

## Chapter 1

### University Grants Committee funded institutions - Governance, strategic planning and financial and performance reporting

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Audit conducted a review to examine the adequacy of the governance and planning mechanism, and financial and performance reporting of the University Grants Committee (UGC) funded institutions in the provision of various higher-education services.

2. At the Committee's public hearing, **Prof Hon Arthur LI Kwok-cheung, Secretary for Education and Manpower**, declared that he had been the Vice-Chancellor of The Chinese University of Hong Kong (CUHK) during 1 August 1996 and 31 July 2002. In this capacity, he had served as the Chairman of the Board of Directors of The Chinese University of Hong Kong Foundation Limited, the Chairman of the Board of Directors of The Hong Kong Institute of Biotechnology Limited, and a member of the Council of The University of Hong Kong (HKU) during the period.

#### Corporate governance of institutions

3. The Committee noted that in May 2001, the Secretary for Education and Manpower commissioned the UGC to launch a comprehensive review of higher education. Led by Lord Sutherland, a senior member of the UGC and Principal and Vice-Chancellor of the University of Edinburgh of the United Kingdom, the review covered all aspects of higher education, including the governance of the eight UGC funded institutions. The UGC published its review report entitled "Higher Education in Hong Kong" (the Sutherland Report) in March 2002, and submitted its final recommendations to the Secretary for Education and Manpower in September 2002. The Government accepted most of the recommendations put forward by the UGC and announced in November 2002 a blueprint for the further development of higher education in Hong Kong. One of the recommendations accepted by the Government was that the eight UGC funded institutions should review their governance and management structures to ensure that they were "fit for purpose".

4. The Committee noted that the City University of Hong Kong (CityU) had not set up a Court as its advisory body, although the City University of Hong Kong Ordinance specified that there was to be a Court. The response provided by the CityU in paragraph 2.22 of the Audit Report stated that the Chairman of the Court was the Chancellor of the CityU (i.e. the Chief Executive of the Hong Kong Special Administrative Region). In view of the Chief Executive's schedule, the CityU did not find it practical to establish the Court under his chairmanship. The Committee doubted whether the Chief Executive's busy schedule was a good reason for not setting up a Court for the CityU. The Committee asked whether the CityU would consider amending the relevant legislative provision if it considered that there was no need to have a Court.

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5. **Prof CHANG Hsin-kang, President of the CityU**, advised that:

- the issue of setting up a Court had been discussed by the CityU Council on a number of occasions. It was considered that the CityU might not be able to entice appropriate candidates to serve on its Court, if established, because of the relatively short history of the institution; and
- a Review Committee on Governance and Management had been established to review the governance and management structures of the CityU. The Review Committee would submit its report to the Council at its meeting in November 2003. The review would consider the appropriate time and the appropriate way of setting up a Court. The CityU hoped to set up a Court within a year if the proposal was supported by the Review Committee.

6. The Committee noted that although the Court of the HKU was specified as the supreme governing body in the University of Hong Kong Ordinance, it largely functioned as an advisory body, whereas its Council had much wider powers in administering the affairs of the institution other than those vested in the Ordinance. The Committee also noted that the HKU had appointed an international review panel (i.e. the Review Panel on Governance and Management) to review its governance structure. According to paragraph 2.23(b) of the Audit Report, the Review Panel had submitted its report to the HKU Council in February 2003 and the report would be considered for adoption by the end of April 2003. In this connection, the Committee enquired:

- whether the HKU Council had adopted the Review Panel's recommendation to recast the role of the Court as an advisory body and, if adopted, the timing of implementing the recommendation; and
- if the answer to the above was in the affirmative, whether the HKU would amend the University of Hong Kong Ordinance to ensure that the statutory roles of its Council and Court reflected their actual functions.

7. **Prof TSUI Lap-chee, Vice-Chancellor of the HKU**, informed the Committee that at its meeting on 27 April 2003, the HKU Council had approved the Review Panel's report. In endorsing the recommendations in the report, the Council had set up an Implementation Working Party to work out the mechanisms and procedures for implementing the recommendations by the end of December 2003.

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8. On the question of whether the HKU would amend its Ordinance to ensure that the statutory roles of its Council and Court reflect their actual functions, the **Vice-Chancellor of the HKU** and **Mr Henry WAI, Registrar of the HKU**, stated at the public hearing and in the Vice-Chancellor's letters of 7 June 2003 and 8 July 2003, in *Appendices 5 and 6* respectively, that:

- the Review Panel was of the view that despite the fact that the University of Hong Kong Ordinance specified that the Court was the supreme governing body, it was clear from the powers of the Court and the Council as laid down in the relevant Statutes of the Ordinance that the Council was the *de facto* governing body, while the Court functioned as an advisory body. As such, the Review Panel did not consider it necessary to amend the Ordinance to clarify the role of the Court; and
- despite the advice of the Review Panel, the HKU had no objection to amending its Ordinance to define more clearly the role of its Court. If such amendment was considered necessary by the Public Accounts Committee, the HKU would initiate the necessary legal procedure, but it would need the Government's assistance in dealing with the complicated legal procedure involved.

9. The Committee noted from paragraph 2.27 of the Audit Report that the Council of the CUHK could appoint life members under Statute 11 of The Chinese University of Hong Kong Ordinance, but the maximum number of life members was not specified. On 11 September 2002, the Chairman of the Council had also been appointed as a life member, thus increasing the total number of life members from six to seven. As of that date, over 10% (i.e. seven out of 56) of the Council members were life members. According to Audit's findings, all of the six life members did not attend any of the nine Council meetings held between July 2000 and November 2002. The Committee understood that such findings did not include the attendance of the Council Chairman as no Council meeting was held between 11 September 2002 (i.e. the day the Council Chairman was appointed as a life member) and 30 November 2002.

10. While the Committee appreciated that life members had made valuable contributions to the CUHK, in view of their inability to attend the Council meetings due to various reasons, the Committee asked whether the CUHK would consider adopting other means that could help maintain an association with those persons who had made significant contributions to the institution, instead of appointing them as life members to the Council.

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11. **Prof Ambrose KING Yeo-chi, Vice-Chancellor of the CUHK**, stated that the CUHK was most grateful to the life members for their enormous contributions to the CUHK in many aspects throughout the years. Although they might not be able to attend the Council meetings due to old age or other reasons, many of them still offered their wise counsel to the Council and the CUHK as a whole. The contributions made by the life members towards the institution should not merely be measured by their attendance at Council meetings.

12. The **Vice-Chancellor of the CUHK** advised, in his letter of 12 June 2003 in *Appendix 7*, that the CUHK would recommend to its Council that from now on, new life members should not be appointed. Subject to the Council's agreement, the CUHK would consider adopting other means to maintain a link with its Council members who had made significant contributions to the institution.

13. The **Secretary for Education and Manpower** supplemented that the main purpose of appointing life members was to maintain a link with these prominent members of the community. The appointment of life members was usually made in recognition of their valuable contributions. In reality, life members could contribute in many different ways, such as by participation in subcommittees of the Council and other activities of the institution. Attending Council meetings should not be considered as the only contribution life members were able to make.

