APPENDIX 28

英基學校協會
ENGLISH SCHOOLS FOUNDATION

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10 January 2005

Ms. Dora Wai
Public Accounts Committee
Legislative Council
8 Jackson Road
Central
Hong Kong

Dear Ms. Wai,

Director of Audit's Report No. 43

Chapter 3: Government subsidies to the English Schools Foundation
Chapter 4: Corporate governance and Headquarters administration of the English Schools Foundation
Chapter 5: School administration of the English Schools Foundation

Please find attached ESF's summary of the Audit recommendations contained in Chapters 3, 4 and 5 and the action proposed in each case. I would be grateful if you could circulate these documents to the members of the Public Accounts Committee.

Thank you.

Yours sincerely,

John Bohan
Acting Secretary and Chief Executive

c.c. Secretary for Education and Manpower
Chairman, English Schools Foundation
Secretary for Financial Services and the Treasury
(Attn: Mr. Manfred Wong)
Director of Audit

RECOMMENDATIONS ON AUDIT REPORT
Chapter 3 – Government Subsidies to the ESF

Audit Recommendations	Response from ESF	Action
Part 2 : Reviews of Government Subsidies to ESF and International Schools **(Page 24 – 2.26)** Audit has *recommended* that the Secretary for Education and Manpower should: (a) expedite action to complete the review of government subsidies to ESF schools; and (b) if the recurrent government subsidies to ESF schools are to be withdrawn, implement the withdrawal using a phased approach so that the ESF, its staff and management, its students and their parents can plan well ahead.		
Part 3 : Freezing Government Subsidies to ESF and **Recent Fact-Finding Exercise** **(Page 32 – 3.18)** Audit has *recommended* that the Secretary for Education and Manpower should: (a) brief the Panel on Education of the Legislative Council on the interim measures of freezing the per-class subsidies to the ESF at the 1999-2000 school-year level, and the number of ESF classes eligible for recurrent government subsidies; (b) seek the authorisation of the Executive Council and the Legislative Council for the interim measures on providing recurrent government subsidies to the ESF if changes to ESF subsidy arrangements cannot be finalised in the		

near future; and (c) seek the approval of the Executive Council and the Legislative Council for changes resulting from EMB review of government subsidies to the ESF.		
(Page 32 – Item 3.17) Audit considers that, if the fact-finding exercise leads to a reduction or an increase in government subsidies to the ESF, this may be at variance with the Government's parity of subsidy principle in subsidising the ESF. The EMB needs to seek the approval of the Executive Council and the Finance Committee for making a variation to the principle. **(Page 32 – Item 3.18)** Audit has *recommended* that the Secretary for Education and Manpower should seek the approval of the Executive Council and the Legislative Council for changes in the approach to providing recurrent government subsidies to the ESF.		
	(Page 32 – Item 3.20) The **ESF** has stated that, at the conclusion of the three audit reviews conducted by Audit and upon completion of the associated work, it will expedite completion of the fact-finding exercise.	Latest response : 3 November 2004 Government reply : 7 December 2004 Next ESF response : 11 January 2005

RECOMMENDATIONS ON AUDIT REPORT
Chapter 4 – Corporate Governance and Headquarters Administration of the ESF

Audit Recommendations	Response from ESF	Action
Part 2 : Corporate Governance **(Page 10 – Item 2.11)** Audit has *recommended* that the ESF should: (a) conduct a review with a view to reducing the membership size of the Foundation, with reference to the best practices of similar educational institutions; (b) conduct a review of the Regulations of the English Schools Foundation with a view to reflecting the latest developments in the community; and (c) consider establishing an advisory body similar to those established by the UGC-funded institutions to provide a forum for representatives of different stakeholders to make contributions to its developments.	**(Page 11 – Item 2.12)** **The Executive Committee of the Foundation** accepts that the ESF's governance should be reviewed with a view to ensuring that it is in line with the best practices.	It was proposed by the Executive Committee and agreed in principle by the Foundation at the meeting held on 9 December 2004 to revise the governance of the Foundation. Details of the implementation process and timeline are contained in the paper approved by the Foundation Meeting, a copy of which is attached as Appendix A.
(Page 15 – Item 2.21) Audit has *recommended* that the ESF should: (a) conduct a review of the composition of Foundation members with a view to ensuring that external members will constitute a majority at Foundation meetings; (b) consider increasing the ratio of external members to internal members of the Foundation to, say 2 : 1;	**(Page 15 – Item 2.22)** **The Executive Committee of the Foundation** accepts that the ESF's governance should be reviewed with a view to ensuring that it is in line with the best practices.	As Item 2.11 above.

(c) issue reminders to the related organisations if the attendance rates of their representatives at Foundation meetings are low; and (d) amend the Regulations of the English Schools Foundation to the effect that ESF staff members of the Executive Committee of the Foundation would abstain from voting on matters concerning ESF staff benefits at its meetings.		
(Page 17 – Item 2.27) Audit has *recommended* that the ESF should: (a) set up an audit committee under the Foundation comprising external members; (b) ensure that its internal audit office is staffed by well qualified and experienced personnel reporting directly to the audit committee; and (c) require its internal audit office to prepare annual audit programmes (to be approved by the audit committee) for conducting reviews covering major and high-audit-risk activities of the ESF, including the ESF Educational Services Limited.	**(Page 17 – Item 2.28)** **The Executive Committee of the Foundation** accepts that the ESF's governance should be reviewed with a view to ensuring that it is in line with the best practices.	**Actioned** – Audit Committee approved by Executive Committee at the meeting held on 23 November 2004. The first meeting of the Audit Committee was on 7 December 2004. It has since met KPMG, the external auditors, and had substantive discussions with management on 17 December 2004 and 7 January 2005.

