

THE GOVERNMENT MINUTE

in response to the

**REPORT OF
THE PUBLIC ACCOUNTS COMMITTEE
No. 68A**

of 17 January 2018

11 April 2018

THE GOVERNMENT MINUTE IN RESPONSE TO THE PUBLIC ACCOUNTS COMMITTEE REPORT NO. 68A DATED JANUARY 2018

REPORT ON THE RESULTS OF VALUE FOR MONEY AUDITS (Report No. 68)

Chapter 1 – Government’s support and monitoring of charities

The Government accepts the views and recommendations made by the Audit Commission (Audit) and the Public Accounts Committee (PAC) on the Government’s support and monitoring of charities and has taken follow-up actions as appropriate. The progress made is reported below.

Administration of tax exemption of charities and tax-deductible donations

2. Section 88 of the Inland Revenue Ordinance (Cap. 112) (IRO) provides general exemption to charitable institutions or trusts of a public character. As there is no statutory definition of “charitable institution or trust of a public character” in the IRO, the Inland Revenue Department (IRD) has all along referred to case law in determining whether an organisation is established for “charitable purposes” before issuing confirmation to organisations applying for tax exemption status. On the other hand, IRD has the duty to assess and collect taxes in accordance with the IRO. For such purposes, IRD conducts reviews from time to time to ascertain whether the objects of the organisations remain charitable according to law and that their activities are compatible with their objects so as to maintain their tax exemption status.

3. In processing new applications for recognition of tax exemption and the subsequent reviews, IRD has to act in line with the framework provided under section 88 of the IRO. IRD provides guidance to applicants in the form of a “Tax Guide”. It has also formulated internal guidelines in the form of a Staff Handbook for staff of its Charitable Donations Section (CDS).

4. Under section 88 of the IRO, IRD’s role is to consider whether the organisation is within the legal meaning of charity. IRD is seeking legal advice from the Department of Justice to explore if there is room to enhance its work within the existing legislative framework.

5. Since 2017, IRD has adopted a series of measures to enhance the operations of CDS. Details are as follows –

- (a) New applications: On 1 April 2017, IRD publicised on its website the performance pledge. CDS endeavors to give a reply to the applicants of tax exemption status within four months of the date of receipt of the application, provided that all the required information and documents are received.
- (b) Review of tax-exempt charities: To strengthen the monitoring of review cases, CDS has since March 2017 beefed up its monthly report with the number of uncompleted review cases and their age profile and progress for management review. CDS also upgraded its computer system in July 2017 to generate management reports on the progress of review cases uncompleted for more than nine months for periodic review by the management.
- (c) Withdrawal of recognition of tax exemption status: Since March 2017, the Hong Kong Police Force (HKPF) and CDS have set up a notification arrangement under which CDS would be informed of the names of societies which have been dissolved and ceased to operate so that the tax exemption status could be withdrawn in a timely manner.

6. CDS would take into account relevant factors, including the nature of donation expenditures made by charities and the upcoming activity plan of dormant charities, in ascertaining their tax exemption status for the purpose of section 88 of the IRO. A more detailed internal guideline to remind CDS staff the factors to be considered and the required follow-up actions is under formulation.

7. Starting from July 2017, tax-exempt charities that have not yet commenced operations at the time of being recognised with a tax-exempt status will be reviewed by CDS two years after the recognition. With effect from January 2018, the same has been applied to all newly recognised tax-exempt charities. For existing tax-exempt charities, the review cycle is shortened from at least once every four years to once every three years.

Administration of land granted to charities for operating welfare/social services

Monitor and enforcement of lease conditions for sites granted by private treaty grant to charities

8. A land lease, once executed, shall be binding on both the Government and the grantee. From the perspective of lease enforcement, when determining whether a grantee is in breach of the lease, the Lands Department (LandsD), in enforcement of land leases on behalf of the Government, must exercise reasonable judgement and take follow-up actions in accordance with lease conditions. LandsD would, in accordance with the Protocol issued (which was drawn up to

delineate the sharing of responsibilities between LandsD as the Government land agent and the policy bureaux/departments (B/Ds) which support the private treaty grants (PTGs)), continue to monitor the relevant cases as named in the Audit Report jointly with the relevant supporting B/Ds and would seek legal advice when considered appropriate.

Monitor of application and proper use of income generated from hostel/serviced residence on site granted by private treaty grant

9. The land leases for the 14 sites were executed at different points in time, having regard to different circumstances as well as considerations prevailing then.

10. Amongst the 14 sites highlighted in the Audit Report, three cases (Cases A, B and E) held under virtually unrestricted leases were not granted by way of PTGs, and another three cases (Cases C, D and K) are subject to very loose user restriction allowing much liberty for the lessees without relevant information about the existence or otherwise of specific policy intentions governing the three cases. Hence, LandsD has no mandate to enforce.

11. For the remaining eight cases (Cases F, G, H, I, J, L, M and N) named in the Audit Report where the leases specifically permitted the running of hostel/dormitories, one or more of the following requirements have been stipulated in their lease conditions –

- (a) the permitted use(s) or operation should be run on a non-profit-making basis;
- (b) the operation shall be conducted in all respects to the satisfaction of a certain head of department (usually the relevant monitoring department);
- (c) submission of accounts; and
- (d) no distribution of profit.

12. LandsD has been actively liaising with the relevant supporting B/Ds to confirm if the current use or operation of the hostels/dormitories is up to their satisfaction. For details, please refer to the progress report at Enclosure 1.

Encl. 1

13. Where the monitoring role for individual lease conditions could not be attributed to a specific B/D due to the existence of grey areas, e.g. a hotel/hostel may be an income-generating facility that supports community/welfare services under the purview of different bureaux, LandsD will co-ordinate with B/Ds to arrive at a consensus and take a proactive monitoring role if necessary.

14. When processing new PTGs or lease modification/lease extension of existing PTGs, LandsD would recommend that the concerned sponsoring B/Ds impose “submission of audited account” and “no distribution of profit” requirements and request justifications if the recommendation is not accepted.

Review of the 2014 Protocol

15. LandsD issued a refined Protocol in the first quarter of 2018. LandsD also completed Phase 1 of the stock-taking exercise for PTGs granted at nil/nominal/concessionary premium during the period from 1 January 2016 to 31 December 2017, and would continue to undertake the stock-taking exercise in phases and share the findings with relevant B/Ds, subject to priority of other tasks in hand and resources available, with a view to reminding the relevant B/Ds of their monitoring roles in respect of the relevant PTGs, taking into account their responsibilities under the Protocol.

Monitoring of lease conditions of Lease N on income-generating facilities and subvention reduction arrangement for Grantee N

16. Upon the Home Affairs Bureau (HAB)’s request, Grantee N reactivated the Management Committee in May 2017 to examine the income and expenditure of the income-generating facilities of Grantee N’s headquarters. Grantee N has also submitted the statement of accounts for the income-generating facilities of 2016-17. HAB will continue to play its monitoring role under the lease to ensure the proper and efficient operation of the income-generating facilities of Grantee N’s headquarters.

17. On the subvention reduction arrangement, HAB will reduce Grantee N’s recurrent subvention by about \$6.5 million in total over three financial years from 2017-18 to 2019-20. The reduction is equal to the present value of Grantee N’s subvention received at the time when its headquarters came into operation, less the combined value of previous reductions to Grantee N’s subvention. Upon completion of the reduction, HAB considers that the relevant understanding of the then Governor-in-Council when granting Lease N will be given full effect. Grantee N was informed of the reduction on 18 January 2018 and has not raised any objection.