14. To ascertain the level of participation of each Council member of the eight institutions in the governance and management of the respective institutions, the Committee requested the institutions to provide the following information:

- the attendance records of each of the external members of the Councils of the eight institutions in each of the three years of 2000-01 (July 2000 to June 2001), 2001-02 (July 2001 to June 2002) and 2002-03 (July to November 2002);
- their participation in subcommittees in the same period; and
- their years of service in the Councils.

The information was provided to the Committee via the **Secretary for Education and Manpower's** letter of 30 May 2003, in *Appendix 8*.

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15. Based on the information provided, the Committee learned that three of the external members of the Council of the CUHK had not attended any of the Council meetings in all the three years. In the case of the HKU, there was one such member, who was Prof Arthur LI Kwok-cheung in his former capacity as Vice-Chancellor of the CUHK. In paragraphs 2.63(a) and 2.63(c) of the Audit Report, the Secretary for Education and Manpower stated that the Education and Manpower Bureau had attached importance to the attendance of external Court/Council members appointed by the Chief Executive or the Chief Executive in the capacity as the Chancellor of the institutions, and that attendance was one of the factors that would be taken into consideration in all re-appointment exercises. In this connection, the Committee enquired whether those Council members with “zero” attendance would not be re-appointed after their current term of office expired.

16. The **Secretary for Education and Manpower** replied in the affirmative. As regards the reason for his non-attendance at any of the HKU Council meetings, he explained that this was in accordance with a special arrangement agreed between the heads of the CUHK and the HKU. Under the arrangement, the head of each of the two universities was a member of the Council of the other university. The purpose was to enable the heads of the two institutions to be provided with the Council papers of the other university so as to facilitate them in understanding the development and strategic direction of each other. It was also agreed that the heads of the two universities were not required to attend each other’s Council meetings.

17. The **Vice-Chancellor of the CUHK** pointed out that the external Council members of the CUHK were all community-minded persons who served on the Council on a voluntary and non-remunerative basis. They had all along been very generous in contributing their time, efforts and other resources towards enhancing the development of the university. Since the CUHK Council was only one of many community or voluntary service organisations soliciting their support, members might have to be absent from a Council meeting where the date of the meeting clashed with their other commitments. At times, it was not always possible to reconcile the dates of Council meetings with external members’ travel plans. As far as he remembered, the three members mentioned by the Committee were out of town on the dates of the Council meetings concerned, and were thus unable to attend.

18. In view of the low attendance rate of the external members at the Council meetings of the CUHK and the relatively large size of its Council as compared to the other institutions, the Committee asked:

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- whether the CUHK would consider amending The Chinese University of Hong Kong Ordinance to the effect that a Council member might be appointed for a period of three years or less, so as to cater for special circumstances such as where the member's attendance rate at the Council meetings was low; and
- whether the CUHK would consider reducing the size of its Council so as to make it function more effectively.

19. The **Vice-Chancellor of the CUHK** responded, in his letters of 9 July 2003 and 12 June 2003 in *Appendices 9 and 7* respectively, that:

- Statute 11.4 of The Chinese University of Hong Kong Ordinance stipulated that:

“(1A) If an elected member of the Council ceases to be a member under the proviso to subparagraph (1), the body which elected him shall duly elect a successor whose membership of the Council shall be for a period not exceeding 3 years. The successor shall be eligible for re-election to which subparagraph (2) shall apply.

(2) A body re-nominating or re-electing a member may re-nominate or re-elect, as the case may be, such member for a period of 3 years or for a period of less than 3 years.”;

- the CUHK would remind all nominating bodies (including the various constituent or related organisations of the CUHK) to take into consideration the attendance records of the Council members nominated by them when they considered re-nominating their representatives to continue to serve on the University Council; and
- the CUHK was conducting a review on the size and composition of its Council. It would inform the Committee of the outcome, which was expected to be available in the last quarter of 2003.

20. The **Registrar of the HKU** informed the Committee that the HKU's Review Panel had recommended that the appointment term of Council members should be no more than three consecutive three-year terms, and appointments should be made on the basis of recognised expertise and contribution. These measures would allow the appointment terms to be reviewed regularly, thereby enhancing the effectiveness of the Council.

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21. The Committee enquired about the number of serving Council members who would not be re-appointed to the Council if the above recommendation was adopted. The **Registrar of the HKU** responded that if such recommendation was put in place, five of its serving Council members would not be re-appointed as they had served on the Council for more than nine years.

22. According to paragraph 2.51 of the Audit Report, a good practice of corporate governance for institutions was that their Councils should consist of a majority of independent external members capable of exercising independent judgement on important issues. Audit also pointed out that, based on the respective ordinances of the eight institutions, there should be a majority of external members in the Councils of the institutions.

23. The Committee was concerned whether the external Council members present at the Council meetings of the eight institutions constituted a majority, and whether the existing practice of the institutions was in line with the good governance practice cited above. The Committee therefore requested the eight institutions to provide the attendance rates of their external and internal Council members at each of the Council meetings held in the three years 2000-01 (July 2000 to June 2001), 2001-02 (July 2001 to June 2002) and 2002-03 (July to November 2002).

24. Based on the information provided by the institutions, in *Appendices 10 to 24*, the Committee compiled a summary, in *Appendix 25*, of the attendance data. The Committee observed that:

- the attendance rates of external members at meetings of the Councils of the CityU and The Hong Kong Institute of Education (HKIEd) were generally low (i.e. below 50% at some meetings);
- the attendance rates of the Hong Kong Baptist University (HKBU), the CUHK and the HKU were particularly disappointing. While the HKBU held seven Council meetings, the CUHK held nine Council meetings, and the HKU held 19 Council meetings between July 2000 and November 2002, the attendance of the external members of these Councils constituted a majority (i.e. 50% or more) at only one, two and four meetings respectively; and
- as a result, when decisions were required to be made at meetings of those Councils, there might be over-reliance on the internal members.

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25. The two tables below contain figures relating to the attendance of external and internal members at the Council meetings of the five institutions with unsatisfactory attendance rates (i.e. the HKBU, the HKU, the CUHK, the CityU and the HKIEd). These figures provide useful reference for ascertaining whether the external members present at a particular Council meeting constituted a majority at the meeting.

