



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

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11 December 2010

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

By Fax (No. 2537 1204)

Dear Ms Hon,

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

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

Further to my letter dated 10 December 2010 on the above matter,
please find enclosed Annexes A to C.

Yours sincerely,

(Mrs. Michelle WONG)
for Secretary for Education

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

Fee Remission Related

Response to

- the letter of 1 December 2010 from Public Accounts Committee regarding paragraph 1(e) (ii)

(e) regarding the 22 schools listed out in Table 1 in paragraph 3.3(b) of Chapter 2:

- (i) what the average monthly school fees received by each of the schools in 2008/09 were. Please break down the schools according to the ranges of “underprovided amount” set out in Table 1; and
- (ii) besides the school mentioned in paragraph 3.4, the number of years during which the remaining 21 schools did not set aside sufficient school fee income for running their fee remission/scholarship schemes;

- the letter of 3 December 2010 from Public Accounts Committee regarding paragraph 1(a)

(a) Table 1 of Chapter 2 showed that the amounts of school fee income set aside by 22 schools for their fee remission/scholarship schemes were less than those required according to the levels of their school fees. It was mentioned at the hearing that although the Education Bureau (“EDB”) had detected the problem of underprovision, it had applied flexibility in determining whether the schools concerned had set aside sufficient money for the purpose of running their fee remission/scholarship schemes, such as allowing the schools to fund the schemes from sources other than school fees.

Please explain in detail the mechanism of and the criteria adopted by the EDB for determining whether or not Direct Subsidy Scheme (“DSS”) schools have complied with the EDB’s requirements on the funding of school fee remission/scholarship schemes, including those set out in paragraph 3.2 of Chapter 2. Please also explain the flexibility allowed and the relevant justifications

- **the letter of 6 December 2010 from Public Accounts Committee regarding paragraphs 4(a) to 4(d)**

- (a) *in addition to the average monthly school fees received by the schools in 2008/09 (which was sought under item (e)(i) of my letter of 1 December 2010), please also provide the average annual school fees charged by the schools as well as their annual school fees (if they charge different amounts for different class levels, please list out the details);*
- (b) *whether the schools should set aside their school fee income for their fee remission/scholarship schemes according to the criteria mentioned in paragraph 3.2(a) or 3.2(b) of Chapter 2;*
- (c) *the actual amount of underprovision; and*
- (d) *the utilization rate of the schools' fee remission/scholarship schemes in 2008/09.*

Mechanism of and criteria adopted by the Education Bureau (EDB) for determining whether or not Direct Subsidy Scheme (DSS) schools have complied with EDB's requirement on the funding of school fee remission/scholarship schemes

1. For the purpose of running a fee remission / scholarship scheme, DSS schools are required to set aside-

- (a) 10% of the school fee income; or
- (b) 50% of the amount of school fee which exceeds two-third of the DSS subsidy rate if the school fee is between the range of 2/3 (two-third) and 2 1/3 (two and one-third) of the DSS subsidy rate,

whichever is the higher.

2. In the course of examining the annual audited accounts of DSS schools each year, EDB would check whether all schools have set aside in the year concerned a provision for fee remission/scholarship scheme not less than the minimum 10% of the school fee income. For those provisions above 10%, EDB counts on DSS schools' external auditor to check if schools comply with the requirements. If there is any shortfall, EDB Regional Education Offices

(REO) would follow up with the schools concerned and request them to rectify and make good the shortfall. In fact, EDB has recently conducted a detailed check on the internal records of the ten schools which satisfied the criteria under paragraph 1(b) above and are among the 22 schools as identified by the Audit Commission (Audit) which have made inadequate provision for fee remission/scholarship scheme. Out of these ten schools, only one school has not complied with the requirement due to misinterpretation.

Differences in the assessment between Audit and EDB regarding compliance with the above requirement

3. We note that in applying criteria under paragraph 1(b) in its calculations, Audit has used 2008/09 projected DSS subsidy rate and the snapshot of enrolment figures as of 30 September 2008, whereas EDB assesses with reference to the 2008/09 finalized DSS subsidy rate and actual enrolment figures adopted by most schools as the basis.

4. Noting that different schools may have adopted, having regard to their unique circumstances, different accounting practices, we have adopted a practical approach to assessing whether the requirement of setting aside sufficient financial provision for the purpose of fee remission/scholarship scheme has been met. Nevertheless, in so doing, we bear in mind the objective of ensuring adequate provision for needy students. Hence, while ensuring compliance with the requirement, we allow some reasonable variation in respect of the account to which fee remission/scholarship scheme is charged. Specifically, apart from direct deduction of the required provision from the school fee income, we would also allow the school to make alternative arrangements to set aside the required amount from other funding sources, including but not limiting to accumulated reserve balance, bursaries as well as scholarship /fee remission expenses paid during the year from the Income & Expenditure Account. In addition, we also accept schools using actual school fees paid by students (i.e. after fee remission) for setting aside sufficient amount as required under the criteria under paragraphs 1(a) or 1(b) above.

5. The EDB also allows under-provision of an insignificant amount, say 0.01% (in one case the difference is only \$10 and in another it is around \$1,000 in 2008/09).

Differences in the assessment findings

6. According to the findings of the Audit in Table 1 of Chapter 2, 22 DSS schools have under-provided fee remission/scholarship scheme in their 2008-09 accounts in varying degrees ranging from \$1 to above \$1 million. Upon cross-checking with Audit's findings, we have found that 16 out of the said 22 DSS schools were considered to have made adequate provisions for fee remission/scholarship scheme purpose in 2008/09 accounts. This difference in assessment is all but one due to the reasons listed in paragraphs 3 to 5 above. Specifically these 16 schools can be accounted for as follows:

- (a) paragraph 3: eight schools;
- (b) paragraph 4: five schools;
- (c) paragraph 5: two schools;
- (d) for the case of Hang Seng School of Commerce, EDB has only taken into account the tuition fee income for 2008/09 in respect of Form Six / Seven under DSS while Audit has used the total fee income which also covered tuition fee income from pre-associate / associate / top-up degrees as well, hence giving rise to a significant difference in the amount required for fee remission/ scholarship scheme.

7. For the remaining six schools with under-provision of fee remission/scholarship scheme according to both EDB's assessment and Audit's observation in its report, we have already informed them and they have all agreed to top up funding in their 2009/10 accounts to make good the shortfall. Of these six schools with under-provision of fee remission/scholarship scheme, three had not set aside the required amount for fee remission/ scholarship scheme in 2006/07, 2007/08 and 2008/09.

