schools' audited accounts*, fees collection, set-up funds arrangement, etc)	Chapter 2 - Part 5: Financial Management	88
6	Improper trading operation and procurement activities in schools	Chapter 2 - Part 7: General Administration	9
7	Others (student matters, personnel and administration affairs, etc)	---	27
Total			226

* Major items include (i) insufficient reserve to meet the "2-month operating expenses" requirement; (ii) the accumulated surplus of non-government funds exceeded one-year operating expenses; (iii) no proper separation of income/expenditure under government and non-government funds, etc.

Response to the letter of 3 December 2010 from Public Accounts Committee regarding paragraph 1(g)

(g) according to paragraph 1.18(c) of Chapter 1, if non-compliance of requirements is identified or malpractices are substantiated, the EDB would issue advisory or warning letters to the responsible persons demanding rectification within a specified time. Please explain in detail the EDB's mechanism on the issuance of advisory letters and warning letters, including the differences between the two types of letters, and the different circumstances under which the two types of letters will be issued. Please also provide a sample/samples of advisory letters

Mechanism for Issuance of Advisory and Warning Letters

1. On detecting any irregularities or non-compliances committed by the schools through EDB's audit inspections or examination of the audited accounts to be submitted by the schools annually, EDB will issue advisory letters to the schools concerned demanding rectification of the irregularities or non-compliance.
2. Advisory letters will also be issued to schools which fail to follow other requirements of EDB such as those concerning the submission of audited accounts, signing of the SSB/SMC/IMC Service Agreements, etc.
3. For schools with serious management problems which fail to rectify the non-compliance and irregularities despite repeated advice or reminders, a warning letter will be issued demanding the schools to rectify the non-compliance and irregularities. The warning letter will state clearly the relevant consequences as prescribed in the Education Ordinance (Cap. 279) (e.g. appointing school managers to the SMC by EDB) in the event that the school fails to rectify the situation within the specified period.

Sample Advisory Letter 1

X X X X X X

Sample Advisory Letter 2

X X X X X X

***Note by Clerk, PAC: Sample Advisory Letters 1 and 2 not attached.**

Response to the letter of 3 December 2010 from Public Accounts Committee regarding paragraph 1(h)

- (h) *the measures that the EDB has taken/will take to ensure the following, including the detailed work plan of the working group to be set up to follow up the Audit recommendations:*
- (i) *the irregularities identified in Chapters 1 and 2 of the Audit Report will be rectified;*
 - (ii) *the Education Ordinance (Cap. 279), Education Regulations, other related legislations and other requirements as specified by the Government will be complied with by the DSS schools; and*
 - (iii) *the EDB's monitoring of DSS schools will be stepped up.*

To enhance the monitoring of DSS schools, we have taken the following measures and issued the circulars and guidelines as mentioned below to schools for action in the past three years:

- (i) Since July 2007, we have developed in collaboration with the Hong Kong DSS Schools Council the “Reference Document on Administration and Management of DSS Schools” to collect circulars and guidelines on different areas of the operation of DSS schools such as personnel appointment, remuneration, resources deployment, financial management. It aims to help DSS schools strengthen their governance and daily operations. The Reference Document was completed in December 2008, and uploaded to the EDB and Hong Kong DSS Schools Council websites for schools’ reference. EDB will update the Reference Document together with Hong Kong DSS Schools Council in February each year.
- (ii) Since 2009, the DSS Task Force of EDB has been introducing measures to enhance the monitoring of the operation of DSS schools. EDB takes forward various measures to strengthen communication and coordination among different divisions, including streamlining the process of vetting fee increase applications, strengthening the mechanism for following up outstanding audited accounts, etc.
- (iii) We recapitulate in the EDB Circular No. 4/2010 on “Use of Government Funds in Direct Subsidy Scheme (DSS) Schools” issued on 29 April 2010 the prevailing rules and regulations as well

as guidelines for compliance or reference of DSS schools as appropriate in this regard and remind DSS schools their responsibilities to use government funds and other resources;

- (iv) We conducted briefing session for DSS schools in June 2010 with a view to enhancing the daily operation and management of the schools;
- (v) We recapitulate in the EDB Circular No. 12/2010 on “Use of Non-government Funds in Direct Subsidy Scheme (DSS) Schools” issued on 5 November 2010 the prevailing rules and regulations as well as guidelines on the proper use of non-government funds for compliance or reference of DSS schools as appropriate and remind DSS schools their responsibilities to use non-government funds and other resources; and
- (vi) We strengthened the communication with the DSS Schools Council and provided support for their working group on enhancement of internal control in DSS schools, which was newly established in August 2010.

In addition, we have made use of the audited financial information submitted by DSS schools each year to keep in view the financial performance and relevant practice of the schools. More extensive checking would be conducted through the audits of selected schools by the School Audit Section. In fact, we have progressively conducted more school audits for DSS schools since 2007/08 (from 2 in 2006/07 to 6 in 2007/08, 6 in 2008/09, and 8 in 2009/10). We expect that the number of schools to be selected for school audits will be further increased to 12 in 2010/11.

We have been issuing management letters, advisory letters or warning letters to DSS schools found to be involved in irregularities or malpractices of different kinds and magnitude. Noting the observations and recommendations of the Public Accounts Committee (PAC) and Audit Commission, we undertake to enhance and step up efforts to improve the governance of the DSS schools. To this end, the Secretary for Education has tasked the Permanent Secretary for Education to consider a review of the governance framework, internal control and enforcement mechanism and financial management of DSS schools. A Working Group will be set up under EDB with inputs from the DSS and academic sector as well as those from relevant professionals experienced in governance, financial management and related areas to take forward the review and address the issues raised by PAC and the Audit Commission.