**Table 1**

**Attendance of external and internal members at meetings  
of the Councils of the HKBU, the HKU and the CUHK**

Meeting	HKBU			HKU			CUHK		
	Total no. of Council Members (Note 1)	External members present at the meeting (Note 2)	Internal members present at the meeting (Note 3)	Total no. of Council Members (Note 1)	External members present at the meeting (Note 2)	Internal members present at the meeting (Note 3)	Total no. of Council members (Note 1)	External members present at the meeting (Note 2)	Internal members present at the meeting (Note 3)
<b>2000-01 (July 2000 to June 2001)</b>									
1st	30 (External : 17 Internal : 13)	43%	57%	52 (External : 30 Internal : 22)	50%	50%	52 (External : 30 Internal : 22)	41%	59%
2nd	30 (External : 17 Internal : 13)	54%	46%	52 (External : 30 Internal : 22)	52%	48%	54 (External : 32 Internal : 22)	49%	51%
3rd	32 (External : 17 Internal : 15)	48%	52%	51 (External : 30 Internal : 21)	50%	50%	55 (External : 33 Internal : 22)	46%	54%
4th	31 (External : 16 Internal : 15)	37%	63%	47 (External : 26 Internal : 21)	43%	57%			
5th				50 (External : 29 Internal : 21)	48%	52%			
6th				49 (External : 29 Internal : 20)	39%	61%			
7th				47 (External : 28 Internal : 19)	39%	61%			
8th				45 (External : 28 Internal : 17)	45%	55%			



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Meeting	HKBU			HKU			CUHK		
	Total no. of Council Members (Note 1)	External members present at the meeting (Note 2)	Internal members present at the meeting (Note 3)	Total no. of Council Members (Note 1)	External members present at the meeting (Note 2)	Internal members present at the meeting (Note 3)	Total no. of Council members (Note 1)	External members present at the meeting (Note 2)	Internal members present at the meeting (Note 3)
<b>2001-02 (July 2001 to June 2002)</b>									
1st	31 (External : 16 Internal : 15)	42%	58%	49 (External : 26 Internal : 23)	46%	54%	54 (External : 33 Internal : 21)	49%	51%
2nd	33 (External : 18 Internal : 15)	44%	56%	48 (External : 26 Internal : 22)	45%	55%	53 (External : 32 Internal : 21)	49%	51%
3rd	33 (External : 18 Internal : 15)	45%	55%	48 (External : 25 Internal : 23)	44%	56%	54 (External : 32 Internal : 22)	46%	54%
4th				48 (External : 25 Internal : 23)	47%	53%	52 (External : 32 Internal : 20)	51%	49%
5th				46 (External : 24 Internal : 22)	46%	54%			
6th				46 (External : 24 Internal : 22)	45%	55%			
7th				46 (External : 24 Internal : 22)	41%	59%			
<b>2002-03 (July to November 2002)</b>									
1st				45 (External : 24 Internal : 21)	35%	65%	53 (External : 33 Internal : 20)	53%	47%
2nd				44 (External : 23 Internal : 21)	42%	58%	53 (External : 33 Internal : 20)	47%	53%
3rd				45 (External : 24 Internal : 21)	46%	54%			
4th				45 (External : 24 Internal : 21)	52%	48%			
<b>Average attendance</b>	External members constituted a majority at <b>only 1 of the 7 meetings (i.e. 14%)</b> held during the period			External members constituted a majority at <b>only 4 of the 19 meetings (i.e. 21%)</b> held during the period			External members constituted a majority at <b>only 2 of the 9 meetings (i.e. 22%)</b> held during the period		

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Note (1) : denotes the actual number of Council members (broken down into external and internal members) as of the date of the Council meeting

Note (2) : denotes the percentage of the external members present at the Council meeting against all Council members present at that meeting (i.e. the total number of external members present at the Council meeting ÷ the total number of Council members present at that meeting x 100%)

Note (3) : denotes the percentage of the internal members present at the Council meeting against all Council members present at that meeting (i.e. the total number of internal members present at the Council meeting ÷ the total number of Council members present at that meeting x 100%)

**Table 2**

### Attendance of external and internal members at meetings of the Councils of the CityU and the HKIED

Meeting	CityU			HKIED		
	Total no. of Council Members (Note 1)	External members present at the meeting (Note 2)	Internal members present at the meeting (Note 3)	Total no. of Council Members (Note 1)	External members present at the meeting (Note 2)	Internal members present at the meeting (Note 3)
<b>2000-01 (July 2000 to June 2001)</b>						
1st	31 (External : 17 Internal : 14)	42%	58%	27 (External : 16 Internal : 11)	54%	46%
2nd	30 (External : 16 Internal : 14)	50%	50%	27 (External : 16 Internal : 11)	47%	53%
3rd	32 (External : 18 Internal : 14)	44%	56%	27 (External : 16 Internal : 11)	41%	59%
<b>2001-02 (July 2001 to June 2002)</b>						
1st	31 (External : 18 Internal : 13)	58%	42%	27 (External : 16 Internal : 11)	53%	47%
2nd	33 (External : 19 Internal : 14)	52%	48%	27 (External : 16 Internal : 11)	53%	47%
3rd	32 (External : 18 Internal : 14)	48%	52%	27 (External : 16 Internal : 11)	52%	48%
4th				27 (External : 16 Internal : 11)	45%	55%
5th				27 (External : 16 Internal : 11)	48%	52%
6th				27 (External : 16 Internal : 11)	57%	43%

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Meeting	CityU			HKIEd		
	Total no. of Council Members (Note 1)	External members present at the meeting (Note 2)	Internal members present at the meeting (Note 3)	Total no. of Council Members (Note 1)	External members present at the meeting (Note 2)	Internal members present at the meeting (Note 3)
<b>2002-03 (July to November 2002)</b>						
1st	31 (External : 17 Internal : 14)	39%	61%	27 (External : 16 Internal : 11)	44%	56%
2nd				27 (External : 16 Internal : 11)	80%	20%
3rd				27 (External : 16 Internal : 11)	47%	53%
<b>Average attendance</b>	External members constituted a majority at <b>only 3 of the 7 meetings (i.e. 43%)</b> held during the period			External members constituted a majority at <b>only 6 of the 12 meetings (i.e. 50%)</b> held during the period		

Note (1) : denotes the actual number of Council members (broken down into external and internal members) as of the date of the Council meeting

Note (2) : denotes the percentage of the external members present at the Council meeting against all Council members present at that meeting (i.e. the total number of external members present at the Council meeting ÷ the total number of Council members present at that meeting x 100%)

Note (3) : denotes the percentage of the internal members present at the Council meeting against all Council members present at that meeting (i.e. the total number of internal members present at the Council meeting ÷ the total number of Council members present at that meeting x 100%)

26. In the light of the attendance rates in Tables 1 and 2 above, the Committee doubted whether the Councils of the five institutions concerned were operating in line with the good governance practice for a publicly-funded organisation that there should be a majority of independent external members in the governing body when important decisions were made. The Committee asked the institutions whether and how they had ensured that there was no over-reliance on the internal members when important decisions had to be made at the Council meetings, especially in cases where the number of external members present at a Council meeting did not constitute a majority.