8. In response to the Public Accounts Committee Members' request in paragraphs 4(a) to 4(d) of LegCo's letter dated 6.12.2010, we provide in the Appendix to **Annex A-1** the following information on the 22 schools which are mentioned in Table 1 of Chapter 2 –

- (a) the criteria for setting aside fee remission/scholarship scheme;
- (b) the annual school fee income in 2008/09;

- (c) the actual amount of under-provision in 2008/09 per Audit's calculations;
- (d) the actual amount of under-provision in 2008/09 per EDB's calculations;
- (e) the utilisation rate in 2008/09 per EDB's calculations; and
- (f) the reasons for discrepancies between (c) and (d).

Way forward

9. To avoid misunderstanding arising from different interpretations of the requirements for fee remission/scholarship scheme, we undertake to refine the guidelines with a view to clarifying and standardising the practice.

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

(f) the actions that had been taken by the EDB since September 2005 to ensure that the school mentioned in paragraph 3.4 of Chapter 2 will set aside sufficient amount of school fee income for running its fee remission/scholarship scheme and the school's response

1. The school is operated in a DSS through-train mode. Its primary and secondary sections started operation in September 2002 and September 2003 respectively.
2. Through checking of school's 2002/03 audit accounts in the 2004/05 school year, EDB started to find out that the school did not set aside the required amount of school fee income for its fee remission/scholarship scheme. We advised the school for rectification on 8 September 2005 accordingly. However, we found the same mal-practice through checking of school's audited accounts in the subsequent four years. Hence, EDB has written to school for a number of times in February 2007, October 2007, November 2008, September 2009 and August 2010 to request for necessary rectification. School finally replied in September 2010 saying that school has set aside the required amount of fee remission. Although the school has committed to set aside the required amount of fee remission, it has not made rectification for the other mal-practices identified. Hence, EDB issued a warning letter to school on 12 November 2010. In response, the school gave EDB a reply to EDB dated 23 November 2010. EDB is studying the school's response and will continue to liaise closely with the school to follow up the issues.

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

(b) according to paragraph 3.14 of Chapter 2, only two of the schools visited by Audit had mentioned their fee remission/scholarship schemes in their prospectuses. Please provide a copy of the relevant parts in the service agreements signed by the school governing bodies of these two schools as well as the relevant parts in their school prospectuses showing details of their fee remission/scholarship schemes

- Please refer to Annexes A-2 to A-5 for School 1's information and Annexes A-6 to A-9 for School 2's information.

***Note by Clerk, PAC:** *Annexes A-2 to A-5, and Annexes A-6, A-7 and A-9 not attached.*

Relevant Information of the 22 Direct Subsidy Schemes Schools mentioned in Table 1 of Chapter 2

School No.	Criteria for setting aside fee remission /scholarship scheme	Annual school fee income in 2008/09	Actual amount of under-provision in 2008/09 per Audit Commission's	Actual amount of under-provision in 2008/09 per EDB's calculations	Utilisation rate in 2008/09 per EDB's calculations	Reasons for discrepancies between columns (c) and (d) (Note)
	\$ (a)	\$ (b)	\$ (c)	\$ (d)	% (e)	(f)
<u>\$1 to < \$50,000 under-provided per Audit Commission's classification / calculations: -</u>						
1	10% (paragraph 3.2(a))	2,666,610	26,021	Nil	90%	(ii)
2	more than 10% (paragraph 3.2(b))	37,108,900	46,395	Nil	6%	(i)
3	10% (paragraph 3.2(a))	12,110,994	1,099	Nil	88%	(iii)
4	more than 10% (paragraph 3.2(b))	16,741,700	37,952	Nil	23%	(i)
5	10% (paragraph 3.2(a))	1,353,000	43,800	Nil	63%	(ii)
6	10% (paragraph 3.2(a))	28,004,700	10	Nil	46%	(iii)
7	10% (paragraph 3.2(a))	4,654,975	48,828	48,828	90%	Under-provided
8	more than 10% (paragraph 3.2(b))	22,130,414	13,690	Nil	100%	(i)
9	10% (paragraph 3.2(a))	6,539,454	27,365	27,365	96%	Under-provided
10	10% (paragraph 3.2(a))	1,612,687	38,434	Nil	100%	(ii)
<u>\$50,000 to < \$250,000 under-provided per Audit Commission's classification / calculations: -</u>						
11	more than 10% (paragraph 3.2(b))	26,588,557	201,700	Nil	35%	(i)
12	more than 10% (paragraph 3.2(b))	51,760,150	51,448	Nil	60%	(i)
13	more than 10% (paragraph 3.2(b))	40,413,650	61,244	65,124	67%	Under-provided
14	more than 10% (paragraph 3.2(b))	16,125,900	226,355	Nil	20%	(i)
15	10% (paragraph 3.2(a))	11,403,540	62,128	Nil	100%	(ii)
<u>\$250,000 to < \$500,000 under-provided per Audit Commission's classification / calculations: -</u>						
16	more than 10% (paragraph 3.2(b))	36,024,000	311,625	Nil	44%	(i)
17 *	10% (paragraph 3.2(a))	14,036,050	381,130	381,130	73%	Under-provided

Relevant Information of the 22 Direct Subsidy Schemes Schools mentioned in Table 1 of Chapter 2

School No.	Criteria for setting aside fee remission /scholarship scheme	Annual school fee income in 2008/09	Actual amount of under-provision in 2008/09 per Audit Commission's	Actual amount of under-provision in 2008/09 per EDB's calculations	Utilisation rate in 2008/09 per EDB's calculations	Reasons for discrepancies between columns (c) and (d) (Note)
	\$ (a)	\$ (b)	\$ (c)	\$ (d)	% (e)	(f)
<u>\$500,000 to < \$750,000 under-provided per Audit Commission's classification / calculations: -</u>						
18	more than 10% (paragraph 3.2(b))	15,259,825	578,473	Nil	53%	(ii)
19	more than 10% (paragraph 3.2(b))	58,002,000	697,803	Nil	100%	(i)
<u>\$750,000 to < \$1 million under-provided per Audit Commission's classification / calculations: -</u>						
20	10% (paragraph 3.2(a))	4,244,400	856,165	Nil	100%	(iv)
21 *	10% (paragraph 3.2(a))	19,490,416	931,491	931,491	52%	Under-provided
<u>\$1 million and above under-provided per Audit Commission's classification / calculations: -</u>						
22 *	10% (paragraph 3.2(a))	40,028,000	3,056,950	3,056,950	24%	Under-provided

* Not meeting fee remission / scholarship scheme requirement in three consecutive years for 2006/07, 2007/08 and 2008/09.

Note: Reasons for discrepancy

(i) In its calculations when applying the criteria under paragraph 1(b) of Annex A, Audit has used 2008/09 projected DSS subsidy rate and the snapshot of enrolment figures as of 30 September 2008, whereas EDB assesses with reference to the 2008/09 finalized DSS subsidy rate and actual enrolment figures adopted by most schools as the basis.