RECOMMENDATIONS ON AUDIT REPORT

Chapter 4 – Corporate Governance and Headquarters Administration of the ESF

Part 3 : Financial Management **(Page 21 – Item 3.9)** Audit has *recommended* that the ESF should: (a) take action to reduce its net current liabilities; and (b) avoid preparing budgets based on a high level of bank overdraft at its financial year end.	**(Page 22 – Item 3.10)** The **ESF** has stated that: (a) the Executive Committee of the Foundation will continue to carefully: (i) monitor ESF budgets and current liabilities; and (ii) determine prudent limits to borrowing; and (b) no commercial organisation would deny itself access to credit which can help maximise value for shareholders.	The Executive Committee will review this recommendation when it reviews the First Stage Estimates 2005/06 at the meeting of 22 March 2005.
(Page 24 – Item 3.15) Audit has *recommended* that, in order to reduce its bank overdrafts at its financial year end, the ESF should adopt an arrangement under which: (a) its schools would transfer a part of their bank deposits for which they do not have immediate needs to the Foundation Office; and (b) the Foundation Office would refund to individual schools the money deposited with it when the need arises.	**(Page 24 – Item 3.16)** **The Executive Committee of the Foundation** accepts that it is necessary to make improvement on the arrangement for ESF schools to maintain bank balances. The ESF has stated that it will adopt: (a) either an arrangement under which ESF schools would transfer a part of their bank deposits (for which they do not have immediate needs) to the Foundation Office; or (b) a central cash management and payment system similar to those adopted by large commercial organisations, without the need for each ESF school to maintain its own bank account.	**<u>Actioned</u>**. The Foundation will enter into an alternative arrangement with its bankers to offset credit balances on its accounts with any debit balances on other accounts. **Target** : 20 January 2005.

Chapter 4 – Corporate Governance and Headquarters Administration of the ESF

Part 4 : Staff Remuneration and Recruitment **(Page 28 – Item 4.10)** Audit has *recommended* that the ESF should conduct a review of the remuneration packages of its senior staff with a view to ensuring that they are broadly in line with those of similar posts in other local educational organisations.	**(Page 29 – Item 4.11)** The **ESF** has stated that the remuneration packages of its senior staff: (a) have been reviewed by its Pay Review Body; and (b) will be within the purview of its Remuneration Study Group.	**Actioned.** Remuneration Study Group is due to report in June 2005.
(Page 35 – Item 4.26) Audit has *recommended* that the ESF should: (a) conduct a review of the remuneration packages of its teaching staff with a view to setting new packages, having regard to those of other major local international schools;	**(Page 36 – Item 4.27)** The **ESF** agrees with the audit recommendations in paragraph 4.26. It has stated that: (a) it has established a Remuneration Study Group to conduct reviews of the remuneration packages of its teaching staff;	(a) to (c) **Actioned.** Remuneration Study Group is due to report in June 2005.
(b) in doing so, take into consideration the need to pay competitive salaries to recruit and retain quality teaching staff from English-speaking countries;	(b) it must continue to be the employer of choice;	
(c) implement the new remuneration packages on newly recruited teaching staff as soon as possible, and on existing teaching staff over a period of time, taking into account the effects of the new remuneration packages on their financial commitments; and	(c) changes to contractual conditions of its teaching staff can only be implemented on renewal of their contracts or with their consent; and	
(d) draw up central guidelines on the payment of responsibility allowances to teaching staff for compliance by its schools, with reference to the practices adopted by other local international schools.	(d) principals and school councils require a degree of independence on payment of responsibility allowances to teaching staff to meet the unique circumstances of individual schools.	Implementation – by 30 April 2005.

RECOMMENDATIONS ON AUDIT REPORT

Chapter 4 – Corporate Governance and Headquarters Administration of the ESF

(Page 38 – Item 4.32) Audit has *recommended* that the ESF should: (a) ensure that the approval of the Executive Committee of the Foundation is obtained before making extra payments to ESF senior staff upon their leaving the ESF; and (b) record such approvals in the meeting minutes of the Executive Committee of the Foundation.	**(Page 38 – Item 4.33)** The ESF agrees with the audit recommendations in paragraph 4.32. It has stated that: (a) in the past, the agreement of the Chief Executive of the ESF and the Chairman/Vice-chairman of the Foundation was sought before making extra payments to ESF senior staff upon their leaving the ESF for contractual or confidentiality reasons; and (b) it will record the approval of the Executive Committee of the Foundation in its meeting minutes regarding extra payments to ESF senior staff upon their leaving the ESF, if this does not infringe legally binding agreements.	<u>Actioned</u> – 17 December 2004.
(Page 41 – Item 4.38) Audit has *recommended* that the ESF should: (a) review its recruitment practices with a view to reducing recruitment costs; and (b) send the minimum number of its staff overseas to interview applicants when it is necessary to do so.	**(Page 41 – Item 4.39)** The ESF agrees with the audit recommendations in paragraph 4.38. It has stated that its Recruitment Working Party established in the 2003-04 ESF financial year endorsed the policy of: (a) reducing the number of its school principals travelling overseas to interview applicants; and (b) reducing the time spent overseas by its interview-team members by using more video-conference interviews.	**<u>Actioned.</u>** The arrangements being made for the forthcoming recruitment round implement these recommendations.

Part 5 : Staff Housing Benefits **(Page 48 – Item 5.14)** Audit has *recommended* that the ESF should: (a) as far as possible accommodate eligible staff in the staff quarters it owns, instead of leasing quarters for them; (b) lease the vacant staff quarters to its staff and outsiders to generate rental income; (c) select those appropriate ESF-owned Teaching-staff Grade quarters for re-grading as Senior-staff Grade quarters for allocation to its senior staff;	**(Page 48 – Item 5.15)** The **ESF** agrees with the audit recommendations in paragraph 5.14. It has stated that: (a) it has taken action in respect of the audit recommendations in paragraph 5.14(a), (b) and (c). In the 2004-05 ESF financial year, three newly-appointed principals, whose predecessors were previously accommodated in ESF-leased quarters, have been allocated with ESF-owned quarters;	(a) to (c) **Actioned**.
(d) consider converting two adjacent Teaching-staff Grade quarters into one Senior-staff Grade quarters for allocation to a senior staff member if it is justified to do so;	(b) it will examine the technical and structural feasibility of the audit recommendation in paragraph 5.14(d);	Previously **Actioned**. See Building Management Department paper dated 12 December 1998.
(e) seek and record the approval of the Executive Committee of the Foundation if there is a need for the ESF to lease a staff quarters for a senior staff member exceeding his rent entitlement;	(c) the Executive Committee of the Foundation will consider the audit recommendation in paragraph 5.14(e). In the past, the authority to approve leasing a staff quarters for a senior staff member exceeding his rent entitlement was delegated to the Chief Executive of the ESF; and	**Implemented**.