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27. In his letter of 14 July 2003, in *Appendix 10*, the **President and Vice-Chancellor of the HKBU** advised that:

- the number of regular Council meetings scheduled in each year was four. In order to enable all external members (and internal members as well) to attend all Council meetings, the dates of these scheduled meetings were fixed one year in advance and Council members notified accordingly so that they could set aside the time. Notwithstanding this, it was perfectly understandable that the external members, being leaders and senior executives in their own professions, often had to adjust their schedules to respond to urgent tasks. So there was in practice no sure way to effectively guarantee that external members would constitute a majority at every meeting;
- experience had clearly shown that when there were divided views on an important issue being debated by the Council, the situation in most cases was that the group which supported the issue was made up of both external and internal members, and similarly for the group which opposed the issue. In other words, it was the substance of the issue being debated which counted most, and thus it might be somewhat simplistic to infer from a mechanical interpretation of the attendance data that there was over-reliance on internal members whenever the number of external members present at a meeting did not constitute a majority;
- unlike similar bodies in other organisations, a university council was so constituted that the external members serving on it were not appointed (by the Government) to represent specifically the interests of certain groups of people in the university. On that understanding, the HKBU Council had been conducting its decision-making mainly through building consensus at meetings rather than depending too heavily on the counting of votes; and
- the Hong Kong Baptist University Ordinance set out explicitly the procedure for conducting the discussion and decision making of any matter for which a Council member (whether internal or external) had a pecuniary or personal interest. This was further elaborated in the guidelines of procedure adopted by the Council. According to the pertinent procedure, such a Council member would be required to withdraw from the meeting or refrain from voting.

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28. The **Vice-Chancellor of the HKU** advised at the public hearing and in his letter of 14 July 2003, in *Appendix 12*, that:

- the HKU's Review Panel did not consider that external members' attendance at Council meetings should be the only major consideration in assessing their contributions towards the institution, as many members were actively participating in the work of other committees;
- in its earlier review of the governance and management structures of the institution, the HKU Council resolved to revamp both the size and the composition of the Council. Following the international trend towards a smaller-size governing body, legislative amendments had been made by the HKU to change the size and composition of its Council and Senate. As a result, the size of the Council had been reduced to 24 members, with the ratio of external members to internal members being 2:1. Among the internal members, the Vice-Chancellor would be the only ex-officio member. All other members, external and internal, would be appointed or elected *ad personam* and served as trustee rather than delegate or representative of a particular constituency. This would not only provide for adequate presence of external members on the Council, but could also ensure that internal members, serving as trustees, would operate in the best interest of the entire institution;
- apart from the Council, the size of the Senate had also been reduced to no more than 50 members; and
- it was not uncommon in the past for members who were unable to attend Council meetings to submit written comments before the meetings.

The Committee noted that the change to the size and composition of the Council and Senate of the HKU had come into operation on 1 November 2003.

29. The **Vice-Chancellor of the CUHK** and **Mr Jacob LEUNG, University Secretary of the CUHK**, said at the public hearing and the **Acting Vice-Chancellor of the CUHK** stated in his letter of 14 July 2003, in *Appendix 14*, that:

- although non-staff Council members present at the Council meetings between July 2000 and November 2002 did not constitute a majority, the average numbers of non-staff Council members present, as set out below, were already quite large:

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	<u>2000-01</u>	<u>2001-02</u>	<u>2002-03</u>
Non-staff Council members (External members)	16 (44%)	19 (49%)	18 (50%)
Staff Council members (Internal members)	20 (56%)	20 (51%)	18 (50%)

- the Council did not and would not over-rely on the staff Council members when making important decisions at Council meetings;
- the non-staff Council members who were present at the Council meetings took an active part in the deliberation and their views were highly respected and taken into careful consideration. The Council resolutions were passed usually by consensus with support of the non-staff Council members present, after deliberations and debate; and
- Council members were able to participate in the deliberation of any matter on the agenda of a meeting by making their views known in writing or through another Council member attending the meeting even if they could not attend the meeting in person. Furthermore, Council business was transacted by circulation of papers between Council meetings.

30. The **Vice-Chancellor of the CUHK** added that he agreed that the Council should consist of a majority of external members. However, in his view, the staff Council members who represented different constituents or their own professions were also very independent. These members might not necessarily support all the proposals put forward to the Council.

31. In his letter of 11 July 2003, in *Appendix 16*, the **Acting President of the CityU** advised that:

- the CityU was well aware of the importance of good governance and believed that the participation and input from external members was crucial to this;
- the Council conducted its business through its own meetings and those of the Executive Committee and other Council Committees. These committees met at regular intervals and were chaired by external Council members, with some other external members serving as members;

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- the proposals and decisions from these committees were presented to the Executive Committee and/or the Council for approval or information. The Executive Committee, comprising the chairmen of the Council Committees, met five times a year and acted on behalf of the Council when there were no Council meetings. This tiered committee system had worked very well and ensured that proper debate on important issues could take place; and
- external Council members would provide input and ideas and participate in thorough deliberation of various issues and proposals. This mechanism ensured that proposals and recommendations presented to the Executive Committee and the Council were duly examined and considered, and consultation was carried out within and outside the University as and when appropriate. In their experience, the committee structure effectively prevented the Council from relying heavily on internal members in taking decisions on major issues.

32. Regarding the attendance rates of external members of the Council of The Hong Kong Polytechnic University (PolyU), **Prof POON Chung-kwong, President of the PolyU**, advised at the public hearing and the **Secretary to Council of the PolyU** said in his letter of 11 July 2003, in *Appendix 22*, that:

- the PolyU Council's mix of external and internal representation was a good assurance that there would not be over-reliance on internal members when decisions were made at Council meetings. The PolyU Council was made up of 20 external members from the business and professional sectors appointed by the Chief Executive, one external member from the alumni who was not an employee of the institution and appointed by the Council, and eight internal members (the President and Deputy President of the PolyU as ex-officio members, two Deans of Faculty, three elected staff members, and a student member elected by and from full-time students); and
- even when all the internal members were present and only 50% of the external members attended a meeting, which was unlikely, the number of external members would still outnumber the internal representatives. In fact, according to statistics of the past three years, on average external members made up about 69% of members present at Council meetings.

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33. The Committee noted that the attendance rates of external members of the Council of the Lingnan University (LU) was also encouraging. In response to the Committee, **Mr Valiant CHEUNG Kin-piu, Deputy Chairman of the Council of the LU**, said that effective cooperation between the Council Secretariat and Council members was conducive to the discharge of duties by Council members. The Council Secretariat of LU had provided Council members with ample opportunities to participate in the governance and management of the institution. LU Council members were always provided with useful background information papers on issues to be discussed, which facilitated them in deliberating the issues at Council meetings in a constructive and effective manner.

34. The **Secretary to the Council of the LU** advised in his letter of 14 July 2003, in *Appendix 24*, that external members constituted an absolute majority in the LU Council's membership. At any meeting, when external members were outnumbered by internal members, it would not be possible to form a quorum. The same situation also applied to other standing committees of the Council.

35. In his letter of 14 July 2003, in *Appendix 20*, the **Acting President of The Hong Kong University of Science and Technology (HKUST)** stated that:

- The Hong Kong University of Science and Technology Ordinance provided for a ratio of 18 external members to 11 internal members on the Council. Experience showed that the number of external members present at Council meetings consistently constituted a majority; and
- when important decisions were made at Council meetings, e.g. in the appointment of senior officers at the rank of Vice-Presidents and above, the Ordinance even reserved the right to only the external members.