(ii) Apart from direct deduction of the required provision from the school fee income, EDB would also allow the school to make alternative arrangements to set aside the required amount from other funding sources, including but not limiting to accumulated reserve balance, bursaries as well as scholarship /fee remission expenses paid during the year from the Income & Expenditure Account. In addition, EDB also accepts schools using actual school fees received (i.e. after fee remission) for setting aside sufficient amount as required under the criteria under paragraphs 1(a) or 1(b) of Annex A.

(iii) Under-provision of an insignificant amount. The differences in school no. 3 and 6 are around \$1,000 and \$10 respectively.

(iv) EDB has only taken into account the tuition fee income for 2008/09 in respect of Form Six / Seven under DSS while Audit has used the total fee income which also covered tuition fee income from pre-associate / associate / top-up degrees as well, hence giving rise to a significant difference in the amount required for fee remission/ scholarship scheme.

School 2 / 學校 2

Fee Remission Scheme

To ensure that students will not be deprived of their opportunity to study at [REDACTED] School because of financial difficulty, our school offers a fee remission scheme to those in need. Depending on the applicant's financial situations, the scheme offers remissions from 25% up to 100% of the school fee.

Procedures for the application for Fee Remission

1. Application is open throughout the year. Parents who want to apply for Fee Remission have to write in for an application form.
2. An application form will be issued after the letter has been submitted to the office.
3. Applicant has to submit the completed application form with supporting documents within one week.

All cases are considered on an individual basis. Applicants should ensure that all information submitted is true and accurate.

Eligible applications are to be approved by the Supervisor. Successful applicants and the amount of remission will be notified individually in three to four weeks. Please note that remission, if granted, is only valid for the current academic year and a new submission must be made for any subsequent years.

On request, the applicant must provide proof of information for validation.

(SECONDARY SECTION)

DIRECT SUBSIDY SCHEME (DSS) FINANCIAL ASSISTANCE

Fee Remission Reckoner

2010-2011

Reckoner

1. This Reckoner is adopted in assessing the eligibility of students for the 2010/2011 school year, points will be awarded on two aspects – family income and dependants.

2. (I) Average Monthly Family Income from All Sources

Average monthly family income means:

Applicant family's total salary, allowances and other income (see Note 1) during the 12 months from April 2009 to March 2010 divided by 12.

Average Monthly Income \$	Point
0 – 5,145	20
5,146 – 7,035	16
7,036 – 8,925	12
8,926 – 10,710	8
10,711 – 12,495	5
12,496 – 14,385	4
14,386 – 15,855	3
15,856 – 17,220	2
17,221 – 18,690	1
18,691 – 20,160	0
20,161 – 21,945	-1
21,946 – 23,835	-2
23,836 – 24,886	-3
Over 24,886	discretion

(II) Dependents

Dependent #	Point Score for Each Dependent	
Applicant's Spouse	1	
Dependent Parent	1	
Dependent Children (including student-applicant) :	Aided	DSS
Attending full-time senior secondary course (S4-S7) and full-time Springboard Programme	1	4
Receiving full-time education up to first degree (including pre-primary education, primary to junior secondary education (P1-S3), VTC, IVE, post-secondary courses, etc) (see Note 2 & 3)	1	3
Attending evening/part-time/special training courses <u>OR</u> not attending schools (see Note 4)	under 18	over 18
	1	0

Dependents in receipt of Comprehensive Social Security Assistance (excluding Old Age Allowance and Disability Allowance) are not eligible for any point score.

3. Level of Assistance

Point Score	Fee Remission %
18 or above	100%
12 - 17	75%
8 - 11	50%
5 - 7	25%
4 or below	0%

Note 1: Income from All Sources

A: Income that will be assessed	B:* Income <u>that will not be</u> assessed
<ol style="list-style-type: none"> 1. Basic salary (including contributions to provident fund, e.g. MPF) 2. Year-end double pay 3. Allowance (including housing / travel / meals / education / shift allowance, etc) 4. Leave pay / pay in lieu of leave 5. Bonus 6. Commission 7. Wages in lieu of notice of dismissal 8. Profit from business / investment 9. Interest earned from bank deposits, stocks & Shares, etc 10. Rent earned from property 11. Monthly pension / widow's & children's compensation / gratuity 12. Contribution from family members or relatives 13. Alimony/living expenses from ex-spouse 14. Retraining allowance 	<ol style="list-style-type: none"> 1. Old age allowance 2. Disability allowance 3. One-off retirement gratuity / provident fund 4. Severance pay 5. Traffic accident indemnity 6. Insurance indemnity 7. Injury indemnity 8. Long service payment / contract gratuity 9. Inheritance 10. Charity donations 11. Comprehensive Social Security Assistance 12. Loans

* Income drawn under column B, though not assessed, should be listed in the application form for reference.

Note 2 : Full-time Education

Full time education is defined as day courses lasting for 1 year or more, with 5 meetings per week, each lasting more than 3 hours.

Note 3 : Vocational, Technical and Post-secondary Institutes Operating Full-time Courses

Hong Kong Institute of Vocational Education (Formerly known as Technical Institutes/Technical Colleges)
Vocational Training Centre
Construction Industry Training Authority
Clothing Industry Training Authority
Skills Centre
The Hong Kong Academy for Performing Arts
Commercial schools
Hong Kong Institute of Education
Other post-secondary/tertiary institutions

Note 4 : Vocational or Special Training Institutes Operating Part-time Courses

School of Education attached to universities
The Prince Philip Dental Hospital
Schools of nursing
Police Training School
Private organizations/schools offering apprenticeship
Seminary, etc.