(f) seek the approval of the Executive Committee of the Foundation for paying the rates and management fees of ESF-leased quarters for its senior staff, irrespective of their rent entitlements; and (g) conduct a review of the rental-value level of staff quarters for its senior staff with reference to the housing benefits provided by other local educational institutions.	(d) it will take action in respect of the audit recommendations in paragraph 5.14(f) and (g).	A paper will be submitted in respect of Items 5.14(f) and (g) to Executive Committee by 31 March 2005. In the long-term the Remuneration Study Group will need to recommend future policy.
(Page 54 – Item 5.31) Audit has *recommended* that the ESF should: (a) formulate a plan for disposing of its surplus staff quarters;	**(Page 55 – Item 5.32)** The **ESF** has stated that: (a) the Executive Committee of the Foundation will review carefully the audit recommendation in paragraph 5.31(a), having regard to the long-term needs of the ESF and the financial security conferred by the ownership of such fixed assets;	A paper will be submitted in respect of Items 5.31(a) and (b) to Executive Committee by June 2005.
(b) negotiate with the Government on removing the non-assignment clauses in the government leases of its staff quarters at the Braemar Heights and at the Beacon Hill School;	(b) it agrees with the audit recommendation in paragraph 5.31(b). The Government would need to cooperate on this recommendation. The Beacon Hill School flats need careful consideration because of security, health and safety issues;	
(c) seek and document professional advice obtained on the market rental values of its staff quarters for letting to ineligible staff; and	(c) regarding the audit recommendation in paragraph 5.31(c), it is ESF practice to seek professional advice when benchmarking market rental values of its staff quarters for letting to ineligible staff. It accepts that such advice should be in writing, filed and retained; and	**Actioned.**

(d) obtain the prior approval from the Executive Committee of the Foundation before selling its staff quarters.	(d) it agrees with the audit recommendation in paragraph 5.31(d). The sale of staff quarters had been sanctioned by the Executive Committee of the Foundation in 1994, following its endorsement of the report of a consultancy study on the issue. All sales of staff quarters will require the approval of the Executive Committee of the Foundation in future.	**Actioned.**
Part 6 : Staff Medical Benefits *Reimbursement of Medical Expenses Exceeding Entitlement* **(Page 61 – Item 6.14)** Audit has *recommended* that the ESF should:	**(Page 61 – Item 6.15)** The ESF has stated that:	
(a) engage a medical insurance company to provide a medical scheme for its non-teaching staff and their dependants, with reference to similar schemes of other local educational institutions;	(a) in the 2003-04 ESF financial year, it took action in respect of the audit recommendation in paragraph 6.14(a). However, ESF staff did not favour the proposed scheme. It will reconsider the audit recommendation;	**Actioned**. Proceeding to obtain proposals from insurers. Due to complete by 28 February 2005.
(b) set an annual maximum amount of reimbursable dental expenses for each member of ESF senior staff and teaching staff and each of their dependants;	(b) it accepts in principle the audit recommendation in paragraph 6.14(b). Presently, reimbursement of dental expenses only covers basic dental treatment. By setting a maximum amount of reimbursable dental expenses for each eligible person, ESF staff could be encouraged to claim the maximum amount of expenses;	**Actioned**. Proceeding to obtain proposals from insurers (which would include limits). Due to complete by 28 February 2005.
(c) engage a medical insurance company to provide a dental scheme for all ESF staff and their dependants, with reference to similar schemes of other local educational	(c) the audit recommendation in paragraph 6.14(c) was reviewed when the medical scheme was outsourced in 2001. At that time, the level of cover provided by a	**Actioned**. Proceeding to obtain proposals from insurers. Due to complete by 28 February 2005.

institutions; and	medical insurance company, when compared with the insurance premium, was not considered to be value for money. It will re-examine the audit recommendation; and	
(d) seek and record the approval of the Executive Committee of the Foundation if the medical benefits received by an ESF staff member exceed his entitlement.	(d) it agrees in principle with the audit recommendation in paragraph 6.14(d). The event mentioned in paragraphs 6.12 and 6.13 was an isolated and unique case, with the agreement being given by the then Chief Executive of the ESF. The Executive Committee of the Foundation has stated that it would consider similar events on a case-by-case basis in future. Some cases involve emergency treatment and there may not be sufficient time for contacting all Executive Committee members before the treatment. Therefore, there needs to be some means of delegating authority for such cases.	Agreed. Will also seek delegated authority for Chief Executive/Human Resources Director to approve emergency treatment.
Part 7 : Entertainment Expenses **(Page 66 – Item 7.13)** Audit has *recommended* that the ESF should: (a) abolish the existing arrangement for setting annual individual budgets for entertainment expenses for some ESF staff;	**(Page 67 – Item 7.14)** The ESF has stated that: (a) the Executive Committee of the Foundation will consider the audit recommendations in paragraph 7.13(a), (b) and (d) as part of a further review of entertainment expenses. The present ESF arrangement for setting annual individual budgets for entertainment expenses only applies to 22 ESF designated staff out of a total of 1,218 ESF staff;	Paper will be submitted to Executive Committee by 31 March 2005.
(b) set up a new system so that only designated staff of the ESF may submit claims for reimbursement of entertainment		Paper will be submitted to Executive Committee by 31 March 2005.