Compliance of catering facilities with lease conditions by Grantee N

18. Pursuant to clause 6(i) of the Special Conditions of Lease N, HAB considers that the western restaurant and lounge are operated as part of the hostel, and are directly related and ancillary to the permitted hostel use, and could serve the general public. The Planning Department and the (LandsD) have confirmed that, from the perspectives of planning and land administration, the catering facilities may continue in its existing mode and no lease enforcement action is required.

Filing and disclosure requirements of charities incorporated/established under three ordinances

19. The Companies Registry (CR) has implemented a new mechanism in early 2018 for enhancing compliance checks to enable more timely follow-up actions against companies which have repeatedly breached the filing requirements. Under the new mechanism, all guarantee companies in default of filing annual returns will be identified regularly for timely follow-up actions.

20. The Societies Office of the Police Licensing Office of HKPF (the Societies Office) has been posting the updated list of registered/exempted societies under the Societies Ordinance to the HKPF's website on a monthly basis since 2014. In addition, the Societies Office has been providing a list of societies deregistered in the preceding month to CDS of IRD for matching with its list of charities claiming tax exemption on a monthly basis since March 2017.

21. The Education Bureau (EDB) has put in place a proper mechanism for monitoring the timely submission of audited financial statements by incorporated management committees (IMC) schools and, where necessary, will offer assistance to schools.

22. EDB has been encouraging schools to adopt the good practice of uploading their financial summaries/annual audited accounts onto their websites through related seminars and briefings for IMC schools. EDB has also updated the relevant guidelines before the commencement of the 2017/18 school year.

Regulation of Chinese temples

23. In respect of the issue of renewing the expired delegation agreements of two delegated temples, the Chinese Temples Committee (CTC) re-entered into an agreement with one of the delegated organisations in December 2017. The CTC Secretariat has also repeatedly met with the other delegated organisation. The two parties are now finalising the details with a view to re-entering into an agreement as soon as possible.

24. The CTC is also actively enhancing the transparency of the operation of its temples, including disclosing the financial information for public inspection. In January 2018, the CTC uploaded the 2016-17 financial information of the 24 directly administered temples onto its website. It will also upload onto its website the same information of the 20 delegated temples by batches.

25. The CTC Secretariat has actively stepped up its monitoring work to ensure that the delegated organisations make timely submission of reports as required under the delegation agreement. The four delegated organisations mentioned in the Audit Report as having failed to make timely submission of reports in the past have submitted all administrative reports and audited accounts dated since 2013.

26. The CTC has advised registered temples to adopt the “Reference Guide on Best Practices for Charitable Fund-raising Activities” (Reference Guide) promulgated by the Social Welfare Department (SWD) to enhance the transparency of temple operation. The CTC has also distributed copies of the Reference Guide to registered temples for reference.

Way Forward

27. The Law Reform Commission (LRC) made recommendations on the regulation of charitable organisations and charitable fund-raising activities in its Report in December 2013. The recommendations touch upon the duties and responsibilities of a number of Government B/Ds. HAB has been assigned to co-ordinate inputs from relevant B/Ds to formulate a response to LRC’s recommendations for the Government’s overall consideration. It is actively following up the co-ordination in formulating a response. In this process, HAB will make reference to the improvement measures recommended in the Audit Report as well as in the PAC Report Nos. 68 and 68A (PAC Report).

28. Meanwhile, the Government notes the concerns in the community over the accountability of charities, in particular that of charitable fund-raising activities. HAB is co-ordinating with relevant departments to explore feasible administrative measures by making reference to the recommendations in the LRC Report, the Audit Report and the PAC Report, with a view to enhancing the transparency of charitable fund-raising activities and safeguarding the rights and interests of donors. These measures include –

- (a) exploring the feasibility of uploading the required financial reports or income and expenditure statements relating to the approved charitable fund-raising activities onto the charitable fund-raising activities webpage on the “GovHK” portal to facilitate public scrutiny upon completion of those activities;
- (b) exploring ways to streamline the existing approval arrangements for various charitable fund-raising licence or permit applications so that the applicant organisation does not need to submit a separate application to LandsD for temporary occupation of the government land concerned (i.e. similar to the existing arrangements for lottery licences, in which the licensing authority will seek the advice of LandsD on the application for temporary occupation of government land by the applicant);

- (c) enhancing the “1823” hotline and the charitable fund-raising activities webpage on the “GovHK” portal to facilitate the public to access the relevant information or lodge complaints; and
- (d) reviewing and enhancing the current Reference Guide issued by the SWD, and stepping up promotion efforts and encouraging charities to follow such practices. The public may refer to the Reference Guide for assessing the performance of charities in fund-raising activities and having a better understanding of the rights and interests of donors.

Progress made in implementing Audit’s and PAC’s recommendations

29. A summary of the latest progress in the implementation of the specific recommendations of Audit and PAC is at Enclosure 1.

Chapter 2 – Provision of district council funds for community involvement projects

30. The Government accepts the recommendations made by the Audit and the PAC regarding the provision of District Council (DC) funds for community involvement (CI) projects (DC-CIP funds). The Home Affairs Department (HAD) has accordingly taken follow-up actions as appropriate. The progress made is reported below.

Allocation and use of district council funds for community involvement projects

31. In line with the Audit’s recommendation, HAD has reviewed the allocation of DC funds for CI projects and adopted a new arrangement. Starting from 2017-18, less than half of the total funding for DCs has been allocated based on individual DC’s allocation in the past year, and the major portion of the total provision would be allocated according to the latest data of the relevant factors (e.g. population and socio-economic factors).

32. HAD will continue to keep under review the number of CI projects and participants in the projects vis-à-vis their expenditure. To facilitate DCs in their management of DC-CIP funds, HAD has produced different types of analyses of CI projects on an overall basis for their reference starting from 2017-18.

33. HAD has taken measures to ensure that the funds for arts and cultural activities should be spent as designated by requesting the DC Secretariats to enhance budgetary control and management of the funds, e.g. by clearly delineating the major element in a project, and in turn the appropriate classification.

Management of conflicts of interest in community involvement projects

34. DC Standing Orders contain provisions on avoidance of conflict of interests which are based on the guidelines for a two-tier reporting system devised in collaboration with the Independent Commission Against Corruption (ICAC).

35. The first-tier declaration requires DC members to report their personal interests within one month from the commencement of their term. The DC member should provide update on any change in such interests within 14 days. The second-tier declaration requires that any DC member who has pecuniary or other interests in any matter handled by the DC concerned, or has links with the benefitted party or potential benefitted party, including matters on tender, quotation and DC funds, must, as soon as practicable after being aware of it, declare such to the DC concerned prior to the discussion of the relevant matter.

36. The two-tier declaration system is well-established. DC members are familiar with it and have made declarations accordingly. The first-tier declaration covers a comprehensive range of interests under eight categories, and members' declarations have been uploaded to DC websites for public viewing.

37. In consideration of the recommendations in the Audit Report, HAD has further enhanced the relevant arrangements and systems, including the following –

- (a) HAD has, in consultation with the ICAC, formulated guidelines on “other declarable interests” under the first-tier declaration to facilitate DC members in making their first-tier declaration more comprehensively and accurately. For example, positions held by DC members in the implementation parties of CI projects are regarded as “other declarable interests” and should be declared.
- (b) Regarding the second-tier declaration, HAD has requested DC Secretariats to remind, at every meeting or during circulation of papers, DC/committee/working group members to declare interests and the Chairpersons to make rulings on the interests declared and to record such rulings in the minutes of meetings. Under the current practice, minutes of meetings are uploaded to DC websites for public inspection.
- (c) HAD has worked with DC Secretariats to devise a Good Practice in handling declaration of interests and making rulings at meetings by DC/committee/working group Chairpersons. The Good Practice has been distributed to DCs for reference.