Fee Revision Related

Response to the letter of 3 December 2010 from Public Accounts Committee regarding paragraphs 1(c) and 1(e)

(c) regarding the revision of school fees:

- (i) the criteria adopted by the EDB for approving or rejecting DSS schools' applications for increasing school fees; and*
 - (ii) the respective numbers of applications for increasing school fees which had been rejected and those with the level of increase reduced since the introduction of the DSS, as well as the reasons for rejecting the applications and requiring a reduced level of increase*
- (e) Please also explain the mechanism in place to ensure that the financial projections made by DSS schools in their applications to increase school fees were fair and reasonable*

Regarding items (c) (i) & (e)

The major considerations for assessing the fee revision applications are:

- (i) the financial situation of the school (e.g. the amount of operating reserve available and the budget for the coming year);
 - (ii) the reasons and justifications for the fee revision; and
 - (iii) the due process with regard to the consultation with parents.
2. To ensure consistency in vetting applications for fee revision, a set of internal guidelines with criteria for vetting fee revision applications has been devised. These criteria are summarised as follows:

- (i) For schools intending to apply for fee increase and with total accumulated surplus more than one-year's operating expenses, Regional Education Office (REO) would only approve the fee increase for schools having strong and reasonable justifications and satisfied the due process with respect to parent consultation;
- (ii) In considering whether the applicant school has a large accumulated surplus, REO may take into consideration other factors, e.g. whether

- (a) the surplus shown in the audited accounts for the preceding year has already been spent in the current school year; or (b) substantial portions of the surplus are in fact donations earmarked for specific purposes. REO would also examine if there is substantial increase in any expenditure items which would warrant an explanation;
- (iii) For irregular items identified by the Finance Division (FD) of the Bureau during the fee assessment such as high bonus payments, REO would ask school to provide supporting materials and justifications. If schools are not able to provide justifiable reasons for such expenditure items, and the inclusion of such expenditure items will have substantial impact on the level of fee increase (e.g. inclusion of these expenditure items may lead to the situation whereby the school is unable to meet the 2-month operating expenses requirement), consideration should be given to whether such items should be excluded from the expenditure lists in assessing the justifications;
- (iv) With regard to parent consultation, REO would assess, (a) whether the schools have sought consent from parents; and (b) whether they have properly addressed the concerns of the parents. Details of the consultation arrangements are as follows:
- ✧ For fee increase exceeding the percentage threshold set by the EDB (i.e. 7% for 2009 and 2010), the applicant is required to obtain consent from the majority of the parents, i.e. three-quarter or more of the total number of respondents in the survey or parents present in the meeting who agree to the proposed fee increase;
 - ✧ For schools with total accumulated surplus exceeding one year's operating expenses applying for fee increase, consent should be obtained from the majority of parents, i.e. three-quarter or more of the total number of respondents in the survey or parents present in the meeting who agree to the proposed fee increase; and
 - ✧ For schools intending to apply for fee increase of not exceeding the threshold and with total accumulated surplus less than one year's operating expenses, they should at least consult their Parent Teacher Associations/parent representatives.

3. Every year, before the annual fee revision exercise, a briefing session is organized for REO colleagues to help them get a better understanding of the internal guidelines. This would again help achieve consistency in vetting applications for fee revision by DSS schools. Where required, meetings are held between REO, the FD and the policy section of the DSS to consider complicated cases.

4. In sum, after REO's initial vetting, all the fee applications are passed to FD for their professional comments. Based on REO's initial vetting and the scrutiny of the schools' audited accounts, FD would spot out irregular items such as high bonus payments for follow-up by REO (please refer to para.2(iii) above for elaboration of the follow-up action).

Regarding (c)(ii)

Table 1: Number of Schools under Direct Subsidy Scheme with Fee Increase Applications Rejected for 2008/09 to 2010/11 school years			
School Year	Number of Schools		Main Reasons for Rejection
	Applications for Fee Increase wholly Rejected	Applications for Fee Increase Partially Rejected	
2008/09	1	2	<ul style="list-style-type: none">• School failed to provide the relevant audited account for EDB to review the financial situation of the school;• School possessed sufficient accumulated surplus and failed to provide strong justifications; and• School failed to provide concrete evidence showing that parents had full understanding of the reasons for fee increase.
2009/10	0	0	
2010/11	2	0	

Table 2: Number of Schools under Dss that were Granted Approval Subject to Reduced Level of Fee Increase for 2008/09 to 2010/11 school years		
School Year	Number of Schools	Main Reasons for Requiring Schools to Reduce Level of Fee Increase
2008/09	0	<ul style="list-style-type: none">• Taking into account the school's accumulated surplus and justifications, reduction of fee increase is necessary; and• School was requested to take into consideration parent's affordability for the proposed increase of fees.
2009/10	2	
2010/11	0	

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

- (d) *according to paragraph 4.3 of Chapter 2, for 2008/09 and 2009/10, the EDB approved 30 and 18 applications respectively for school fee increases. In this regard:*
- (i) *what the levels of operating reserves of each of the above schools at the time when they applied for school fee increases were;*
 - (ii) *whether the above schools included the ones referred to in Table 6 in paragraph 5.3(b); and*
 - (iii) *for the two schools with the highest levels of approved school fee increases (i.e. with an increase from \$4,500 to \$22,000 and from \$48,000 to \$60,000), please provide a copy of the documents issued by the schools to obtain consent from parents for increasing the school fees*

Regarding paragraph 1 (d) (i) &(ii)

EDB requires schools to maintain operating reserve sufficient to meet at least two months' operating expenses all the time. We also consider that an operating reserve between two to 12 months of a school's operating expenses is reasonable. The levels of operating reserves of the schools at the time when they applied for school fee increases are listed in table below:

	<u>2008/09</u>	<u>2009/10</u>
Fee Application cases	30	18
Operating reserve of schools*		
Based on audited accounts	<u>2006/07</u>	<u>2007/08</u>
Reserve level (at equivalent no. of monthly expenditure)		
Deficit	3	3
0 - 2 months	6	2
Above 2 months to 12 months	18	12
Above 12 to 14 months	2	1
2006/07 information not available as it is a new DSS school in 2007/08	<u>1</u>	<u>0</u>
Total	30	18

* schools have to submit their audited accounts of last year, the revised estimate of current year and the budget for next year to EDB for fee assessment. The operating reserves of these three years will be taken into account.

2. Table 6 in paragraph 5.3(b) includes operating reserve of 64 schools as at 31 August 2009. One school out of the 30 schools and three schools out of the 18 schools listed above are not on the list of the said 64 schools.

Regarding paragraph 1 (d) (iii)

(iii) for the two schools with the highest levels of approved school fee increases (i.e. with an increase from \$4,500 to \$22,000 and from \$48,000 to \$60,000), please provide a copy of the documents issued by the schools to obtain consent from parents for increasing the school fees

Document 1 (for the school with an increase of school fee from \$4,500 to \$22,000)

16th January 2009

22/F, Landmark North,
39, Lung Sum Avenue,
Sheung Shui, N.T.

Dear Ms Chung,

Application for Adjustment of School Fees for the 2008/09 School Year

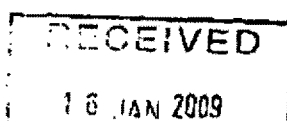
I refer to your letter dated 8th January 2009 advising us the contents of the letter to be issued to our parents.

I advise that we have tabled the attached letter for discussion in our PTA Executive Committee meeting held on 9th January 2009. The parents present in the meeting did not have any negative comments on the letter. On 12th January 2009 we have issued it to all of our parents.

I will keep you updated on 23rd January 2009. By then we would confirm if the parents affected would have any concerns and how we would have addressed them.