expenses on a need basis;		
(c) strictly enforce its revised policy on reimbursement of entertainment expenses which prohibits reimbursement of entertainment expenses relating to staff functions;	(b) it agrees with, and has implemented, the audit recommendations in paragraph 7.13(c) and (f); and	**Actioned** as at 1 September 2004.
(d) set up a staff welfare fund to meet the expenses of staff functions;		Paper will be submitted to Executive Committee by 31 March 2005.
(e) set a maximum limit on reimbursable entertainment expenses allowed for each participant in each function; and	(c) it agrees in principle with the audit recommendation in paragraph 7.13(e). The Executive Committee of the Foundation will consider the appropriate maximum limit on reimbursable entertainment expenses allowed for each participant in each function.	Paper will be submitted to Executive Committee by 31 March 2005.
(f) strictly enforce its revised policy on reimbursement of entertainment expenses which requires ESF staff submitting claims to clearly state: (i) the name of each ESF participant and his capacity; (ii) for guests, their names and the organisations they represent; and (iii) the purpose of the function.	(d) it agrees with, and has implemented, the audit recommendations in paragraph 7.13(c) and (f).	**Actioned** as at 1 September 2004.

RECOMMENDATIONS ON AUDIT REPORT
Chapter 5 – School Administration of the ESF

Audit Recommendations	Response from ESF	Action
Part 1 : Introduction **(Page 5 – Item 1.17)** Audit has *recommended* that the ESF should: (a) fulfil its responsibilities for providing its schools with: (i) proper guidelines to help them deal with various administrative matters; and (ii) adequate support in implementing the guidelines; and	**(Page 5 – Item 1.18)** The ESF agrees with the audit recommendations. It has stated that: (a) the ESF does provide its schools with guidelines to deal with administrative matters but, as Audit has rightly pointed out, these need to be proper and well supported;	
(b) carry out internal audits of them to ascertain whether the guidelines have been complied with.	(b) the revision of Schools' Circulars/Administrative Memoranda is now in place to help schools deal with various administrative matters. Its Human Resources Department will oversee the process. In fact, two school principals began work on the administrative procedures in July 2004;	Revision already underway. 30% completed by 1 September 2004, 60% by 1 January 2005, 100% by 31 August 2005.
	(c) it is accepted that seminars and school visits need to be more systematically programmed to provide adequate support to schools in implementing the guidelines; and	With the establishment of the new CPD Co-ordinator post, specific needs will be identified and appropriate training provided.
	(d) it is logical to extend the programme of internal audits to cover the audit recommendations.	The newly created ESF Audit Committee will oversee the programme of internal audits.

RECOMMENDATIONS ON AUDIT REPORT
Chapter 5 – School Administration of the ESF

Part 2 : Corporate Governance of Schools **(Page 10 - Item 2.9)** Audit has *recommended* that ESF schools should consider inviting suitable alumni to join their councils.	**(Page 10 – Item 2.10)** The **ESF** has stated that: (a) it recognises the value of more alumni being represented on school councils; (b) work has begun in 2003-04 to develop a systematic approach to the use of such people. Although the outcomes are not yet evidenced, it wishes to increase the representation of alumni on school councils; and (c) more alumni may be invited once alumni lists are complete.	This will be considered as part of the review of governance – see the ESF response to Chapter 4, paragraph 2.11.
(Page 12 – Item 2.15) Audit has *recommended* that the ESF should request its school councils to: (a) clearly set out and document their decision-making powers (i.e. what matters and changes require their approval) and the delegation of such powers; and	**(Page 12 – Item 2.16)** The **ESF** agrees that the decision-making powers of school councils should be better articulated. The ESF has stated that: (a) each school council should itemise its powers of delegation;	This recommendation will be implemented through the revision of the booklet "Guidance for School Councillors". After consultation with stakeholder groups, the revised guidance will be effective by 30 June 2005.
(b) review periodically the delegated decision-making powers.	(b) training for council members may be required; and	The existing programme of School Councillors training will be extended beginning with the course on 22 January 2005.
	(c) a bi-annual agenda item will be initiated by ESF representative to review the delegated decision-making powers.	This will be actioned from the Chief Executive's Office.

RECOMMENDATIONS ON AUDIT REPORT
Chapter 5 – School Administration of the ESF

(Page 15 – Item 2.22) Audit has *recommended* that the ESF should encourage its school councils to: (a) participate actively in the management and implementation of significant school activities; and	**(Page 15 – Item 2.23)** The **ESF** agrees with the audit recommendations. It has stated that: (a) it will consider rewriting the roles of school council members;	This recommendation will be implemented through the revision of the booklet "Guidance for School Councillors". After consultation with stakeholder groups, the revised guidance will be effective by 30 June 2005.
(b) consider setting up appropriate sub-committees to further their involvement in key decisions on significant school matters.	(b) it recognises that, by widening the role of school council members, it must meet their training needs; and	The existing programme of School Councillors training will be extended beginning with the course on 22 January 2005.
	(c) the setting up of sub-committees will be carried out using acknowledged best practice as a guide.	This recommendation will be implemented through the revision of the booklet "Guidance for School Councillors". After consultation with stakeholder groups, the revised guidance will be effective by 30 June 2005.
(Page 17 – Item 2.29) Audit has *recommended* that the ESF should: (a) remind its school councils that they have to hold at least three meetings a year so as to comply with the minimum requirement under Regulation 14 of the ESF; and	**(Page 18 – Item 2.30)** The **ESF** agrees with the audit recommendations. It has stated that: (a) it will issue letters to school councils reminding them of the minimum requirement for meetings; and	A letter will be sent by 31 January 2005 to School Councils/Councillors to request implementation of these recommendations. In addition, the recommendations will be incorporated in the revision of the booklet "Guidance for School Councillors". After consultation with stakeholder groups, the revised guidance will be effective by 30 June 2005.
(b) encourage the councils of all ESF schools to hold more meetings than the minimum requirement under Regulation 14 of the ESF if this will help them better fulfil their roles and responsibilities.	(b) it will encourage school councils to meet six times a year and to set up sub-committees to help fulfil their roles and responsibilities.	
(Page 19 – Item 2.33) Audit has *recommended* that the ESF should urge its schools to:	**(Page 19 – Item 2.34)** The **ESF** agrees with the audit recommendations. It has stated that declaration registers will be	Target : 20 January 2005.