36. In his letter of 26 May 2003, in *Appendix 26*, the **Secretary-General of the UGC** informed the Committee that all the eight institutions provided information packages and orientation for their new Council members to help them discharge their responsibilities. The types of information provided to new Council members were set out in the Annex to the Secretary-General of the UGC's letter.

37. According to paragraphs 2.69 to 2.71 of the Audit Report, a good corporate governance structure should have an audit committee which consisted of a majority of independent external members, who had the necessary financial expertise and time to examine the institution's financial affairs more vigorously than the governing body as a whole. The audit committee would assist the governing body by providing an independent



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review of the effectiveness of the auditing and financial reporting processes, internal controls and risk management systems of the institutions. It would also help enhance economy, efficiency and effectiveness and secure value for money in all areas of activities of the institution.

38. According to Audit's findings in Table 9 in paragraph 2.72 of the Audit Report, five of the eight institutions had not established an audit committee, which was not in line with good corporate governance practices. These five institutions were the CityU, the HKBU, the CUHK, the PolyU and the HKU. In the case of the HKBU, apart from not having an audit committee, it had neither an internal audit section nor a mechanism for reporting the internal audit findings to its Council. Other cases of deficiency detected by Audit included the LU's non-setting up of an internal audit section and the CUHK's non-reporting of the internal audit findings to its Council. On the other hand, the Committee noted that the HKIEd and the HKUST had set up both an internal audit section which reported to their Councils and an audit committee, which represented a significant step forward in achieving good corporate governance. The Committee asked the institutions to comment on Audit's findings and recommendation.

39. The **President of the CityU** said that the CityU's Review Committee on University Governance and Management would consider whether it was necessary to set up an audit committee in addition to the existing internal audit section which had been functioning effectively since its establishment in 1998. On average, the internal audit section submitted some 20 reports to the Council each year. The Review Committee aimed at submitting its recommendations to the Council at its meeting in November 2003.

40. The **President and Vice-Chancellor of the HKBU** said that in view of the relatively small size of the HKBU and the limited resources available, the HKBU would try to explore other ways to perform the internal audit function by using the least resources. He was prepared to take up the Audit's recommendation of setting up an audit committee in the context of the "fitness for purpose" review on the governance and management structures of the HKBU.

41. **Prof Edward CHEN Kwan-yiu, President of the LU**, advised that:

- because of the relatively small size of the LU, it was not practicable and economical to set up an internal audit section in view of the staff cost involved. In fact, the LU had established an internal audit committee to perform the functions of an internal audit section. The internal audit committee, which was similar to an audit committee, comprised a small

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number of external members of the Council. It would outsource the internal audit work to external professional consultants when required, and would report its work to the Council; and

- the LU was in the process of developing a five-year rolling internal audit programme.

42. The **Vice-Chancellor of the CUHK** responded that the CUHK had set up a professional and very rigorous internal audit section for a decade. Audit's recommendation for an audit committee to be established under the Council would be considered in the context of the governance review. The CUHK's decision on the audit committee proposal was expected to be available at the end of 2003 or in mid-2004.

43. The **President of the PolyU** informed the Committee that in the light of Audit's recommendation, the PolyU had recently set up an audit committee under the PolyU Council. The audit committee comprised three members. To enhance independence of the audit committee, all the three members would not participate in the work of any committees established under the Council.

44. In his letter of 29 July 2003, in *Appendix 13*, the **Vice-Chancellor of the HKU** informed the Committee that the HKU had recently adopted, for implementation, the report of the Review Panel on the governance and management structures of the HKU. The establishment of an audit committee, responsible directly to the Council, was among the proposals of the review report. The HKU was currently examining the role of an audit committee and its relationship with other committees and administrative units, before proposing the terms of reference for consideration by the new Council. The Council had requested that all the mechanisms and procedures recommended by the Review Panel be in place by the end of 2003. The HKU was aiming at setting up the audit committee before the end of 2003.

45. The response of some institutions revealed that they lacked the resources required for setting up an internal audit section but they would identify other ways to perform the internal audit function, such as by outsourcing their internal audit work to external professional consultants. The Committee asked whether such an arrangement was acceptable.

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46. **Mr Dominic CHAN Yin-tat, Director of Audit**, responded that outsourcing internal audit work to external professional consultants was also acceptable, as long as the internal audit function was performed independently and the audit findings were reported to the Council directly without involving the Head of Institution or other members of the senior management. But those institutions without an audit committee should set up one to strengthen their internal audit function and the corporate governance structure.

47. **Mr Peter CHEUNG Po-tak, Secretary-General of the UGC**, said that the UGC also saw the importance of the role of an independent audit committee in the institutions' governance structure. In her meeting with the Heads of Institutions in November 2002, the Chairperson of the UGC had asked the Heads of Institutions concerned to consider the proposal of establishing an audit committee under their Councils in the context of the review on their governance and management structures.

### **Financial reporting of institutions**

48. The Committee noted that in 1996, a Task Group on Uniform Accounting Policies and Practices, comprising finance directors of the institutions, had issued a Statement of Recommended Practice (SORP) for reference by the institutions for the preparation of their financial statements. The objective was to provide a standard to enhance the usefulness and comparability of the published financial information among the institutions. Because of the peculiarities of the institutions which had rendered some of the commonly accepted accounting standards inapplicable, the SORP allowed for deviations from the Statements of Standard Accounting Practice of Hong Kong (HKSSAPs) in the following three areas:

- recognition of expenses;
- accounting treatment of property, plant and equipment; and
- recognition of assets.

49. As the SORP had taken into account the HKSSAPs, where full compliance with the HKSSAPs was considered inappropriate, such departures were highlighted in the SORP and were required to be disclosed in the financial statements of the reporting institution. It implied that, in general, the institutions needed to comply with the HKSSAPs in all accounting treatments, except in the three areas mentioned above.

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50. Audit's examination of the institutions' financial statements for the year ended 30 June 2002 revealed that, apart from the three areas of departure covered by the SORP, some of the institutions had not complied with the accounting treatments laid down in some other HKSSAPs. There were two major areas of such departure. First, with the exception of the LU which did not have any subsidiary or associate, all the other seven institutions did not prepare consolidated financial statements to present their financial affairs and those of their subsidiaries and associates together. Second, all the eight institutions did not disclose transactions with related parties in their financial statements.

51. The Committee noted from paragraph 4.22 of the Audit Report that, in the CUHK's financial statements for the year ended 30 June 2002, the CUHK did not make disclosures of its subsidiary or associate. In its response in paragraph 4.24 of the Audit Report, the CUHK stated that compared to the account of the CUHK, the account of its subsidiary in question was not material. Therefore, no disclosure of such account was made in the CUHK's financial statements. This was a generally accepted accounting practice.