Yours sincerely,

Principal



12th January 2009

Dear Parents,

Update on Application for Adjustment of School Fees

Since the last School Year 2007-08, we have communicated with you in several occasions explaining our application to the Education Bureau (EDB) for the school fee adjustment. This includes our discussion in the Executive Committee meetings of PTA (on 12th October 2007, 27th June 2008 and 28th November 2008 respectively) and our letters to the parents (dated 29th November 2007 and 17th September 2008 respectively). We were pleased to receive acknowledgement of our cause of fee adjustment and our request for support of our cause from each and every family of the students, and that has been communicated to EDB.

EDB has been hesitant in granting us approval for our application despite that we confirmed and re-confirmed to them that we have carried out the due process in informing and explaining to our parents, and indicating to them the proper channel for feedback and query.

In our last round of negotiation with EDB on 18th December 2008 in the presence of the Principal Assistant Secretary at the headquarters of EDB, we have come to a consensus that the following actions would be required:

- a) There is no increase for Form 6 school fee in 2008-09. (Refund will be arranged once we receive confirmation from EDB, and the details will be advised to the parents concerned under separate cover).
- b) Our school has to ensure that there is no concern from the Form 1 Parents regarding the school fee adjustment which applies to Form 1 in 2008-09 and works progressively in Form 2 and beyond in the subsequent years. And if there is any, our school has ways to address them properly.
- c) Our school is required to inform EDB by the middle of January that the above requirements have been carried out so that they would consider our application.

In this regard, if you have any concern about our application for fee adjustment, please write in the form attached and sent it to the undersigned on or before 22nd January 2009. Otherwise, we will reply to EDB that our parents do not have any concern about our application for school fee adjustment, as we have informed and explained to them.

We would also take this opportunity to reiterate that it is our policy to encourage our students to work towards excellence in their formation and to provide financial assistance to those who are in need. We pledge to continue with this policy in future, as what we have upheld in the past years. For details, please refer to the attachment of this letter.

We feel sorry to bother our parents again on this issue, but sincerely hope our parents understand our current situation and support our cause in providing quality education to our students. Please refer to the Financial Summary in our School Annual Report 2007-08 posted on our website. Should parents require further information or assistance on this, please free feel contact

Yours sincerely,

Principal

To : L. _____
Principal

From : _____ (Parent's Name)
Parent of _____ (Student's Name) in _____ (Class)

Date : _____

Re : Response to Letter on Adjustment of School Fees dated 12th January 2009

Comments:

(Parent's Signature)

Scholarships and Grants

The policy of our school is to encourage our students to work towards excellence in their formation and to provide financial assistance to those who are in need. We offer scholarships and grants to eligible students, who are the best suited to and would benefit from our programmes.

(A) Scholarships

Form 1 – 3 Potential Development Scholarships

Form 4 – 5 Potential Development Scholarships

Form 6 – 7 Potential Development Scholarships

(B) Progress Grants

Form 1 Progress Grants

Form 2 Progress Grants

Form 3 Progress Grants

Form 4 Progress Grants

Form 5 Progress Grants

Form 6 Progress Grants

Form 7 Progress Grants

(C) Special Progress Grants

Special Progress Grants for Form 6

Special Progress Grants for Form 5

Special Progress Grants for Form 4

Special Progress Grants for Form 2/3

(D) AWE (Activity Week Experience) Scholarships and Grants

AWE Scholarships

AWE Grants

Scholarships and Grants

(A) Scholarships

Form 1 – 3 Potential Development Scholarships

Purpose

To encourage Primary 6 students with outstanding qualities, such as achieving straight A in core subjects and high order achievements in extracurricular activities.

Amount

Full amount of the school fees for studying from Form 1 to Form 3, renewable upon a satisfactory review of the student's performance at the end of the school year. (Based on the current annual school fee of \$22,000* for Form 1 in 2008-09, the total amount of this scholarship is \$66,000 per student.)

Awarding Criteria

Candidates should show the highest level of attainment academically in English, Chinese and Mathematics, and produce a portfolio of extracurricular activity participation and achievement. Proof of other special talents could also be provided.

Form 4 – 5 Potential Development Scholarships

Purpose

To encourage students in Form 3 excelling in academic achievement to continue with Form 4-5 studies and finish their HKCEE in our school.

Amount

Full amount of the school fees for studying in Form 4 and Form 5, renewable upon a satisfactory review of the student's performance at the end of each school year.

Awarding Criteria

Candidates should obtain the best year end results in Form 3, together with a satisfactory standard of conduct. Other criteria include participation in extracurricular activities and service.

* Subject to approval by the Education Bureau

Scholarships and Grants

Form 6 – 7 Potential Development Scholarships

Purpose

To commend students who attain a high scoring in HKCEE and to encourage them to continue their studies for the HKAL in our school.

Amount

Full amount of the school fees for studying in Form 6 and Form 7, renewable upon a satisfactory review of the student's performance at the end of each school year.

Awarding Criteria

Candidates should obtain at least 20 points in 6 best subjects. Only the top students will be selected for the award. Candidates should also reach a satisfactory conduct standard, and be able to contribute to school activities in Form 6-7.

(B) Progress Grants

Form 1 Progress Grants

Purpose

To support students with financial difficulties who are not qualified in other awards but are making substantial progress academically.

Amount

Full or half of the amount of annual school fee for studying in Form 1. (Based on the current annual school fee of \$22,000¹ for Form 1 in 2008-09, the full grant is \$22,000 per annum and the half grant is \$11,000 per annum.)

Application Procedure

Students could apply for the Grant by completing the Progress Grant Application Form when they register for admission to Form 1 in our school. Eligible candidates should show a) proof of financial needs, b) substantial/sustained improvement in their academic performance and c) satisfactory conduct record.

¹ Subject to approval by the Education Bureau

Scholarships and Grants

Form 2 Progress Grants

Purpose

To support students with financial difficulties who are not qualified in other awards but are making substantial progress academically.

Amount

Full or half of the amount of annual school fee for studying in Form 2.

Application Procedure

Students could apply for the Grant by completing the Progress Grant Application Form after the release of the year end results at the end of the school year of Form 1. Eligible candidates should show a) proof of financial needs, b) substantial/sustained improvement in their academic performance and c) satisfactory conduct record.

Form 3 Progress Grants

Purpose

To support students with financial difficulties who are not qualified in other awards but are making substantial progress academically.

Amount

Full or half of the amount of annual school fee for studying in Form 3.

Application Procedure

Students could apply for the Grant by completing the Progress Grant Application Form after the release of the year end results at the end of the school year of Form 2. Eligible candidates should show a) proof of financial needs, b) substantial/sustained improvement in their academic performance and c) satisfactory conduct record.