(a) establish proper procedures to require council members to declare any interest which might conflict with their roles; and (b) properly document (e.g. on a standard form or in the meeting minutes) the declarations of conflict of interest made by council members.	prepared to record the interests of school council members.	
Part 3 : Strategic Planning **(Page 23 – Item 3.8)** Audit has *recommended* that the ESF should require its schools which had not widely consulted their stakeholders in the school planning process to: (a) seek the participation of various stakeholders, especially their councils, in the development of their plans; and (b) share their development plans as widely as possible with the stakeholders with a view to gaining the stakeholders' support.	**(Page 23 – Item 3.9)** The **ESF** agrees with the audit recommendations. It has stated that guidance on school development planning will be produced by a working group to assist schools in the planning process.	Actioned : in draft Education Development Plan (issued 7 January 2005).
(Page 25 – **Item** 3.15) Audit has *recommended* that the ESF should: (a) require its schools to produce a longer-term development plan (covering say, three to five years) which incorporates detailed short-term action plans; and (b) consider adopting a uniform planning cycle for its development plan and those of its schools.	**(Page 25 – Item 3.16)** The **ESF** agrees with the audit recommendations. It has stated that: (a) school development plans will be aligned with the ESF education development plan; and (b) the draft ESF education development plan has already, in its procedures, adopted a uniform planning cycle.	Actioned : in draft Education Development Plan (issued 7 January 2005). The Education Development Director will constitute a group to provide guidance by 30 June 2005.

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Chapter 5 – School Administration of the ESF

(Page 28 – Item 3.22) Audit has *recommended* that the ESF should issue good practice guides to its schools to help them ensure that all significant aspects of school activities are included in their development plans.	**(Page 28 – Item 3.23)** The **ESF** agrees with the audit recommendation.	The Education Development Director will contribute a group to provide guidance by 30 June 2005.
(Page 29 – Item 3.28) Audit has *recommended* that the ESF should require its schools which had not evaluated their programmes against their development plans to: (a) conduct evaluations so as to assess how well they have been performing; and	**(Page 30 – Item 3.29)** The **ESF** agrees with the audit recommendations. It has stated that: (a) a revised evaluation strategy was drafted in August 2004. Since then, procedures for performing school reviews have been written to ensure that schools conduct evaluations of their programmes against their current development plans. These evaluations also examine the impact of school development plans on students' standards of achievement; and	Actioned : in draft Education Development Plan (issued 7 January 2005).
(b) make use of the evaluation results to help plan future courses of action to further raise the standards achieved.	(b) it is ESF practice to draw up action plans through the process of school self-evaluations and school reviews. Examples of this can be found in three schools.	
(Page 32 – Item 3.33) Stakeholders' views help ensure continuous improvement of schools. For those schools which had not regularly sought the views of stakeholders regarding their needs and expectations, Audit has *recommended* that the ESF should request them:	**(Page 32 – Item 3.34)** The **ESF** agrees with the audit recommendations. It has stated that:	Actioned : in draft Education Development Plan (issued 7 January 2005).

(a) to put in place such a system; and (b) to take appropriate action to further improve their performance, based on the feedback from their stakeholders.	(a) a revised self-evaluation strategy will be drafted to ensure that schools seek the views from stakeholders regarding their needs and expectations; and (b) with the revised self-evaluation strategy, schools will feed the views of the stakeholders into their school development plans. Much of this has already occurred, albeit without ESF-wide guidelines.	
Part 4 : Budgeting and Cash Management **(Page 36 – Item 4.7)** Audit has *recommended* that the ESF should: (a) issue guidelines to assist its schools in developing formal procedures for budgetary planning and control; and (b) in preparing the guidelines, take into consideration the key procedures as outlined in the SAG.	**(Page 36 – Item 4.8)** The **ESF** agrees with the audit recommendations. It has stated that: (a) although no uniform models may be possible because of the unique circumstances of each school, it will issue formal guidelines to assist schools in budgetary planning and control; and (b) all school councils will need a finance sub-committee to deal with budgetary matters.	The guidelines will be issued by 31 March 2005. In addition, the recommendations will be incorporated in the revision of the booklet "Guidance for School Councillors".
(Page 38 – Item 4.12) Audit has *recommended* that the ESF should require its schools to: (a) project the financial resources required to implement individual programmes in their development plans; and (b) use the projections as a basis for compiling their annual budgets.	**(Page 38 – Item 4.13)** The **ESF** agrees with the audit recommendations. It has stated that all schools should be required to cost their development plans and use the cost projections in compiling annual budgets.	The guidelines will be issued by 31 March 2005. In addition, the recommendations will be incorporated in the revision of the booklet "Guidance for School Councillors".