52. Audit considered it desirable for the institutions to, as far as possible, prepare consolidated financial statements to present their financial affairs and those of their subsidiaries and associates together. This practice was in line with the practices adopted by universities in advanced countries. The Committee asked whether the CUHK would take on board Audit's view and prepare consolidated financial statements to present its financial affairs and those of its subsidiaries and associates together. The **Vice-Chancellor of the CUHK** said that the CHUK would do so if such accounting arrangement was considered necessary.

53. According to paragraph 4.28 of the Audit Report, as required under the Statutes of the University of Hong Kong Ordinance, the HKU needed to prepare a balance sheet and an income and expenditure account, which were to be audited, for submission to the HKU Council every year. Audit considered that it was not desirable for the HKU to include the financial results, and the assets and liabilities of the HKU School of Professional and Continuing Education (HKU-SPACE) in its financial statements. This was because the HKU and the HKU-SPACE were separate legal entities which were individually required under different Ordinances to prepare their own financial statements. Therefore, there was a need for the HKU to prepare a set of financial statements of its own every year (without including the financial data of another legal entity). In this connection, the Committee asked whether the HKU would consider Audit's view and prepare a set financial statements of its own.

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54. **Mr Philip LAM, Director of Finance of the HKU**, said that:

- as the income of the HKU-SPACE accounted for 7.6% of the consolidated income of the HKU as a whole in 2001-02, the inclusion of the financial results as well as assets and liabilities of the HKU-SPACE in the HKU's accounts was desirable. This would enable the Council to better understand the HKU's overall financial position; and
- nevertheless, in the light of Audit's comment, the HKU would prepare a separate set of its own financial statements, which would exclude the financial data of the HKU-SPACE as another legal entity.

55. The Committee noted from Table 12 in paragraph 4.30 of the Audit Report that as at 30 June 2002, as disclosed in the institutions' subsidiaries' financial statements, the CUHK had made capital donations amounting to \$4,082,231 to a subsidiary. However, in its response in paragraph 4.31(b) of the Audit Report, the CUHK described this sum as capital injection. The Committee therefore sought clarification from the CUHK as to whether the money in question was capital donation or capital injection.

56. The **University Secretary of the CUHK** said at the public hearing and the **Vice-Chancellor of the CUHK** advised, in his letter of 30 May 2003 in *Appendix 27*, that:

- there was no giving away of the CUHK's assets to any external organisation by way of donation or otherwise. The amount of \$4,082,231 represented capital injection from the CUHK to the subsidiary, which was derived from licence income arising out of technology transfers. The subsidiary in question was The Chinese University of Hong Kong Foundation Limited, which was a non-profit-making company limited by guarantee established and wholly controlled by the CUHK Council. The five directors of this company were all Council officers or members appointed by the Council; and
- the company was established to facilitate the CUHK's engagement in technology transfer and technology development. The company itself did not undertake any business operation. It only served to hold the intellectual property rights and investments related to technology development for and on behalf of the CUHK.

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57. According to Table 12 in paragraph 4.30 of the Audit Report, the consolidated balance sheet of a subsidiary of the PolyU for the year ended 30 June 2002 showed that the group owed \$890,816 to the PolyU with no fixed term of repayment. The **President of the PolyU** advised that this amount represented the accrued expenses payable for services provided by the PolyU, and had now been fully settled.

58. In paragraph 4.48(b), Audit recommended that the Secretary-General of the UGC should collaborate with the eight institutions and the Hong Kong Society of Accountants (HKSA) to develop a set of revised SORP, which should comply with the HKSSAPs, for compiling the institutions' financial statements. However, it appeared to the Committee that the institutions' non-compliance with certain HKSSAPs was primarily attributed to the UGC funding rules, as revealed in the institutions' response in the Audit Report.

59. The **Secretary-General of the UGC** explained at the public hearing and in his memo to the Director of Audit of 30 May 2003, in *Appendix 28*, that:

- the preparation of financial statements to report on the financial performance of an institution was a statutory responsibility of the institution. The choice of accounting policy and practice was therefore a matter for the institutions to decide and their auditors to accept. Nevertheless, the UGC supported that the institutions should develop a SORP to harmonise accounting practices among themselves, in order to encourage good practices and facilitate comparison;
- apart from the statutory obligation, the institutions were required under the funding rules of the UGC to report on the use of grants allocated to them. The UGC provided institutions with different kinds of grants for different purposes (e.g. the capital grants to cover the building and capital works requirements, block grants to cover the bulk of the recurrent requirements of the UGC funded activities, and earmarked grants for some specific purposes like research projects);
- the UGC would need reports from the institutions to enable it to monitor how these individual grants had been committed and spent. Dependent upon the nature of the grant, reporting requirements might need to be on a different accounting basis. For example, where the cost of a building was fully covered by a capital grant, there should not be a depreciation charge in the block grants although, under the HKSSAPs, building costs were normally amortised in the recurrent account over the useful life of a building; and

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- the UGC appreciated the merits of institutions' running a system which satisfied both of the above requirements and was cost effective. However, as a matter of principle, the UGC considered that financial statements by and large should comply with the HKSSAPs, even if on specific items, the institutions would have to make adjustments for the particular purpose of a separate report to the UGC. Towards this, the UGC had been working with a Task Force on Review of the SORP, led by the Director of Finance of the HKBU, to devise the basic rules. Good progress was being made for the institutions to adopt a new set of SORP soon.

60. **Mr Alex SHUEN, Director of Finance of the HKBU**, stated that:

- throughout the years, all the institutions had appointed auditors, who were certified by the HKSA, to audit their annual published financial statements. All the audited financial statements prepared by the institutions were certified by their auditors to have presented a true and fair view of the state of their financial affairs for the financial year concerned. The auditors' report had consistently expressed an unqualified opinion in this respect;
- the existing accounting practices adopted by the institutions had evolved from the accounting practices of the Government and the funding rules prescribed by the then University and Polytechnic Grants Committee back in the 1970s. The major users of the financial statements were the University and Polytechnic Grants Committee, the funding bodies and the governing bodies of the institutions;
- the Task Force, under his chairmanship, worked through the whole of 2002 to review the SORP with a view to narrowing the variance in accounting practices as laid down in the SORP and the HKSSAPs; and
- a new funding arrangement had been put in place for about two years, which enabled the institutions to carry up to 20% of their respective recurrent grant in a triennium to the next as reserves. He believed that this arrangement could help address the concerns raised by Audit about financial reporting of the institutions, except the issue of depreciation of fixed assets as HKSSAP 17 stipulated that non-profit-making organisations (i.e. including the institutions) were exempted from this requirement.

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61. The **Director of Audit** pointed out that although HKSSAP 17 exempted non-profit-making organisations from compliance with the depreciation requirement, such organisations were encouraged to follow the accounting practices set out in this HKSSAP. Since compliance with the depreciation requirement would help the institutions show the full costs of operation in a financial period, the institutions, being publicly-funded organisations, were strongly encouraged to comply with this requirement in order to set a good example to the public. Indeed, Audit's research revealed that overseas universities also adopted depreciation accounting for their fixed assets.