Scholarships and Grants

Form 4 Progress Grants

Purpose

To support students with financial difficulties who are not qualified in other awards but are making substantial progress academically.

Amount

Full or half of the amount of annual school fee for studying in Form 4.

Application Procedure

Students could apply for the Grant by completing the Progress Grant Application Form after the release of the year end results at the end of the school year of Form 3. Eligible candidates should show a) proof of financial needs, b) substantial/sustained improvement in their academic performance and c) satisfactory conduct record.

Form 5 Progress Grants

Purpose

To support students with financial difficulties who are not qualified in other awards but are making substantial progress academically.

Amount

Full or half of the amount of annual school fee for studying in Form 5.

Application Procedure

Students could apply for the Grant by completing the Progress Grant Application Form after the release of the year end results at the end of the school year of Form 4. Eligible candidates should show a) proof of financial needs, b) substantial/sustained improvement in their academic performance and c) satisfactory conduct record.

Scholarships and Grants

Form 6 Progress Grants

Purpose

To support students with financial difficulties who are not qualified in other awards but are making substantial progress academically.

Amount

Full or half of the amount of annual school fee for studying in Form 6.

Application Procedure

Students could apply for the Grant by completing the Progress Grant Application Form when they register for admission to Form 6 in our school. Eligible candidates should show a) proof of financial needs, b) substantial/sustained improvement in their academic performance and c) satisfactory conduct record.

Form 7 Progress Grants

Purpose

To support students with financial difficulties who are not qualified in other awards but are making substantial progress academically.

Amount

Full or half of the amount of annual school fee for studying in Form 7.

Application Procedure

Students could apply for the Grant by completing the Progress Grant Application Form after the release of the year end results at the end of the school year of Form 6. Eligible candidates should show a) proof of financial needs, b) substantial/sustained improvement in their academic performance and c) satisfactory conduct record.

Scholarships and Grants

(C) Special Progress Grants

Special Progress Grants for Form 6

Purpose

To commend students who attain a good scoring in HKCEE but not meeting the requirement for the Potential Development Scholarship, and to encourage them to continue their studies for the HKAL in our school.

Amount

40% or 20% of the amount of annual school fee for studying in Form 6 and Form 7, renewable upon a satisfactory review of the student's performance at the end of each school year.

Granting Criteria

Students with 20 points or above in the best 6 subjects in HKCEE, other than those who receive the Potential Development Scholarships, will be granted with the amount of 40% of the annual school fee. Students with 16 to 19 points in the best 6 subjects in HKCEE will be granted with the amount of 20% of the annual school fee.

Special Progress Grants for Form 5

Purpose

To students, who are required repeating in Form 5 with payment of the new school fee, to achieve better HKCEE results upon completion of their study in that school year.

Amount and Granting Criteria

Refund will be made to the students who can better HKCEE results upon completion of their study in that school as follows:

Points achieved	Amount refunded
+14	\$12,000
14	\$10,000
12 – 13	\$8,000
10 – 11	\$6,000
8 – 9	\$4,000

Scholarships and Grants

Special Progress Grants for Form 4

Purpose

To support students with financial difficulties who used to pay the old school fee but are required repeating Form 4.

Amount and Granting Criteria

If the student is able to achieve "D" grade or above in the core subjects (English, Chinese and Mathematics) and "E" grade or above in all other subjects (including the Other Learning Experience subjects) in the overall results of that year, the difference of the old and new school fees will be refunded to him in July.

Special Progress Grants for Form 2/3

Purpose

To support students with financial difficulties who used to pay the old school fee but are required repeating Form 2 or Form 3.

Amount and Granting Criteria

If the student is able to achieve "D" grade or above in the core subjects (English, Chinese and Mathematics) and "E" grade or above in all other subjects (including the Other Learning Experience subjects) in the overall results of that year, the difference of the old and new school fees will be refunded to him in July.

(D) AWE (Activity Experience Week) Scholarships and Grants

AWE Scholarships

For students with best academic performance at each formation level so as to facilitate them joining the AWE programmes

AWE Grants

For students who need financial support and have shown satisfactory academic and conduct results, facilitating them to participate in the AWE programmes

23rd January 2009

[REDACTED]
[REDACTED]
[REDACTED]

22/F, Landmark North,
39, Lung Sum Avenue,
Sheung Shui, N.T.

Dear Ms Chung,

Application for Adjustment of School Fees for the 2008/09 School Year

I refer to our letter dated 16th January 2009, in which we enclosed the copy of the letter dated 12th January 2009 addressed to our parents on the above subject, the contents of which are based on your guidelines in your letter dated 8th January 2009 and the consensus we reached in our meeting dated 18th December 2008.

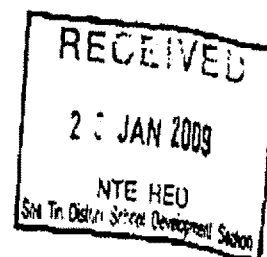
By the deadline indicated in our letter (i.e. 22nd January 2009), we have received nine responses out of a total of 945 letters sent to our parents, representing 0.95% as the response rate. Among the responses, five of them indicated that they had concerns while the other four indicated their understanding or support to our proposal on school fee adjustment. We spoke to the five parents who had concerns and have dealt with them accordingly. The details of these responses and the actions we have taken to deal with the parents who had concerns are summarized in Appendix I for your reference.

We trust the actions we have taken from October 2007 to now have properly and adequately informed and explained to our parents, and have dealt with those who had concerns satisfactorily. We would communicate with the Form 6 parents in February for the arrangement in effecting the refund, as mentioned under point a) in our letter dated 12th January 2009.

Your kind consideration and approval of our fee adjustment application is greatly appreciated.

Yours sincerely,

Supervisor



Summary of the parents' responses to our letter dated 12 January 2009 re Update on Application for Adjustment of School Fees

Parent's name	Student's name	Form	Parent's comments (quoted in full)	Actions taken to address parent's concerns
-- (mother)		1	It is unclear to me on item b) in the action list whether "no" concern from the Form 1 parents implies that there is no refund be arranged to the concerned parents/students. Does it imply the EDB has in principle agreed to the school's application to the increase in school fee to Form 1 students in 2008-09, and beyond in subsequent years?	We called and spoke to the parent on 22/1/2009. We found her concerns were to seek clarification on the following points: 1) any refund arrangement for F.1, 2) details about the Special Progress Grants, and 3) the likelihood of school fee adjustment in the coming years. We advised her that our application to EDB was under process. We would act according to the outcome of this process, and arrange the refund with immediate effect should any refund be required. After learning that we would not have any plan to apply for further adjustment at present, she indicated her satisfaction with the information provided and said that she had no more concern.
(mother)		2	The percentage of the increase is up to 1000%. If the increase is by phase, it will be much easier to be accepted and financially managed by parents. Anyway, I support what the school has made their decision.	We spoke to the parent on 21/1/2009. She admitted that the percentage she expressed was incorrect. She actually supported our proposal as she indicated her understanding that with \$450 per month as school fee, the school could hardly operate.
(mother)		2	I am pleased to hear that our school provides the scholarship schemes to students.	
(mother)		2	Very disagreed to increase the school fee	We spoke to the parent on 21/1/2009. She misread that the adjustment would affect her son. After learning the rationale of our proposal, which covers the balancing of the existing parents' interests and the new parents' rights of choice, she said that she had no more concern.