RECOMMENDATIONS ON AUDIT REPORT
Chapter 5 – School Administration of the ESF

(Page 40 – Item 4.18) Audit has *recommended* that the ESF should require its schools which do not have a bidding system for assessing the funding needs of their departments to adopt such a system for budget allocation purpose.	**(Page 40 – Item 4.19)** The **ESF** has stated that it will consider the audit recommendations, having regard to the fact that school councils and principals require a degree of independence to meet the unique circumstances of each school.	A letter will be sent by 31 January 2005 to School Councils/Councillors to request implementation of this recommendation.
(Page 41 – Items 4.23 and 4.24) Audit has *recommended* that the ESF should urge its schools to: (a) seek the approval of their councils for their annual school budgets (including subsequent major amendments); and (b) regularly submit to their councils financial reports showing the up-to-date position of variances between the approved budget and the expenditure commitments together with a forecast of the outturn to the end of the financial year. For those councils of its schools which have not played an active role in monitoring the use of school funds, Audit has *recommended* that the ESF should remind them to: (a) take the initiative to examine closely and approve their school annual budgets (including subsequent major amendments); and (b) monitor regularly the use of funds against the approved budgets and investigate significant variances.	**(Page 41 – Item 4.25)** The **ESF** agrees with the audit recommendations. It has stated that: (a) the role of principals in school budgeting will be included in the revised guidance for school councils; (b) all schools will start to report regularly their financial performance to their councils in September 2005; (c) there is a need to revise the guidance to school councils on the approval of school budgets and ensure consistent implementation at schools; (d) monitoring the use of school funds against the approved budgets should be a regular agenda item in school council meetings; and (e) finance sub-committees may have to be set up in schools to help monitor the use of school funds.	A letter will be sent by 31 January 2005 to School Councils/Councillors to request implementation of these recommendations. In addition, the recommendations will be incorporated in the revision of the booklet "Guidance for School Councillors".

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(Page 44 – Item 4.32) Audit has *recommended* that the ESF should require: (a) its schools to record the commitments and actual expenditure in the relevant ledgers of the school accounting systems, so as to facilitate the school management and budget holders to better manage individual budgets; (b) budget holders of its schools to clearly specify, in budget requests, details of expenditure items and the amounts to be spent, so as to facilitate schools to monitor whether expenses have been incurred for the originally intended purposes; and	**(Page 44 – Item 4.33)** The **ESF** agrees with the audit recommendations stated in paragraph 4.32(a) and (b) and will remind schools of the best practice.	A letter will be sent by 31 January 2005 to School Councils/Councillors to request implementation of these recommendations.
(c) its schools to establish formal policies and control procedures on virements of funds between budgets including: (i) the circumstances under which virements are allowed; and (ii) agreeing with their councils on the limits of virement which, if exceeded, would require councils' approval.	As regards the audit recommendation in paragraph 4.32(c), the ESF has stated that: (a) it wishes school councils and principals to exercise control on virement issues, and to encourage such delegated leadership and authority to schools; and (b) principals have to report to school councils as a check and a balance.	
(Page 46 – Item 4.38) Audit has *recommended* that the ESF should: (a) require its schools to examine their need for retaining surplus funds;	**(Page 46 – Item 4.39)** The **ESF** agrees with the audit recommendations. It has stated that: (a) it will discuss with schools the strategic use of any reserves. Schools will also have to report to councils their need for retaining surplus funds; and	Actioned : See Chapter 4, Item 3.16.

(b) request its schools to consider placing their surplus funds with it to help reduce its overdraft, as an option of deploying the funds; and (c) agree with its school principals the arrangement for transferring surplus funds to the ESF.	(b) it accepts that improvement is necessary to reduce the high level of overdraft of the ESF. It will adopt either the audit recommendation of requesting its schools to place their surplus funds with the ESF, or another alternative arrangement under which there will be a central cash management and payment system similar to those used by large commercial organisations, thereby avoiding the need for a separate bank account for each school.	
(Page 48 – Item 4.44) Audit has *recommended* that the ESF should: (a) advise its schools to consider preparing and updating cash-flow projections to enable them to manage their cash more effectively; (b) help its schools prepare cash-flow projections, where necessary; and (c) ensure that its schools periodically compare the cash-flow projection with the actual cash flow with a view to identifying potential problems in financial operation.	**(Page 48 – Item 4.45)** The **ESF** agrees with the audit recommendations. It has stated that: (a) training on cash-flow projections will be provided to school councils and administrative staff, where necessary; and (b) a finance sub-committee may have to be set up in each school to monitor the cash-flow position.	A letter will be sent by 31 January 2005 to School Councils/Councillors to request implementation of these recommendations. The need for training will be ascertained by 31 March 2005 and training provided by 30 June 2005. In addition, the recommendations will be incorporated in the revision of the booklet "Guidance for School Councillors".
<u>Part 5 : Financial and Administrative Matters</u> **(Page 51 – Item 5.5)** Audit has *recommended* that the ESF should: (a) regularly review its school circulars and administrative memoranda to ensure that the guidelines are kept up-to-date; and	**(Page 51 – Item 5.6)** The **ESF** agrees with the audit recommendations. It has stated that: (a) all SCAM should be updated regularly. Its internal auditor is updating these circulars and memoranda; and	Annual update to be completed by 1 September 2005 and each subsequent September.

(b) consider making use of the Internet for distributing the circulars and memoranda to schools.	(b) it will look to extending the use of the Internet to disseminate the guidelines and procedures.	All updated and new circulars/memoranda will be placed on the website as soon as they are approved.
(Page 54 – Item 5.14) Audit has *recommended* that the ESF should: (a) in conjunction with its schools, draw up proper internal control procedures, making reference to the SAG; and	**(Page 54 – Item 5.15)** The **ESF** agrees with the audit recommendations. It has stated that: (a) the internal auditor has already started to update internal control procedures, with reference not only to the SAG but also to ESF practices and other sources. Besides working with schools, the internal auditor also works closely with the Headquarters management when drawing up such procedures; and	This is work-in-progress and procedures will be issued by 28 February 2005.
(b) regularly carry out internal audits of schools to ascertain whether the internal controls are operating effectively.	(b) the ESF plans to consider systematic auditing and to review the use of time in auditing.	This will be carried out under the supervision of the newly appointed Audit Committee.
(Page 59 – Item 5.25) Audit has *recommended* that the ESF should: (a) revise the structure of accounts of its schools so that all entertainment expenditure is charged to one single account to facilitate monitoring and control; and	**(Page 59 – Item 5.26)** The **ESF** agrees with the audit recommendations. It has stated that it will consider the appropriateness of setting aside an annual sum to be spent on staff functions.	To be implemented by 1 April 2005.
(b) consider the appropriateness of setting aside an annual sum to be spent by its schools on staff functions.		Executive Committee will consider a report on this subject in March 2005.