62. The institutions in general had reservations about Audit's recommendation to adopt depreciation accounting for their fixed assets. The **President of the CityU**, the **Deputy Chairman of the Council of the LU**, the **President of the LU** and the **Vice-Chancellor of the HKU** said that:

- the institutions' buildings and capital works requirements were already covered by capital grants;
- the land on which the institutions were built was granted by the Government and thus there was not a market value. If the value of the land was required to be reflected in the institutions' financial statements, the institutions might need to artificially create a market value which, in the view of the institutions, would be of little or no reference value and would also waste human resources in handling the work involved; and
- the accounting treatments of fixed assets adopted by overseas universities might not be applicable to Hong Kong as some overseas universities were built on private land.

63. Having regard to the response from the PolyU and the HKU in paragraph 4.53(b) of the Audit Report that they would consider adopting all HKSSAPs if the UGC agreed to change its funding model and surplus assessment method for the institutions, the Committee enquired:

- whether the UGC would consider changing the existing funding arrangements applicable to the institutions; or
- whether the institutions were agreeable to the UGC's suggestion of preparing two sets of financial statements, one of which would be in compliance with the HKSSAPs while the other would serve as a report to the UGC on the use of grants allocated to them.



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64. **Mr Chris MONG, Associate Vice President & Director of Finance of the PolyU** and the **President of the CityU** said that it would be most desirable if the institutions were to prepare only one set of financial statements which was in compliance with the HKSSAPs and satisfied both their auditors and the UGC. If this was not possible, the institutions might need to first prepare a set of financial statements which was in compliance with the HKSSAPs for audit purpose and to reconcile this set of financial statements thereafter to cater for the requirements of the UGC.

65. The **Secretary-General of the UGC** and the **Director of Finance of the HKBU** informed the Committee that:

- the Task Force on Review of the SORP had finished the review. Comments from the institutions' auditors and the UGC had been sought and incorporated into the revised SORP;
- the revised SORP essentially recommended a full compliance with the prevailing HKSSAPs and gave further details on presentation of information in the financial statements to enhance comparability among the institutions; and
- the Task Force would submit the revised SORP to the HKSA for its comments. The HKSA would be specifically invited to advise whether the revised SORP was consistent with the HKSSAPs and whether those practices in the revised SORP not covered by the prevailing HKSSAPs would enable the institutions to present their financial statements in a true and fair manner.

66. In his letter of 9 October 2003, in **Appendix 29**, the **Director of Finance of the HKBU** provided a copy of a letter of 7 October 2003 from a Senior Director (Professional and Technical Development) of the HKSA, which set out the HKSA's comments on the revised SORP. In her letter of 7 October 2003, the **Senior Director (Professional and Technical Development)** provided the following response:

- although it was not currently possible, within the HKSA's standard setting framework, for the HKSA to offer official view or endorsement on the revised SORP, it was able to offer some observations on certain aspects of the document; and
- the institutions had already received professional opinion from their auditors on the materials contained in the revised SORP. This was appropriate because, bearing in mind that the accounting issues being discussed were for an extremely limited number of entities, the development and application of

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appropriate accounting policies should first and foremost rest with those within the entity who took responsibility for the financial statements. The auditor should then express an opinion as to whether the accounting policies were appropriate and whether they had been applied accordingly.

67. In her letter of 7 October 2003, the **Senior Director (Professional and Technical Development)** also highlighted the contents of paragraph 2 of HKSSAP 17, which dealt with accounting treatments of property, plant and equipment, as follows:

“Charitable, government subvented and not-for-profit organisations whose long-term financial objective was other than to achieve operating profits (e.g. trade associations, clubs and retirement schemes) are exempted from compliance with this Statement provided that full disclosure of their accounting policies is made. Nonetheless, these enterprises are encouraged to follow the accounting practices set out in this Statement.”

68. In his letter of 9 October 2003, the **Director of Finance of the HKBU** advised that further refinements would be made to the SORP in the light of the comments from the HKSA. Moreover, comments from the institutions’ auditors had been duly taken into account in the SORP and the auditors had, consistently in the past, certified the financial statements of the institutions to the effect of presenting a true and fair view of their financial affairs.

69. At the invitation of the Committee, the **Director of Audit** provided, in his letter of 17 October 2003 in *Appendix 30*, a response to the Senior Director (Professional and Technical Development)’s letter, as follows:

- Audit fully appreciated that non-compliance with HKSSAP 17 on the depreciation of assets *per se* by the institutions did not call into question whether their financial statements were SSAP-compliant. These were separate and different issues. Audit was aware that the scope of HKSSAP 17 on property, plant and equipment stated that charitable, government subvented and not-for-profit organisations whose long-term financial objective was other than to achieve operating profits were exempted from compliance with this Statement. However, it should be noted that the Statement also stated that such enterprises were encouraged to follow the accounting practices set out in the Statement; and

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- Audit's research had shown that universities in advanced countries usually adopted depreciation accounting for their property, plant and equipment. Therefore, Audit made a statement in paragraph 4.41 of the Audit Report that "it would be desirable for the institutions, which were the highest academic institutions for advancing accounting knowledge, to adhere to the international best practices on the preparation of financial statements".

### **70. Conclusions and recommendations**     The Committee:

#### **Corporate governance of institutions**

- expresses serious concern that:
  - (a) the attendance rates of external members at meetings of the Councils of the City University of Hong Kong (CityU) and The Hong Kong Institute of Education (HKIEd) were generally low (i.e. below 50% at some meetings). Those of the Hong Kong Baptist University (HKBU), The Chinese University of Hong Kong (CUHK) and The University of Hong Kong (HKU) were particularly disappointing. While the HKBU held seven Council meetings, the CUHK held nine Council meetings, and the HKU held 19 Council meetings between July 2000 and November 2002, the attendance of the external members of these Councils constituted a majority (i.e. 50% or more) at only one, two and four meetings respectively. As a result, when decisions were required to be made at meetings of those Councils, there might be over-reliance on internal members; and
  - (b) five of the eight institutions had not established an audit committee, which is not in line with good corporate governance practices;
- expresses concern that:
  - (a) the CityU had not set up a Court as its advisory body, although the City University of Hong Kong Ordinance specifies that there is to be a Court;
  - (b) the Court of the HKU largely functions as an advisory body, while the University of Hong Kong Ordinance specifies that the Court is the supreme governing body;
  - (c) the size of the governing bodies of the CUHK and the HKU is larger than that of the other six institutions and is not in line with the international trend towards a smaller-size governing body; and