Parent's name	Student's name	Form	Parent's comments (quoted in full)	Actions taken to address parent's concerns
(father)		2	I agree the adjustment of school fees so I have no comments.	
(mother)		2	We understand the new fee system and the ways it operates. Thanks very much for informing us the details!	
(mother)		2	The school fees are too expensive.	We called and spoke to the parent on 21/1/2009. She misread that the adjustment would apply to her son as well. After learning the rationale of our proposal, which considers the balancing of the existing parents' interests and the new parents' rights of choice, she said that she had no further concern.
(father)		2	Try your best to keep the fee for the coming few years.	We spoke to the parent on 21/1/2009. He confirmed that he did not have any concern because his son would not be affected. We told him that we would try our best to keep the school fees as proposed in the coming few years.
(father)		6	There is no free lunch in the world. What I need is quality. I observed that my son is developing very well in especially in the past two years. He got proper guidance and improvement both academically and morally. I am pleased to let Desmond continue his study at this school. I support adjustment of school fees proposed by the Principal.	

Document 2 (for the school with an increase from \$48,000 to \$60,000)

8 September 2008

Dear Parents, Students, Staff, Alumni and Friends of

When we joined the Direct Subsidy Scheme, we set our sights on building on our meritorious traditions and on continuing our pursuit of quality education.

Now, six years on, we have witnessed a number of milestone developments of the School – the most recent ones being the opening of the _____ campus of our primary school and the commencement of redevelopment of the secondary school campus on _____

Our various initiatives are now paying off, among them having a new, state-of-the-art campus, better school facilities, a higher teacher-student ratio and a diverse range of multi-disciplinary curricula. Not only have we strengthened our position as a leading school in Hong Kong, we have also better prepared our students for the globalised world of the 21st century.

In fact, the latest Comprehensive Review by an independent professional agency from the University of Hong Kong concluded that “the School has clearly delivered quality educational experience and its student achievement well matches the vision of its initial proposal to secure DSS status”.

Since 2002, the very first year of our conversion to a DSS school, the annual tuition fees have been kept at \$48,000 for all forms – despite government approval for an annual tuition fee of \$60,000 for Forms 6 and 7. Moreover, fee remission has always been available to any student in financial need.

As you all know, Hong Kong has experienced sustained inflation in the past few years. This has resulted in significant increases in salaries for teachers and other operating expenses of the School. Although increases in teachers’ salaries are partially covered by increases in grants from the Government, the School has to finance part of these increases due to our higher teacher-student ratio compared with a normal aided school. Further, we foresee a substantial increase in the operating and maintenance costs for much larger and better-equipped campuses for both the primary and secondary schools.

Our financial projections indicate that the School will be operating at a deficit from 2009/10 onwards if school fees are maintained at the current level. In the absence of a fee adjustment, the School will not be able to maintain a sound financial position as required by the Education Bureau.

After thorough discussions and lengthy deliberations, the Council has reluctantly decided to increase tuition fees with effect from the school year 2009/10. The annual tuition fee for the primary school will be increased to \$60,000 while that for the secondary school will be increased to \$52,000, with the latter being adjusted in steps to the same level over the period of the redevelopment of the _____ which is expected to take approximately five years. The Council will keep the situation under constant review and will only consider further increases in tuition fees in the future in the light of inflationary pressures.

I sincerely hope you will understand that the fee adjustment is necessary to sustain the schools' operation without compromising the quality of education for which _____ has long been renowned.

We are committed to providing quality education to all students irrespective of the financial circumstances of their families. Hence we are enhancing the Fee Remission Scheme when tuition fees are increased in the following manner:

For students currently in the Fee Remission Scheme, the fee remission arrangements will be revised so that they will not be asked to pay any additional tuition fees than what they are currently paying.

Additionally, the Scheme will be expanded to include students whose family income is marginally higher than the maximum level under the terms of the current Fee Remission Scheme. For example, a family of four with a disposable income of no more than \$630,000 will become eligible for fee remission under the enhanced Scheme. Details of the Revised Fee Remission Scheme can be found on the school website (_____)

Please note that there are no limits on the number of students in the Fee Remission Scheme as any student whose family income falls within the financial parameters of the Scheme will be included.

Please do not hesitate to let us know should you have any questions about the fee adjustment.

Sincerely yours,

Chairman
The Council of

27 May 2009

Dear Parents,

Following the letter of 8 September 2008 from Council Chairman Professor _____ regarding the tuition fee adjustments for the coming school year (_____), I write to provide you an update and seek your understanding of the School's financial position.

As you all know, since 2002, the School has made every endeavour *not* to increase tuition fees, which have been kept at \$48,000 for all forms.

It should be noted that tuition fees are *never* used for construction and redevelopment of the campus as these are primarily covered by the funds the School has raised through its Charitable Trust.

However, we foresee a substantial increase in the operating and maintenance costs for the much larger and better-equipped campuses of both the primary and secondary schools. If tuition fees are maintained at the current level, we may not be able to continue to subsidise the programmes that we have been providing to our students over the past seven years, such as the Student Activities Week, sports training and musical instrument classes, community service and student exchange programmes. Neither will the School be able to maintain a sound financial position as required by the Education Bureau.

Under the given circumstances the Council decided to adjust the tuition fees, and announced on 8 September 2008 that the annual tuition fee for the primary school would be increased to \$60,000 in 2009/10. At the same time, it was also announced that our Fee Remission Scheme, which is among the most generous of its kind, would be expanded and enhanced to ensure that students in need will not be worse off. The letter from the Council Chairman was copied to all parents and was also uploaded onto the school website. Meetings were held with our staff, Parent-Teacher Associations and Alumni Association. A press briefing was also held for the interest of the general public.

As always, we maintain an open and transparent communication whereby parents and other stakeholders are welcome to voice their views and concerns. I hope you will understand that the fee adjustments are necessary to sustain the School's operation without compromising the quality of education for which we have long been renowned. Should you have any questions, please return the Reply Slip to the Class Teacher on or before 4 June 2009. Thank you.