Implementation of community involvement projects

38. As regards the implementation of CI projects, HAD has compiled the “Manual on the Use of District Council Funds” (HAD Manual) to provide guidelines to DCs. The HAD Manual covers different areas such as the funding coverage, vetting criteria, payment arrangements, monitoring mechanism, etc. On the basis of the HAD Manual, each DC has devised its own detailed guidelines for implementation of CI projects and the district guidelines must comply with the principles set out in the HAD Manual.

39. Having regard to the Audit’s and PAC’s recommendations, HAD has taken the following measures to further enhance the relevant arrangements in implementing CI projects –

- (a) HAD has provided guidelines on review of designated organisations to facilitate DCs’ review of their lists of designated non-governmental organisations (NGOs) to ensure that only NGOs with good performance and track records are included in the lists.
- (b) Having regard to the practice of the 18 DCs in selecting partner NGOs to implement CI projects, HAD has prepared and issued good practice guidelines on the selection of partner NGOs for reference by all DCs to enhance the openness and transparency of the selection process.
- (c) HAD has reminded DC Secretariats to follow up with evaluators in case the ratings given by them are not in line with the outturn rates.
- (d) To ensure the accuracy of the number of participants/audience in the final reports, the implementation parties are required to obtain the relevant attendance figures from the venue management of the Leisure and Cultural Services Department in completing the final reports.

Progress made in implementing the Audit’s and PAC’s recommendations

40. A summary of the latest progress in implementing the Audit’s and PAC’s recommendations is at Enclosure 2.

Encl. 2

Government's support and monitoring of charities
Progress in implementing the Audit's and PAC's Recommendations

Para. No.	Audit's/PAC's Recommendations	Progress to Date
Part 2: Administration of tax exemption of charities and tax-deductible donations		
Para. 2.29 of the Audit Report	<p>Audit has recommended that the Commissioner of Inland Revenue should –</p> <p>(a) consider setting a performance pledge for attending to new applications for recognition of tax exemption status;</p> <p>(b) take measures to enhance the monitoring of the progress of periodic review cases of tax exemption status of charitable organisations such as ensuring that all uncompleted review cases are included in the monthly work report submitted for management review;</p> <p>(c) closely monitor the uncompleted review cases and remind CDS staff to take timely follow-up actions on outstanding issues;</p>	<p>On 1 April 2017, Inland Revenue Department (IRD) publicised on its website the performance pledge. Charitable Donations Section (CDS) endeavors to give a reply to the applicants within four months of the date of receipt of a new application, provided that all the required information and documents are received.</p> <p>As the recommendation has been implemented, we recommend that this part be deleted from the next progress report.</p> <p>CDS has since March 2017 beefed up its monthly work report with the number of uncompleted review cases and their age profile and progress for management review.</p> <p>As the recommendation has been implemented, we recommend that this part be deleted from the next progress report.</p> <p>CDS has upgraded its computer system since July 2017 to generate reports on the progress of uncompleted review cases for the attention of senior management to facilitate early direction on follow-up actions.</p> <p>As the recommendation has been implemented, we recommend that this part be deleted from the next progress report.</p>

Para. No.	Audit's/PAC's Recommendations	Progress to Date
	<p>(d) take measures to improve the follow-up actions on matters of regulatory concerns identified during reviews of the tax exemption status of charitable organisations, including –</p> <p>(i) in consultation with the Secretary for Financial Services and the Treasury, considering the need for reviewing the provisions of the Inland Revenue Ordinance (IRO) with a view to enabling the IRD to effectively perform its role of administering the tax exemption status of charities;</p> <p>(ii) reminding CDS staff to obtain from the charities concerned a breakdown of their donation expenditures to support that they are compatible with their objects and, in exercising their judgment to determine the extent of verification work, give due consideration to the materiality of the donation expenditures; and</p> <p>(iii) reminding CDS staff to take action on dormant cases in accordance with the Staff Handbook requirements if the charities concerned have failed to respond to the CDS's enquiries or failed to realise their activity plans within a reasonable time, and seek further explanations from the charity mentioned in para. 2.19(a);</p>	<p>IRD is seeking legal advice from the Department of Justice (DoJ) to explore if there is room to enhance its work within the existing legislative framework and will seek policy steer from the Financial Services and the Treasury Bureau (FSTB) if legislative amendments are required.</p> <p>IRD has reminded CDS staff to give due consideration to the materiality of the donation expenditures when deciding on the information required for verification work. Since July 2017, CDS staff are required to record the donation expenses and their findings in the closing report.</p> <p>As the recommendation has been implemented, we recommend that this part be deleted from the next progress report</p> <p>IRD has reminded CDS staff to take timely follow-up actions on dormant cases in accordance with the requirements in the Staff Handbook if the charities concerned have failed to respond to enquiries or implement their activity plans within a reasonable time.</p> <p>As the recommendation has been implemented, we recommend that this part be deleted from the next progress report.</p>

Para. No.	Audit's/PAC's Recommendations	Progress to Date
	<p>(e) remind CDS staff to take timely action on updating the list of approved tax-exempt charitable institutions or trusts of a public character (s88 list) by removing charities which had been deregistered by the Companies Registry (CR)/Hong Kong Police Force (HKPF);</p> <p>(f) expedite action to liaise with relevant bureaux/departments (B/Ds) (such as the HKPF) to set up notification arrangements of charitable organisations which have been deregistered under their respective ordinances; and</p>	<p>Since April 2017, CDS has enhanced the control on the matching reports by requiring case officers to initial on the reports after withdrawing the recognition of tax exemption status of the relevant charities. Their supervisors would review the matching reports by the end of each month to ensure that the recognition of tax exemption status of all the charities which have been struck off by the CR/HKPF has been timely withdrawn.</p> <p>As the recommendation has been implemented, we recommend that this part be deleted from the next progress report.</p> <p>In April 2017, CDS contacted Education Bureau (EDB) for setting up a notifications arrangement in respect of incorporated management committees (IMC) schools with school registration being cancelled under the Education Ordinance for CDS' follow-up action.</p> <p>Since March 2017, the Societies Office of the Police Licensing Office of the HKPF has been providing a list of societies deregistered in the preceding month to CDS to facilitate the matching with its list of charities claiming tax exemption on a monthly basis.</p> <p>As the recommendation has been implemented, we recommend that this part be deleted from the next progress report.</p>

Para. No.	Audit's/PAC's Recommendations	Progress to Date
	<p>(g) remind assessing staff in conducting desk audits –</p> <p>(i) to seek clarification from the taxpayer concerned if the supporting schedule for a profits tax case cannot show whether the claimed charitable donations are made to recognised charities on the s88 list; and</p> <p>(ii) to be more vigilant in checking the validity of donation receipts for allowing tax deduction under salaries tax.</p>	<p>IRD has from time to time reminded its staff to stay vigilant in conducting desk audit, including checking the validity of donation receipts and seeking clarifications from the taxpayers concerned whenever necessary.</p> <p>As the recommendations in (g)(i) and (ii) have been implemented, we recommend that this part be deleted from the next progress report.</p>
Page 71 of the PAC Report	PAC commented that IRD should consider setting out clear guidelines for CDS in administering the tax- exempt status of charities more stringently and consistently.	IRD is formulating a more detailed internal guideline for its CDS staff to remind them of the factors to be considered and the required follow-up actions in ascertaining the tax-exempt status of charities for the purpose of section 88 of the IRO.
	<p>PAC strongly urged IRD to –</p> <p>(a) conduct more frequent reviews of the annual accounts of tax-exempt charities as recommended by Law Reform Commission (LRC) to ascertain whether the activities of these charities and their operations are compatible with their charitable objects; and</p>	<p>Starting from mid-July 2017, tax-exempt charities, which have not yet commenced operations at the time of being recognised with a tax-exempt status, will be reviewed by CDS two years after the recognition. With effect from January 2018, the same has been applied to all newly recognised tax-exempt charities. For existing tax-exempt charities, the review cycle has been shortened from at least once every four years to once every three years.</p> <p>As the recommendation has been implemented, we recommend that this part be deleted from the next progress report.</p>