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- (d) currently, over 10% (i.e. seven out of 56) of the Council members of the CUHK are life members; all of the six life members did not attend any of the nine Council meetings held between July 2000 and November 2002;
- commends the HKIEd and the HKUST for having set up both an internal audit section which reports to their Councils and an audit committee;
- acknowledges that:
  - (a) the institutions are reviewing the attendance of external members and will explore additional measures to facilitate high attendance of external members;
  - (b) legislative amendments have been made by the HKU to change the size and composition of its Council and Senate. As a result, the size of the Council has been reduced to 24 members, with the ratio of external members to internal members being 2:1, and the size of the Senate has been reduced to no more than 50 members;
  - (c) the CUHK is conducting a review of the size and composition of its Council, the outcome of which is expected to be available in the last quarter of 2003;
  - (d) the CUHK will recommend to its Council that new life members should not be appointed. It will also remind all nominating bodies (including the various constituent or related organisations of the CUHK) to take into consideration the attendance records of the Council members nominated by them when they consider re-nominating their representatives to continue to serve on the Council;
  - (e) the CityU hopes to set up a Court within a year if the proposal is supported by its Review Committee on Governance and Management, which plans to submit its report to the CityU Council in November 2003;
  - (f) in the light of Audit's recommendation, The Hong Kong Polytechnic University has set up an audit committee; and
  - (g) the HKU aims at setting up an audit committee before the end of 2003;

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- recommends that the Secretary-General of University Grants Committee (UGC) should request:
  - (a) all the institutions to adopt measures to ensure that external members will constitute a majority at the Council meetings;
  - (b) all the institutions to consider publishing the attendance records of their Council members and uploading the records onto their websites for the information of the public;
  - (c) that, as a matter of principle, the institutions should not re-appoint those Council and/or Court members whose attendance at Council and/or Court meetings is low;
  - (d) the HKU to amend the University of Hong Kong Ordinance to ensure that the statutory roles of its Council and Court reflect their actual functions;
  - (e) the CUHK to consider reducing the size of its Senate, apart from the Council, so as to enable it to function more effectively;
  - (f) the CityU, the HKBU and the CUHK to set up an audit committee to strengthen their internal audit function and the corporate governance structure; and
  - (g) the institutions to conduct periodic (say every five years) reviews of the effectiveness of their governing bodies;

### **Strategic planning of institutions**

- expresses concern that:
  - (a) the HKUST and the HKU have not prepared a strategic plan to set out the objectives, operational goals and actions for achieving the goals;
  - (b) the eight institutions have not developed an annual operational plan for implementing the strategic plan; and
  - (c) the eight institutions have not adopted the good practices of setting targets and reporting progress as in universities in advanced countries;

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- acknowledges that:
  - (a) the HKU is in the process of developing its strategic plan;
  - (b) to assist it in determining the allocation of funding for the 2005-08 triennium, the UGC will conduct another performance-based funding scheme which will comprehensively and qualitatively look at the institutions' overall vision, strategic orientation, development and operational plans, support mechanisms, efforts in key result areas and how they are to be measured; and
  - (c) the UGC will include community service as an element in the forthcoming performance-based funding exercise and in the Comprehensive Audit in future;
  
- recommends that the Secretary-General, UGC should request:
  - (a) the HKUST and the HKU to expedite action to finalise their strategic plans to set out their objectives, operational goals and actions for achieving the goals;
  - (b) the Lingnan University, the HKUST and the HKU to upload their strategic plans onto their websites for the information of the public;
  - (c) the eight institutions to develop annual operational plans to set out clear targets for achievement;
  - (d) the eight institutions to prepare annual progress reports to present the progress of achievement in respect of the targets set out in their annual operational plans;
  - (e) the eight institutions to upload their progress reports onto their websites for the information of the public; and
  - (f) the eight institutions to enhance their role in the provision of community services by setting relevant targets for achievement in their annual operational plans;

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### **Financial reporting of institutions**

- expresses concern that:
  - (a) the eight institutions did not comply with some of the Statements of Standard Accounting Practice of Hong Kong (HKSSAPs) in preparing their financial statements, which included the recognition of expenses, accounting treatment of property, plant and equipment, recognition of assets, presentation of consolidated financial statements and disclosure of related-party transactions;
  - (b) there was a delay in conducting a review of the Statement of Recommended Practice (SORP); and
  - (c) the HKU had included the financial results and the assets and liabilities of the HKU School of Professional and Continuing Education (HKU-SPACE), which is a separate legal entity, in the HKU's financial statements;
- acknowledges that:
  - (a) the Task Force commissioned by the finance directors of the institutions has been reviewing the SORP for the sector, which will take into account the need to comply with the generally acceptable accounting practices as set out in the HKSSAPs; and
  - (b) the HKU has undertaken to prepare a separate set of its own financial statements, which will exclude the financial data of the HKU-SPACE as another legal entity;

### **Performance reporting of institutions**

- expresses concern that:
  - (a) the UGC and the institutions did not disclose some of the institutions' performance information to the public. The information was gathered in the annual data collection exercises and included student retention rates, admission qualifications of programmes, language examination results of newly admitted students, student admission ratios and student unit costs; and
  - (b) compared with universities in advanced countries, the institutions had disclosed less performance information to the public;

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- acknowledges that the UGC, with the assistance of the Commissioner for Census and Statistics, is conducting a review on the data collection and reporting system;
- recommends that the Secretary-General, UGC should:
  - (a) based on good overseas practices, discuss and work out with the eight institutions a revised set of clear and quantifiable performance indicators for assessing and reporting the performance of the institutions;
  - (b) based on the agreed performance indicators, request the eight institutions to provide the UGC with their annual performance data;
  - (c) publish the performance data provided by the eight institutions in the UGC's annual reports;
  - (d) upload the institutions' performance data onto the UGC's website;
  - (e) collaborate with the eight institutions with a view to jointly engaging an independent firm to conduct common satisfaction surveys of the stakeholders of the institutions; and
  - (f) disclose the results of the common satisfaction surveys in the UGC's annual reports and website; and

### **Follow-up actions**

- wishes to be kept informed of:
  - (a) the progress of implementing the recommendations of the HKU Review Panel on the governance structure of the HKU;
  - (b) the progress of the HKU's action to amend the University of Hong Kong Ordinance regarding the statutory roles of its Council and Court;
  - (c) the results of the "fitness for purpose" reviews on the governance structures of the seven institutions;
  - (d) the result of the CUHK's review of the size and composition of its Council and Senate;



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- (e) the measures adopted by the institutions to ensure that external members will constitute a majority at the Council meetings;
- (f) the attendance rates of external members of the Councils and Courts of the institutions after measures to facilitate high attendance of external members have been taken by the institutions;
- (g) the decisions of the institutions on the proposal to publish the attendance records of their Council members and upload the records onto their websites;
- (h) the decisions and progress of the CityU, the HKBU and the CUHK, and the progress made by the HKU, in respect of the proposal to set up an audit committee;
- (i) the institutions' decisions on the proposal to conduct periodic reviews of the effectiveness of their governing bodies;
- (j) the progress of the HKUST and the HKU in preparing their strategic plans;
- (k) the progress of the UGC's performance-based funding scheme to assist it in determining the allocation of funding for the 2005-08 triennium; and
- (l) the UGC's review on the performance data collection and reporting system for the institutions.