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(Page 61 – Item 5.31) Audit has *recommended* that the ESF should formulate a policy on the provision of staff welfare and benefits by its schools.	**(Page 61 – Item 5.32)** The **ESF** agrees with the audit recommendation.	Executive Committee will consider a report on this subject by 31 March 2005.
(Page 62 – Iem 5.34) Audit has *recommended* that the ESF should require its schools to ensure that, in processing claims for reimbursement of travelling expenditure, the claimant submits receipts and details of journeys.	**(Page 62 – Item 5.35)** The **ESF** agrees with the audit recommendation and has stated that a policy is being implemented in this respect.	Actioned : letter issued on 7 January 2005.
(Page 64 – Item 5.38) Audit has *recommended* that the ESF should: (a) require its schools to critically review their spending patterns with a view to identifying expenditure areas which are not essential; and (b) require its schools, in the light of the review results, to economise on their expenditure.	**(Page 64 – Item 5.39)** The **ESF** agrees with the audit recommendations. It has stated that: (a) it will review the spending patterns of schools; and (b) its schools will continue to carefully monitor their budgets.	These recommendations will be implemented through the revision of the booklet "Guidance for School Councillors". After consultation with stakeholder groups, the revised guidance will be effective by 30 June 2005.
(Page 68 – Item 5.46) Audit has *recommended* that the ESF should: (a) set a financial threshold for recording assets by its schools; (b) require its schools to promptly record assets with value above the set threshold in the asset registers upon acquisition; and	**(Page 68 –Item 5.47)** The **ESF** agrees with the audit recommendations and has stated that it will review the current policy.	Procedures already drafted and will be issued by 31 January 2005.

(c) require its schools to have asset registers checked periodically by persons who are not involved in the custody of the assets.		
Part 6 : Procurement and Energy Management **(Page 76 – Item 6.10)** Audit has *recommended* that the ESF should: (a) draw up a set of clear and comprehensive procurement guidelines to help its schools procure goods and services at best prices, making reference to EMB guidelines to aided schools in Hong Kong; (b) periodically revise the procurement guidelines to ensure that they are up-to-date and complete; (c) require all its school staff involved in procurement (e.g. finance officers, bursars and department heads) to follow the procurement guidelines issued by the ESF unless it is impracticable to do so, and in such circumstances, record the reasons for not doing so; and (d) ask the internal auditor to monitor compliance with the procurement guidelines by its schools.	**(Page 76 – Item 6.11)** The **ESF** agrees with the audit recommendations and has stated that procurement guidelines based on those of the EMB have now been drafted.	Procedures already drafted and will be issued by 31 January 2005.
(Page 77 – Item 6.14) Audit has *recommended* that the ESF should require its schools to always properly document the quotations obtained so as to demonstrate that procurement has been made on a fair and	**(Page 77 – Item 6.15)** The **ESF** agrees with the audit recommendation and has stated that the requirement for its schools to properly document the quotations will be made mandatory.	This is included in the procedures referred to in response to Item 6.10 above.

competitive basis.		
(Page 80 – Item 6.24) Audit has *recommended* that the ESF should: (a) identify items of goods and services which are cost-effective and practicable to acquire through bulk-purchase orders; (b) devise a mechanism to coordinate its schools' orders for goods and services in order to take advantage of bulk-purchase discounts; and (c) urge individual schools to always plan and coordinate the purchase requirements within the school and to take full advantage of bulk-purchase discounts for goods and services.	**(Page 81 – Item 6.25)** The **ESF** agrees with the audit recommendations. It has stated that: (a) no central purchasing scheme is presently in place, but this practice is being implemented for purchase of high-value items, e.g. information and communication technology equipment; (b) the ESF will consider setting up a mechanism in the long run to coordinate the purchase of other goods and services of high volume and/or high value; and (c) it will urge individual schools to always plan aud coordinate the purchasing requirements.	ESF will consult with stakeholders, particularly principals in order to determine possible changes in practice by 31 March 2005.
(Page 83 – Item 6.32) Audit has *recommended* that the ESF should require its schools to: (a) conduct cost-benefit analysis before entering into leasing agreements for or making outright purchases of school equipment; and (b) document the analysis to show how decisions for leasing or purchasing school equipment have been made.	**(Page 83 – Item 6.33)** The **ESF** agrees with the audit recommendations. It has stated that: (a) the practice of conducting cost-benefit analysis is in existence; and (b) more guidance will be given on documenting the practice.	These recommendations will be implemented through the revision of the booklet "Guidance for School Councillors". After consultation with stakeholder groups, the revised guidance will be effective by 30 June 2005.

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(Page 88 – Item 6.47) Audit has *recommended* that the ESF should require its schools to: (a) select the most economical tariff available for their electricity accounts; (b) conduct an analysis to ascertain the kVA value of their electricity accounts so as to enable them to select the most economical tariff; (c) explore the possibility of combining the electricity accounts within schools to obtain a more economical tariff; and (d) regularly monitor the electricity consumption pattern to ensure that the most economical tariff is obtained.	**(Page 88 – Item 6.48)** The **ESF** agrees with the audit recommendations and has stated that Audit guidance on energy management is valuable.	(a) and (b). A desk study and discussions with the electricity companies has shown that the majority of schools would not benefit financially from transferring to a maximum demand tariff. Further analysis of one school is ongoing. It can only be completed in the summer term when the maximum kVA is registered during the hot season. (c). This has been examined previously and found to be uneconomic. (d). Actioned : Building Management Department are monitoring usage.
(Page 89 – Item 6.51) Audit has *recommended* that the ESF should: (a) disseminate the practices of energy saving measures implemented by some of its schools to other schools; and (b) regularly conduct reviews to identify new energy saving measures that can be adopted by its schools.	**(Page 90 – Item 6.52)** The **ESF** agrees with the audit recommendations.	Actioned. Three schools are being supported in the EMSD competition which runs from January to December 2005. Good practices identified from this work are being disseminated to the other schools from January to April 2005. Actioned : Building Management Department are monitoring energy savings.
Part 7 : Human Resources Management **(Page 93 – Item 7.9)** Audit has *recommended* that the ESF should require its schools to document in an assessment form the assessment of an applicant showing his relative merits and the reasons for recommending or not recommending him for appointment.	**(Page 93 – Item 7.10)** The **ESF** agrees with the audit recommendation.	Actioned : Draft School Circular with detailed procedures has been prepared. This requires consultation with Academic Committee and is expected to be formally issued by 20 January 2005.