Para. No.	Audit's/PAC's Recommendations	Progress to Date
	(b) take improvement measures on follow-up actions relating to matters of regulatory concerns, including exploring the possibility of reviewing the provisions of IRO to enable it to effectively perform the role of administering the tax-exempt status of charities.	IRD is seeking legal advice from the DoJ to explore if there is room to enhance its work under the existing legislative framework. IRD will seek policy steer from the FSTB if legislative amendments are required.
	PAC strongly urged the Administration to review which B/D should be more appropriate to be responsible for the overall regulation and monitoring of the operation of charities, such as making sure the charities comply with their governing instruments, bearing in mind that IRD's main duty is to administer tax-related matters.	Home Affairs Bureau (HAB) is tasked to co-ordinate input from relevant B/Ds for the purpose of formulating the response to the LRC Report for the Government's consideration. Recommendations in the Audit Report and the PAC Report will be taken into account in this process.
Part 3: Administration of land granted to charities for operating welfare/social services		
Para. 3.25 of the Audit Report	<p>Audit has recommended that the Director of Lands should –</p> <p>(a) in collaboration with the supporting B/Ds, consider incorporating lease conditions restricting profit distribution and requiring submission of accounts in a private treaty grant (PTG) or lease modification (including land exchange) granted at nil/concessionary premium for welfare/social services in future;</p> <p>(b) upon renewal of leases or on receipt of applications for lease modification, in collaboration with the supporting B/Ds, review whether there is a need to include –</p> <p>(i) a no-profit-distribution clause for the 10 leases granted at nil/concessionary premium for welfare/social services</p>	<p>Lands Department (LandsD) promulgated a new set of internal guidelines in May 2017, under which LandsD will recommend that the concerned sponsoring B/Ds impose “submission of audited accounts” and “no distribution of profits” requirements when processing new PTGs or lease modification/lease extension of existing PTGs. LandsD will request justifications if the recommendation is not accepted.</p> <p>When applications for lease modification or lease renewal are received for the 11 PTGs named in the Audit report (excluding the 3 virtually unrestricted leases), LandsD will process the applications by applying the said instruction.</p>

Para. No.	Audit's/PAC's Recommendations	Progress to Date
	<p>but without such clause (see para. 3.11); and</p> <p>(ii) a submission of accounts clause for the seven leases granted at nil/concessionary premium for welfare/social services but without such clause (see para. 3.12);</p> <p>(c) require Grantee M to provide regularly sufficient information to demonstrate its compliance with the lease requirements and related conditions in the letter of approval of 1989 (see para. 3.13) and, where appropriate, seek the assistance of Social Welfare Department (SWD) in scrutinising the statements of accounts obtained from Grantee M; and</p> <p>(d) for leases with clauses governing the use or operation of the hostels/dormitories, seek confirmation from the relevant B/Ds on whether the current use or operation of the hostels/dormitories is in line with their policy intent and to their satisfaction, and take necessary follow-up actions in case of any breach of the lease conditions.</p>	<p>In response to the recent application for lease modification from the grantee of Lease F, LandsD has, in consultation with SWD, included a submission of accounts clause and a no-profit-distribution clause in the lease conditions.</p> <p>The above instruction has been promulgated in LandsD's internal guidelines on 17.5.2017. Hence, LandsD recommends deleting this item from the next progress report.</p> <p>LandsD has taken proactive action to request Grantee M to submit the audited accounts for 2016 together with certified breakdowns of the hostel income ploughed back by categories of uses for all the audited accounts submitted or to be submitted. The information is for sharing with the relevant B/Ds and facilitating their monitoring of the users of income and relevant subvention under their purview. Notwithstanding LandsD's repeated reminders with the latest one issued on 26.2.2018, no response has been received from the Grantee so far.</p> <p>LandsD is seeking legal advice on the way forward.</p> <p>For the eight PTGs named in the Audit report which contain particular clauses in governing the use or operation of the hostels/dormitories (i.e. Leases F, G, H, I, J, L, M and N), LandsD has been actively liaising with the relevant B/Ds to confirm if the current use or operation of the hostels/dormitories is up to their satisfaction.</p> <p>As at end of December 2017, SWD has confirmed that the hostels of Lease H, I</p>

Para. No.	Audit's/PAC's Recommendations	Progress to Date
		<p>and J are currently operated to their satisfaction. HAB has also confirmed that the two catering facilities of Lease N are operated as part of and is ancillary to the hostel.</p> <p>Lease F, G and L are still under investigation and replies from B/Ds or the grantee are pending.</p>
Para. 3.26 of the Audit Report	<p>Audit has recommended that the Director of Social Welfare should remind grantees concerned to submit accounts in accordance with the lease conditions (such as for Leases H and J) and in case of non-compliance, take enforcement action in conjunction with the Director of Lands.</p>	<p>After the issue of the Audit Report, the Director of Lands wrote to the grantees of Leases H and J on 5 May 2017 to remind them to submit audited statements of accounts to the Director of Social Welfare in accordance with the lease conditions. The latest progress of the submission of accounts by the grantees of Leases H and J is as follows –</p> <p><u>Lease H</u></p> <p>While the grantee has undertaken to submit the audited accounts for 2016-17 in due course, the grantee submitted the audited accounts for 2015-16 to the SWD on 27 July 2017. However, as the set of audited accounts submitted by the grantee only included a statement of “Combined Income and Expenditure Account”, the SWD did not consider the relevant submission as a complete set of audited accounts. The grantee was thus asked to re-submit a complete set of audited accounts. The grantee re-submitted the audited accounts to the SWD on 5 December 2017. The SWD considered that the re-submitted audited accounts had satisfied the requirement on submission of accounts under the lease condition, and is following up with the grantee to seek clarifications on an assets item as reported in the audited accounts.</p>

Para. No.	Audit's/PAC's Recommendations	Progress to Date
		<p><u>Lease J</u></p> <p>The grantee submitted the audited accounts for 2016-17 to the SWD on 31 July 2017. The audited accounts submitted in relation to the services under the SWD's purview were considered having satisfied the requirement on submission of accounts under the lease condition. The SWD is following up with the grantee to seek clarifications on certain related party transactions as reported in the audited accounts.</p> <p>The SWD will continue to remind the grantees of Leases H and J to submit audited accounts on an annual basis in accordance with the requirement under the lease conditions concerned, and will report to the Director of Lands in case of non-compliance or where the latter's advice is required. LandsD will work with SWD in the taking of enforcement action, when required.</p> <p>As the grantees have already submitted audited accounts in accordance with the relevant lease conditions and the monitoring actions will be ongoing, we recommend that this part be deleted from the next progress report.</p>
Para. 3.27 of the Audit Report	<p>Audit has recommended that the Secretary for Home Affairs should –</p> <p>(a) in conjunction with the Director of Lands, step up monitoring and enforcement of the lease conditions on Management Committee and submission of accounts for Lease N;</p>	<p>Upon HAB's request, Grantee N reactivated the Management Committee in May 2017 to examine the income and expenditure of the income-generating facilities of Grantee N's headquarters. Grantee N has also submitted the statement of accounts for the income-generating facilities of 2016-17. HAB will continue to play its monitoring role under the lease to</p>

Para. No.	Audit's/PAC's Recommendations	Progress to Date
	<p>(b) seek the Executive Council's endorsement for any material deviations from its understanding of the implementation of a PGT for operating welfare/social services on land granted at nil/concessionary premium (such as the subvention reduction arrangement in Lease N); and</p> <p>(c) for Lease N, in consultation with the Director of Lands and the Director of Planning, review the operations of the western restaurant and lounge to determine whether they are permitted under the lease conditions and the relevant Outline Zoning Plan, and take necessary follow-up actions accordingly.</p>	<p>ensure proper and efficient operation of the income-generating facilities of Grantee N's headquarters.</p> <p>As the recommendation has been implemented, we recommend that this part be deleted from the next progress report.</p> <p>On the subvention reduction arrangement, HAB will reduce Grantee N's recurrent subvention by about \$6.5 million in total over three financial years from 2017-18 to 2019-20. The reduction is equal to the present value of Grantee N's subvention received at the time when its headquarters came into operation, less the combined value of previous reductions to Grantee N's subvention. Upon completion of the reduction, HAB considers that the relevant understanding of the then Governor-in-Council when granting Lease N will be given full effect. Grantee N was informed of the reduction on 18 January 2018 and has not raised any objection.</p> <p>As the recommendation has been implemented, we recommend that this part be deleted from the next progress report.</p> <p>Pursuant to clause 6(i) of the Special Conditions of Lease N, HAB considers that the western restaurant and lounge are operated as part of the hostel, and are directly related and ancillary to the permitted hostel use, and could serve the general public. PlanD and LandsD have confirmed that, from the perspectives of planning and land administration, the catering facilities may continue in its existing mode and no lease enforcement action is required.</p>

Para. No.	Audit's/PAC's Recommendations	Progress to Date
		As the recommendation has been implemented, we recommend that this part be deleted from the next progress report.
Para. 3.28 of the Audit Report	Audit has recommended that the Commissioner of Inland Revenue should review the taxability of the income derived from the commercial operations of the 13 sites for revenue protection.	IRD is reviewing the relevant charities identified in the Audit Report to ascertain the taxability of the profits, if any, derived from the operations.
Para. 6.7 of the Audit Report and Page 74 of the PAC Report	Audit has also recommended that the Secretary for Development and the Director of Lands, in collaboration with the supporting B/Ds, review the implementation of the 2014 Protocol to see whether there is room for improvement.	<p>Taking into account comments/feedback received from B/Ds, LandsD has refined the 2014 Protocol as appropriate and issued the refined Protocol in the first quarter of 2018.</p> <p>LandsD has completed Phase 1 of the stock-taking exercise for PTGs granted at nil/nominal/concessionary premium during the period from 1.1.2016 to 31.12.2017, and would continue to undertake the stock-taking exercise in phases and share the findings with relevant B/Ds, subject to priority of other tasks in hand and resources available, with a view to reminding the relevant B/Ds of their monitoring roles in respect of the relevant PTGs, taking into account their responsibilities under the Protocol.</p>
Part 4: Filing and disclosure requirements of charities incorporated/established under three Ordinances		
Para. 4.12 of the Audit Report	<p>Audit has recommended that the Registrar of Companies should –</p> <p>(a) step up the CR monitoring of the compliance with the statutory filing requirements by charities which are limited companies; and</p> <p>(b) take more timely follow-up actions</p>	CR has implemented a new mechanism in early 2018 for enhancing compliance checks to enable more timely follow-up actions against companies which have repeatedly breached the filing requirements. Under the new

Para. No.	Audit's/PAC's Recommendations	Progress to Date
	<p>against cases of repeated breaches of the filing requirements and the long delay cases.</p>	<p>mechanism, all guarantee companies in default of filing annual returns will be identified regularly for timely follow-up actions. Moreover, more timely striking off actions have been taken against defunct companies.</p> <p>As a new mechanism has already been implemented in early 2018 by CR for the recommendations in (a) and (b), we recommend that this part be deleted from the next progress report.</p>
<p>Para. 4.19 of the Audit Report</p>	<p>Audit has recommended that the Commissioner of Police should –</p> <p>(a) issue staff instructions to formalise the present practice of conducting regular reviews to identify inactive societies for compliance by staff of the Societies Office; and</p> <p>(b) step up efforts to identify inactive societies including those which are charities and take timely follow-up actions to ensure that the list of registered/exempted societies posted on the HKPF's website is kept up-to-date.</p>	<p>In June 2017, the Societies Office of the Police Licensing Office of the HKPF (Societies Office) revised the internal orders to formalise the present practice of conducting regular reviews to identify inactive societies into an annual exercise.</p> <p>The Societies Office has expedited the process of reviewing inactive societies. Between February and December 2017, a total of 1 836 inactive societies were removed from the list of societies registered/exempted from registration. The updated list of societies registered/exempted from registration has been posted on the HKPF's website on a monthly basis.</p> <p>As the recommendations in (a) and (b) have been implemented, we recommend that this part be deleted from the next progress report.</p>

Para. No.	Audit's/PAC's Recommendations	Progress to Date
Para. 4.31 of the Audit Report	<p>Audit has recommended that the Secretary for Education should –</p> <p>(a) continue to closely monitor the IMC schools' compliance with the filing requirements of audited financial statements and offer assistance to IMC schools for cases of long delays and/or repeated non-compliance with the filing requirements where necessary; and</p> <p>(b) encourage more IMC schools to adopt the good practice of uploading their financial summaries/annual audited accounts onto their websites.</p>	<p>EDB has put in place a proper mechanism for monitoring whether IMC schools had submitted audited financial statements in a timely manner and, where necessary, will offer assistance to schools. The percentage of late submission of audited financial statements by IMC schools has decreased from 36% for the 2014/15 school year to 31% for the 2015/16 school year, and the number of IMC schools that had submitted their audited financial statements later than 120 days after the submission due date was decreased from 26 for the 2014/15 school year to 15 for the 2015/16 school year. EDB will continue to monitor IMC schools' compliance with the filing requirements of audited financial statements in accordance with the established mechanism and offer assistance to schools where appropriate.</p> <p>As the monitoring measures will be carried out on an on-going basis, we recommend this part be deleted from the next progress report.</p> <p>EDB has been encouraging schools to adopt the good practice of uploading their financial summaries/annual audited accounts onto their websites. EDB has updated relevant guidelines before the commencement of the 2017/18 school year and promulgated these messages in the Financial Management Seminar for Aided Schools held in January 2018. EDB will continue to encourage schools to adopt the aforesaid good practice</p>

Para. No.	Audit's/PAC's Recommendations	Progress to Date
		<p>through related seminars and briefings for IMC schools.</p> <p>As seminars and briefings will be held on an on-going basis, we recommend that this part be deleted from the next progress report.</p>
Part 5: Regulation of Chinese temples		
<p>Para. 5.15 of the Audit Report</p>	<p>Audit has recommended that the Secretary for Home Affairs, as the Chairman of the Chinese Temples Committee (CTC), should –</p> <p>(a) for the two temples with expired delegation agreements (see para. 5.7), expedite action to resolve the long-outstanding issues with the two delegated organisations concerned with a view to renewing the delegation agreements as soon as practicable;</p> <p>(b) work out with the delegated organisations of the 11 temples (see para. 5.9) agreements and means to disclose the financial information and operations of the temples;</p>	<p>In December 2017, the CTC re-entered into an agreement for three years with one of the delegated organisations. The CTC Secretariat has also repeatedly met with the other delegated organisation. The two parties are now finalising the details with a view to re-entering into an agreement as soon as possible.</p> <p>There are currently 20 delegated temples, including the 11 temples mentioned in the Audit Report. The management of these temples is delegated to eight organisations, including charitable and district organisations. Currently, one delegated organisation has uploaded the financial information of the temple on its website. The CTC is revising the delegation agreements with the remaining seven delegated organisations to add clauses requiring the organisations to disclose the financial information of the temples for public inspection through the CTC. It is expected that the relevant work will be completed in the first half of 2018. The CTC will also be uploading these financial information onto CTC's website by batches.</p>