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(Page 95 – Item 7.16) Audit has *recommended* that, before offering appointment to applicants for school posts, the ESF should require its schools to: (a) submit the assessment forms and other relevant records (e.g. résumé) of the applicants to their councils for review; and (b) request their councils to endorse the most suitable applicant for appointment.	**(Page 95 – Item 7.17)** The **ESF** generally agrees with the audit recommendations. It has stated that: (a) the tight time-frame for offering appointments sometimes makes it impossible to convene school council meetings. Therefore, authority is vested with the principals; (b) given the large number of applicants for many ESF posts, and the large number of posts which may be vacant in a large school, it is impractical to involve school councils in reviewing **all** applications in the necessary time-scale. However, it acknowledges the need for school councils' involvement in decisions on staff appointments; and (c) an option being considered is that an appointments sub-group of school council is established to ratify the appointments.	Actioned : Draft School Circular with detailed procedures has been prepared. This requires consultation with Academic Committee and is expected to be formally issued by 24 January 2005.
(Page 98 – Item 7.27) Audit has *recommended* that the ESF should: (a) set guidelines on the conduct of performance appraisal of different ranks of school staff; and (b) require its schools to: (i) set up a formal performance appraisal system based on the guidelines; and	**(Page 99 – Item 7.28)** The **ESF** agrees with the audit recommendations. It has stated that: (a) the guidelines on the conduct of performance appraisal will be established through the relevant committees of the Foundation; and (b) as regards the setting up of a formal performance appraisal system based on the guidelines and the conduct of regular performance appraisals of school staff, these are stated initiatives in the ESF's	Plans put into place to have comprehensive Performance Development Plans for all staff by September 2006.

(ii) conduct regular performance appraisals of school staff.	Development Plan 2004-07 which will be processed through the relevant committees of the Foundation.	
(Page 99 – Item 7.32) Audit has *recommended* that the ESF should consider devising a mechanism for awarding salary increments to its staff.	**(Page 99 – Item 7.33)** The **ESF** agrees in principle with the audit recommendation and has stated that 74% of ESF staff are on the maximum incremental point.	Implementation of this recommendation is dependent on the future introduction of the proposed Performance Development Plans for staff. (see Item 7.27).
(Page 100 – Item 7.38) Audit has *recommended* that the ESF should: (a) ensure that candidates on its supply teacher list have met the requirements of the Education Ordinance on teacher registration so that they can be readily appointed as supply teachers;	**(Page 101 – Item 7.39)** The **ESF** generally agrees with the audit recommendations. It has stated that: (a) it regularly asks its supply teachers without registration to declare whether they are applying for the registration. Out of the 20 teachers who remained unregistered by June 2004 (when this audit was completed), 14 had declared that they were applying for the registration, 3 of whom had obtained it as of September 2004. Furthermore, 9 out of the 20 teachers without registration are no longer on the ESF's list of supply teachers of September 2004;	To be reviewed by April 2005 for implementation by September 2005.
(b) ascertain whether individual schools have appointed supply teachers contrary to the requirements of the Education Ordinance on teacher registration, and seek the advice of the Education and Manpower Bureau on whether covering approval needs to be obtained; and	(b) the establishment and utilisation of the supply teacher lists is now being reviewed. However, it has to be recognised that it takes some time to complete the teacher registration process; and	To be reviewed by April 2005 for implementation by September 2005.
(c) remind regularly its schools of the need to observe the requirements of the Education Ordinance on teacher registration in the appointment of supply	(c) when specialist subject teachers, who are in short supply, are required as cover, the needs of the school and its students may have to be considered as having priority.	To be reviewed by April 2005 for implementation by September 2005.

teachers.	The ESF has insisted that the policy on the employment of only qualified teachers is strictly enforced. The ESF will give serious consideration to establishing a centrally administered supply teacher list, which enables not only the credentials of supply teachers to be verified, but also their quality to be ensured.	
Part 8 : Other Income and Support (Page 103 – Item 8.8) Audit has *recommended* that the ESF should: (a) request its schools to examine whether it is necessary to promote the availability of their premises and facilities for hiring by outsiders; and (b) regularly review the schedule of charges for hiring of school premises and facilities to ensure that the charges are appropriate.	**(Page 103 – Item 8.9)** The **ESF** generally agrees with the audit recommendations and has stated that schools' size, facilities and location have an impact on their letting income.	Actioned : This has been policy since the early 1990s; School Circular No.50 refers. The guidelines for hiring charges will be revised by 22 February 2005.
(Page 105 – Item 8.15) Audit has *recommended* that the ESF should encourage its schools to actively pursue the opportunities which are available to them from the QEF.	**(Page 105 – Item 8.16)** The **ESF** agrees to disseminate information about the QEF to its schools. It has stated that it has encouraged its schools to make QEF bids and will reiterate this in writing.	A letter will be sent to Principals by 31 January 2005.
(Page 106 – Item 8.21) Audit has *recommended* that the ESF should consider liaising with the EMB to disseminate the experiences and good practices of PTAs of ESF schools to the local education sector.	**(Page 106 – Item 8.22)** The **ESF** agrees with the audit recommendation.	Actioned : contact with EMB representative established on 7 January 2005.