Para. No.	Audit's/PAC's Recommendations	Progress to Date
	<p>(c) step up monitoring of the delegated organisations' compliance with the terms of the delegation agreements to ensure that audited accounts and administrative reports of the temples are submitted in a timely manner;</p> <p>(d) tighten up the provisions in delegation agreements to ensure that temple funds are properly spent; and</p>	<p>Regarding the strengthening of monitoring work, the CTC Secretariat has actively followed up with the delegated organisations to ensure that they make timely submissions of reports according to the requirements of the delegation agreement. The four delegated organisations mentioned in the Audit Report as having failed to make timely submission of reports in the past have already submitted all administrative reports and audited accounts dated since 2013.</p> <p>The CTC has laid down requirements in a clearer manner regarding the financial reports and administrative reports required to be submitted for the delegated organisations to follow. These include stipulating the required contents to be contained in the reports and that the temples' accounts must be kept in a separate manner. The CTC Secretariat has also stepped up the monitoring work by requiring the delegated organisations to submit supplementary information on unclear content in the reports so as to ensure that the temple's income is put into proper use. The CTC will also conduct regular inspections to monitor the operation of delegated temples.</p> <p>As the recommendation has been implemented, we recommend that this part be deleted from the next progress report.</p>

Para. No.	Audit's/PAC's Recommendations	Progress to Date
	(e) consider providing incentives to organisations managing registered temples to adopt the best practices promulgated by the Government to enhance the transparency and accountability of the temples' operation	<p>The CTC has advised registered temples to adopt the "Reference Guide on Best Practices for Charitable Fund-raising Activities" (Reference Guide) promulgated by SWD to enhance the transparency of temple operation. The CTC has also distributed copies of the Reference Guide to registered temples for reference.</p> <p>As the recommendation has been implemented, we recommend that this part be deleted from the next progress report.</p>
Page 78 of the PAC Report	PAC commented that there is a need for HAB to implement interim measures to safeguard the temple funds, and to enhance the transparency and accountability of temples' operation in general	<p>The CTC is actively enhancing the transparency of the operation of its temples, including disclosing the financial information of its temples for public inspection.</p> <p>In January 2018, the CTC uploaded the 2016-17 financial information of the 24 directly administered temples onto its website. It will also upload onto its website the same information of the delegated temples by batches.</p>
Part 6: Way Forward		
Para. 6.6 of the Audit Report and Page 69 of the PAC Report	<p>Audit has recommended that the Secretary for Home Affairs should take into account the areas for improvement identified in the Audit Report (see para. 6.4) in coordinating inputs from relevant B/Ds for formulating a response to the LRC's recommendations for the Government's consideration.</p> <p>PAC strongly urged HAB to –</p> <p>(a) expedite the consultation with relevant B/Ds to formulate a</p>	<p>HAB has been assigned to co-ordinate inputs from relevant B/Ds to formulate a response to LRC's recommendations for the Government's overall consideration. HAB is actively following up the co-ordination in formulating a response for the Government's consideration. In this process, HAB will make reference to the improvement measures recommended in the Audit Report as well as in the PAC Report.</p> <p>Meanwhile, the Government notes the</p>

Para. No.	Audit's/PAC's Recommendations	Progress to Date
	<p>substantive response to all LRC's recommendations, taking into account the areas for improvement identified in the PAC Report and the Audit Report; and</p> <p>(b) explore administrative measures to improve the transparency and accountability of charities with a view to providing better safeguards to the public.</p>	<p>concerns in the community over the accountability of charities, in particular that of charitable fund-raising activities. HAB is co-ordinating with relevant departments to explore feasible administrative measures by making reference to the recommendations in the LRC Report, the Audit Report and the PAC Report, with a view to enhancing the transparency of charitable fund-raising activities and safeguarding the rights and interests of donors.</p>

**Provision of District Council Funds for Community Involvement Projects
Progress in implementing the Audit's and PAC's Recommendations**

Para. No.	Audit's/PAC's Recommendations	Progress to Date
Part 2: Allocation and use of District Council funds for Community Involvement projects		
Para. 2.6 of the Audit Report	Audit has recommended that the Director of Home Affairs (DHA) should, taking into account changes in the factors (e.g. population and socio-economic factors) and the additional annual provision of District Council (DC) funds for Community Involvement (CI) projects (DC-CIP funds), conduct a review of the allocation of DC-CIP funds to ensure that the funds are allocated in the most appropriate manner.	<p>The Home Affairs Department (HAD) has duly reviewed and adopted a new allocation arrangement. Starting from 2017-18, less than half of the total funding for DCs has been allocated based on individual DC's allocation in the past year, and the major portion of the total provision would be allocated according to the latest data of the relevant factors (e.g. population and socio-economic factors).</p> <p>As this recommendation has been implemented, we recommend that this part should be deleted from the next progress report.</p>
Para. 2.28(a) of the Audit Report	Audit has recommended that the DHA should keep under review the number of CI projects and participants in the projects vis-à-vis the expenditure of the projects and take improvement measures as appropriate.	<p>HAD will continue to keep under review the number of CI projects and participants in the projects vis-à-vis the expenditure of the projects. In case there are any abnormal trends, HAD would take follow-up action.</p> <p>As this recommendation will be followed up on an ongoing basis, we recommend that this part should be deleted from the next progress report.</p>

Para. No.	Audit's/PAC's Recommendations	Progress to Date
Para. 2.28(b) to (d) of the Audit Report	<p>Audit has recommended that the DHA should –</p> <p>(b) produce analyses of DC projects to individual DCs to facilitate them to review whether their existing spending patterns best meet the needs of their districts;</p> <p>(c) produce analyses of DC projects targeting specific groups of people to individual DCs to facilitate them to assess the need to initiate more such projects; and</p> <p>(d) periodically generate data from the District Council Funds Information System (DCFIS) and conduct different analyses for HAD management information purposes and for dissemination to DCs to facilitate their management of DC-CIP funds and CI projects.</p>	<p>HAD has produced the analyses for HAD management information purposes and for DCs' reference starting from 2017-18. DCs can make reference to the analyses in considering allocation of DC-CIP funds to different categories.</p> <p>As these recommendations have been implemented, we recommend that this part should be deleted from the next progress report.</p>
Para. 2.28(e) of the Audit Report	<p>Audit has recommended that the DHA should rectify the irregularities stated in paragraph 2.24 of the Audit Report and take measures to ensure the accuracy and completeness of the information input into the DCFIS in future.</p>	<p>To rectify the irregularities, HAD has requested the DC Secretariats to review the data kept in the DCFIS and ensure the data are accurate, updated and complete.</p> <p>As this recommendation has been implemented, we recommend that this part should be deleted from the next progress report.</p>
<p>Para. 2.28(f) of the Audit Report</p> <p>Page 106 of the PAC Report (point (a))</p>	<p>Audit has recommended that the DHA should take measures to ensure that the funds for arts and cultural activities are spent as designated.</p> <p>PAC urges HAD to liaise with and remind DCs that funds designated for arts and cultural activities should not be diverted to spend on other non-arts and cultural activities.</p>	<p>To ensure the funds for arts and culture should be spent as designated, HAD has asked the DC Secretariats to enhance budgetary control and management of the funds, e.g. by clearly delineating the major element in a project, and in turn the appropriate classification so that the funds can be fully spent on arts and cultural activities and not diverted to other activities.</p>

Para. No.	Audit's/PAC's Recommendations	Progress to Date
		As these recommendations have been implemented, we recommend that this part should be deleted from the next progress report.
Page 106 of the PAC Report (point (b))	PAC urges HAD to prepare, in consultation with DCs, detailed guidelines to assist the DC Secretariats in classification of CI projects.	HAD will prepare guidelines which are targeted to be issued within 2018 to assist the DC Secretariats in the classification of CI projects.
Para. 2.29 of the Audit Report	<p>Audit has recommended that the DHA and the Director of Leisure and Cultural Services should –</p> <p>(a) complete the verification of the CI project statistics (i.e. the number of CI projects and the number of participants in CI projects) as soon as possible; and</p> <p>(b) take measures to ensure the accuracy of the project statistics.</p>	<p>HAD and the Leisure and Cultural Services Department (LCSD) have completed the verification of the project statistics. HAD and LCSD have enhanced coordination at the Headquarters and district levels, and agreed to adopt measures to ensure the uniformity and accuracy of the project statistics. Starting from the 2017-18 financial year, HAD and LCSD have designed a template for district staff to ensure the consistency and uniformity in data categorisation and presentation among the 18 districts. In addition, LCSD and HAD have nominated dedicated contact points at the Headquarters level to enhance coordination.</p> <p>As these recommendations have been implemented, we recommend that this part should be deleted from the next progress report.</p>
Part 3: Management of conflicts of interest in CI projects		
Para. 3.9(a) of the Audit Report	Audit has recommended that the DHA should provide guidelines with broad principles of what constitute “other declarable interests” to DC/committee members as appropriate to facilitate the reporting of “other declarable interests”, and remind them to make more efforts in declaring their interests.	HAD has, in consultation with the Independent Commission Against Corruption, formulated guidelines on the “other declarable interests” under the first-tier declaration with a view to facilitating DC members in making the first-tier declaration more comprehensively and accurately. For example, positions held by DC and

Para. No.	Audit's/PAC's Recommendations	Progress to Date
Page 108 of the PAC Report (points (a) and (b))	PAC urges HAD to (a) keep in view the implementation of the guidelines on what constitutes “other declarable interests” which should be declared in the first-tier declaration; and (b) make more efforts to remind DC members to declare their interests where appropriate.	<p>committee members in the implementation parties of CI projects are regarded as “other declarable interests” and should be declared.</p> <p>HAD will continue to keep in view the implementation of the guidelines and remind DC members to declare interests accordingly.</p> <p>As these recommendations have been implemented, we recommend that this part should be deleted from the next progress report.</p>
Para. 3.9(b) of the Audit Report	Audit has recommended that the DHA should take more measures to ensure that DC/committee members declare their interests before earmarking funding for implementation parties.	<p>Despite the earmarking of funding, which is for budgetary and planning purposes only, all funding applications from implementation parties are subject to DCs’ vetting, scrutiny and approval. HAD has requested the DC Secretariats to remind DC/committee/working group members to declare interest before earmarking funding and the rulings made by the chairpersons should be recorded in the minutes of meetings.</p> <p>As this recommendation has been implemented, we recommend that this part should be deleted from the next progress report.</p>
Para. 3.9(c) of the Audit Report	Audit has recommended that the DHA should provide guidelines to DCs on how declarations of interests could best be made in handling matters through circulation of papers	HAD has requested DC Secretariats to remind DC/committee/working group members to declare interests when handling DC funds matters through circulation of paper every time (e.g. by including the reminder in the covering documents for circulated papers). DC Secretariats have also been reminded that they should ask their chairpersons to make a ruling on any interests declared and record the ruling made.

Para. No.	Audit's/PAC's Recommendations	Progress to Date
		<p>HAD has issued a set of good practices on the arrangement for handling declaration of interests by DC and co-opted members in vetting funding applications for DCs' reference. The good practices also cover the arrangement when vetting is conducted through circulation of papers.</p> <p>As this recommendation has been implemented, we recommend that this part should be deleted from the next progress report.</p>
<p>Para. 3.14(a) and (b) of the Audit Report</p> <p>Page 108 of the PAC Report (point (c))</p>	<p>Audit has recommended that the DHA should remind DCs that –</p> <p>(a) rulings should be made on interests declared by members in DC/committee meetings; and</p> <p>(b) the rulings made and the rationale behind the rulings should be recorded in the minutes of the meetings as appropriate in accordance with the Manual on the Use of DC Funds (HAD Manual).</p> <p>PAC urges HAD to remind DCs and the DC Secretariats that chairpersons' rulings on interests declared by members of DCs/committees/working groups at meetings should be made and the rulings as well as their rationale should be recorded in the minutes.</p>	<p>HAD has requested DC Secretariats to remind chairpersons of meetings to make explicit rulings on all interests declared. The rulings made and the rationale behind the rulings should be recorded in the minutes of the meetings.</p> <p>HAD has also issued a set of good practices on the arrangement for handling declaration of interests by DC and co-opted members in vetting funding applications for DCs' reference.</p> <p>As these recommendations have been implemented, we recommend that this part should be deleted from the next progress report.</p>
<p>Para. 3.21(a) of the Audit Report</p>	<p>Audit has recommended that the DHA should ensure that the stipulated procedures for handling conflicts of interest applicable to DC/committee meetings also apply to working group meetings.</p>	<p>The principle of requiring DC members to declare interests as appropriate applies to DC, committee and working group meetings. Whilst the DC Standing Order refer to "Council" and "Committee" and "Working Group" is not explicitly mentioned, the HAD</p>

Para. No.	Audit's/PAC's Recommendations	Progress to Date
Page 108 of the PAC Report (point (d))	PAC urges HAD to consider extending procedures for managing conflicts of interest to working group meetings as well as handling matters through circulation of papers.	<p>Manual has provided that DC members and co-opted members should make a declaration of interest before the relevant item is discussed. As working group members are either DC members or co-opted members, this would have governed the declarations of interest by members of working groups and DC/committees when handling CI projects. HAD has already reminded DC Secretariats that the stipulated procedures for handling conflicts of interest in DC/committee meeting also apply to working group meetings. Moreover, HAD will add the express reference to “Working Group” in the model text of DC Standing Orders (model text) to put the matter beyond doubt.</p> <p>HAD has also issued a set of good practices on the arrangement for handling declaration of interests made at DC/committee/working group meetings for DCs’ reference. The good practices also cover the arrangement when vetting of funding applications is conducted through circulation of papers.</p> <p>As these recommendations have been implemented, we recommend that this part should be deleted from the next progress report.</p>
Para. 3.21(b) of the Audit Report	Audit has recommended that the DHA should ascertain whether DCs’ practice of delegating functions to their working groups is in line with the District Councils Ordinance (DCO) and take remedial action as appropriate.	HAD has requested the DC Secretariats that, for those working groups that were then endorsing CI project applications, they should (i) seek DC or the relevant DC committee’s further endorsement on the working groups’ recommendations; or (ii) properly

Para. No.	Audit's/PAC's Recommendations	Progress to Date
Page 105 of the PAC Report (point (c))	PAC strongly urges HAD to remind DCs to ensure that the delegation of functions to working groups would not be in contravention of DCO.	<p>constitute the working groups as committees under Section 71 of DCO as appropriate.</p> <p>As these recommendations have been implemented, we recommend that this part should be deleted from the next progress report.</p>
Page 105 of the PAC Report (point (a))	PAC strongly urges HAD to take necessary actions to ensure that the standing orders of each DC comply with the provisions of DCO.	<p>Section 68 of DCO provides that DCs may make standing orders for regulating its procedures and that of its committees.</p> <p>While the authority to make standing orders rests with DCs, HAD provides a model text to 18 DCs for reference. In promulgating the model text, we have highlighted the part of the model text adopted from the provisions of the DCO and those parts of the text which are necessary for inclusion in the DC Standing Orders. We have also asked for DC Secretariats' assistance in facilitating the adoption of the model text by their DCs as far as possible.</p> <p>HAD has already requested DC Secretariats to review the standing orders of their respective DC to ensure that the principles and procedures laid down therein comply with the provisions of the DCO as well as the model text. HAD has also specifically impressed upon DC Secretariats of the need to seek DCs or their committees' endorsement of CI project applications recommended by working groups.</p> <p>As this recommendation has been implemented, we recommend that this part should be deleted from the next progress report.</p>

Para. No.	Audit's/PAC's Recommendations	Progress to Date
Page 108 of the PAC Report	PAC urges HAD to consider preparing guidelines for the DC Secretariats on how the DC Secretariats could play a more active role in enhancing accountability, transparency and good governance in considering, approving and evaluating CI projects.	In response to PAC's recommendation, HAD will prepare the guidelines for issue by end of 2018.
Part 4: Implementation of CI projects		
Para. 4.10(a) of the Audit Report	Audit has recommended that the DHA should provide DCs with suitable guidelines to facilitate their reviewing of designated non-governmental organisations (NGOs) and incorporate the guidelines into the HAD Manual.	<p>HAD agrees that there is merit for DCs to regularly review their lists of designated NGOs to ensure that only NGOs with good performance and track records are included in the lists. HAD has already provided DCs with guidelines for this purpose to facilitate their review.</p> <p>As the recommendation has been implemented, we recommend that this part should be deleted from the next progress report.</p>
Para. 4.10(b) and (c) of the Audit Report	<p>Audit has recommended that the DHA should –</p> <p>(b) set out in the HAD Manual, for DCs' reference, good practice guidelines on the selection of partner NGOs as adopted by most DCs; and</p> <p>(c) advise the DC in Case 3 to review its existing practice of selecting NGOs with a view to enhancing the openness and transparency of the selection process, taking account of the good practice guidelines mentioned in (b) above.</p>	<p>Having regard to the practice of the 18 DCs in selecting partner NGOs, HAD has prepared and issued good practice guidelines on the selection of partner NGOs for reference by all DCs to enhance the openness and transparency of the selection process.</p> <p>HAD has also advised the DC Secretariat in Case 3 to assist its DC to review its practice of selecting NGOs, taking into account the practice adopted by other DCs as well as the good practice guidelines mentioned above.</p> <p>As these recommendations have been implemented, we recommend that this part should be deleted from the next progress report.</p>

Para. No.	Audit's/PAC's Recommendations	Progress to Date
<p>Para. 4.20(a) to (d) of the Audit Report</p>	<p>Audit has recommended that the DHA should take measures to ensure that –</p> <ul style="list-style-type: none"> (a) DCs set up a system for evaluating CI projects; (b) DCs set proper criteria for selecting CI projects for evaluation; (c) CI projects meeting the criteria set by DCs are evaluated and that evaluation forms are completed for projects evaluated; and (d) evaluation results contained in project evaluation forms are input into the DCFIS in a timely manner. 	<p>The HAD Manual provides that an evaluation system should be in place by all DCs to monitor the effectiveness of CI projects. DCs are given the flexibility to devise their own evaluation system as they see fit but generally we would expect DC members, co-opted members or district staff who are not involved in the project administration and do not have an interest in the organisation or the project under evaluation to conduct visits or attend the activities on a random basis.</p> <p>HAD has reminded the DC Secretariats that (i) a proper evaluation system should be put in place in accordance with the HAD Manual; (ii) proper criteria for selecting projects for evaluation should be set; (iii) projects meeting the criteria set should be evaluated; (iv) the evaluation form should be completed and returned to the DC Secretariats after project evaluation; and (v) all evaluation results should be input into the DCFIS in a timely manner.</p> <p>As these recommendations have been implemented, we recommend that this part should be deleted from the next progress report.</p>
<p>Page 105 of the PAC Report (point (b))</p>	<p>PAC strongly urges HAD to take more effective measures to ensure that the work procedures of DCs/committees/working groups comply with the principles of transparency and accountability in considering and approving CI projects.</p>	<p>HAD has taken the following measures to ensure that the work procedures of DCs/committees/working groups comply with the principles of transparency and accountability in considering and approving CI projects –</p> <ul style="list-style-type: none"> (a) Regarding the second-tier declaration, we have requested DC Secretariats to remind, at every

Para. No.	Audit's/PAC's Recommendations	Progress to Date
		<p>meeting or during circulation of papers, members to declare interests and the chairpersons to make rulings on the interests declared and to record such rulings in the minutes of meetings. The minutes of meetings are uploaded to DC websites for public inspection.</p> <p>(b) HAD has worked with DC Secretariats to devise good practice in the handling of declaration of interests and making of rulings at meetings by chairpersons. The good practice has been distributed to DCs for reference.</p> <p>(c) The HAD Manual provides for the principle for declaration of interests by DC and committee members at DC and committee meetings, which equally applies to working groups.</p> <p>(d) HAD has requested DCs that they should regularly review their lists of designated NGOs to ensure that only NGOs with good performance and track records are included in the lists.</p> <p>(e) HAD has issued good practice guidelines on the selection of partner NGOs for reference by all DCs, with a view to enhancing the openness and transparency of the selection process.</p> <p>As the recommendation has been implemented, we recommend that this part should be deleted from the next progress report.</p>

Para. No.	Audit's/PAC's Recommendations	Progress to Date
Para. 4.20(e) of the Audit Report	Audit has recommended that the DHA should remind DC Secretariats to follow up with evaluators in cases where the ratings given by them in evaluation of CI projects are not in line with the actual situation.	<p>HAD has reminded DC Secretariats to follow up with evaluators in case the ratings given by them are not in line with the actual outturn rates, e.g. to obtain the evaluator's explanation or observation regarding the discrepancy and take follow up action as deemed necessary.</p> <p>As this recommendation has been implemented, we recommend that this part should be deleted from the next progress report.</p>
Para. 4.20(f) of the Audit Report	Audit has recommended that the DHA should take measures to ensure that evaluators submit completed evaluation forms directly to the DC Secretariats concerned.	<p>HAD has reminded the DC Secretariats to ask the evaluators to submit the completed evaluation forms directly to the DC Secretariats concerned.</p> <p>As this recommendation has been implemented, we recommend that this part should be deleted from the next progress report.</p>
Para. 4.20(g) and (h) of the Audit Report	<p>Audit has recommended that the DHA should –</p> <p>(g) ascertain the discrepancies between the size of audience disclosed in final reports and that recorded by the LCSD venue management, and take measures to ensure the accuracy of the number of participants disclosed in final reports; and</p> <p>(h) consider reviewing the existing methods adopted by implementation parties for counting the number of participants.</p>	<p>The records kept by LCSD venue management are based on ticket sales report, ticket stubs collected or manual counting during admission, whereas figures set out in the final reports submitted to DCs were provided by the implementation parties.</p> <p>To ensure the accuracy of the number of participants/audience in the final reports in future, the implementation parties are required to obtain the relevant attendance figures from the LCSD venue management in completing the final reports.</p> <p>As these recommendations have been implemented, we recommend that this part should be deleted from the next progress report.</p>

Para. No.	Audit's/PAC's Recommendations	Progress to Date
Para. 4.20(i) of the Audit Report	Audit has recommended that the DHA should consider making use of the DCFIS to improve the efficiency of reporting the achievement of the performance pledge relating to the release of reimbursements.	<p>HAD agrees with the recommendation and has engaged a contractor to enhance the DCFIS so as to improve the efficiency of reporting the achievement of the performance pledge relating to the release of reimbursements.</p> <p>As this recommendation has been implemented, we recommend that this part should be deleted from the next progress report.</p>