Yours sincerely,

Headmistress

-----X-----

REPLY SLIP

To: Headmistress,

Please return to

☐ I have received your letter of 27 May 2009.

(If applicable) I have the following questions:

Name of Student: _____ ()

Class : _____

Signature of Parent: _____

Date: _____

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

(e) Table 4 in paragraph 4.10(a) of Chapter 2 showed that there were significant variances between the projected and actual operation reserves of eight DSS schools for 2008/09. Please provide an analysis of the reasons for the variances for each of these eight schools.

For a school which applied for fee increase in 2008/09, it had to submit, among other information, the following financial information around May 2008:

- (i) the audited accounts of 2006/07;
- (ii) the revised estimate of 2007/08; and
- (iii) the budget for 2008/09 taking into account the impact of fee increase applied.

2. The following reasons explain the significant variances.

Time Gap

3. The 2008/09 projected reserve of a school would be made in May 2008, about 16 months before the actual operation reserve of 2008/09 was concluded as at 31 August 2009 for most schools. In other words, there is a time gap of about 16 months between the projected and actual result in income and expenditure items. Difference between the projected income or expenditure and the actual income or expenditure will result in variance between the projected reserve and the actual reserve as highlighted by Audit Commission.

Difference between projected and finalised DSS unit subsidy

4. When the school prepared the budget for 2008/09 in May 2008, it had to make reference to the 2007/08 projected DSS unit subsidy rates which were the latest data available at that juncture (the 2007/08 and 2008/09 finalised rates would only be available in October of 2008 and 2009 respectively). The 2008/09 finalised rates were higher than the 2007/08 projected rates in the range of 6% to 16%, resulting in higher DSS subsidy income and hence a higher actual operation reserve than estimated.

5. The reasons for the variances between the projected and actual operation reserves for the eight DSS schools for 2008/09 in Table 4 are as follows:

<u>Reasons</u>	<u>No. of schools</u>
Variance in income and expenditure due to time gap and higher DSS subsidy income than projected	3
Higher DSS subsidy income than projected	3
Higher DSS subsidy income than projected and substantial underspending in various areas (Note)	2
Total	8

Note :

- (i) One school has incurred less expenditure than estimated by 22% for several reasons (including the delay of a school self-financed extension construction project, lower-than-expected expenses on major repairs and teachers' salary, etc.)
- (ii) The other school had included a provision in the 2008/09 budget for large-scale repair works/self-financed construction works. However, about \$1,4 million was not used in that school year.

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

- (f) *whether there had been any change in the manpower, in terms of number of staff or man hours etc., deployed for undertaking duties relating to school audits of DSS schools and taking follow-up actions during the years from 2005 to 2010; and the reason why the glaring practices of the three schools identified by the EDB, as set out in Table 4 in paragraph 5.12 of Chapter 1, had not been rectified after a long time*

Regarding *whether there had been any change in the manpower, in terms of number of staff or man hours etc., deployed for undertaking duties relating to school audits of DSS schools and taking follow-up actions during the years from 2005 to 2010*

The Finance Division and the Regional Education Offices (REO) of the Education Bureau (EDB) take up a range of duties in respect of school education services. Currently, there are around 4,000 schools including aided, government, DSS, caput and private schools as well as kindergartens in Hong Kong. The 15 District School Development Sections under 4 REOs are responsible for providing support to the administration and development of schools. As regards the school audits of DSS schools and the follow-up work required, there is no designated post specifically created for such purposes.

2. In brief, the School Audit Section of the Finance Division of the EDB will conduct audit of DSS schools to evaluate whether the DSS schools have put in place proper financial management and procurement arrangements, and whether their financial and accounting operations comply with the relevant letters, circulars and guidelines issued by the Education Bureau.

3. After the field audit inspections, the School Audit Section will continue to follow up with the schools in respect of any outstanding documents/information / clarifications which cannot be provided by the school on-site. Management letters would be issued to the schools concerned by the School Audit Section after seeking comments from the policy division. In addition to the above, the Finance Division also deploys staff to examine the audited accounts and fee revision application of DSS schools.

4. Schools are required to respond to the management letters and REO would take appropriate follow-up actions where necessary. Other than follow up on audit inspection, with regard to DSS schools, REOs are responsible for handling major repairs exceeding \$2 million, fees revision, complaints handling, renewal of service agreement, enhancement of school facilities and other school administrative work (e.g. crisis management, appointment of school head, trading operation). For optimization of resources, there is no post in REOs designated solely for handling DSS schools.

5. The manpower as indicated in the tables below refers to (a) the number of School Audit Section's staff deployed for undertaking duties relating to school audits of DSS schools and the related follow-up work; and (b) the apportionment of staff resources devoted to the overall administration and support of DSS schools and is worked out based on the relative workload of DSS schools as compared to other types of schools.

	Year					
	2005	2006	2007	2008	2009	2010 (Plan)
No. of audit inspection on DSS schools:	4	2	6	6	8	12
No. of School Audit Section's staff involved in DSS schools' audit inspections	0.9	0.4	1.3	1.3	1.7	2.5

	2005	2006	2007	2008	2009	2010
No. of REO staff devoted to the overall administration and support of DSS	3.2	3.8	4.2	4.9	5.3	5.4

Regarding *“the reason why the glaring practices of the three schools identified by the EDB, as set out in Table 4 in paragraph 5.12 of Chapter 1, had not been rectified after a long time”*

According to Para. 5.12 of Chapter 1 of the Report No. 55 of the Director of Audit, the schools involved in the glaring practices as identified by the Audit include Tak Sun Secondary School, HKCCCUU Logos Academy and Good Hope School. Details pertaining to the respective schools are set out below.

(1) Tak Sun Secondary School (Tak Sun)

According to the Audit Report, Tak Sun was found to be involved in improper use of government funds (e.g. meal expenses incurred by staff but met by government funds) and lack of procurement policy and procedures.

Use of government funds

2. On improper use of government funds, EDB's School Audit Section detected a similar mistake committed by the school during the school audit in January 2007 and issued a management letter to the school requesting rectification. Upon receiving the management letter from EDB in May 2007, the school replied in writing in July 2007 that separate accounts had been set up for government and non-government funds and the mistake had been rectified (i.e. charging the expenses in question to the account for non-government fund). In view of this, no follow-up action would be required by EDB. However, Audit discovered at its visit to the school in May 2010 that an expenditure of about \$29,000 incurred for holding an annual dinner for staff was charged to the government fund account for 2009/10. The school explained that they were confused about charging different expenditure items to the government and non-government funds. Upon Audit's query, the school has already transferred the expenditure in question from the government fund account to non-government fund account. Relevant accounting records have been forwarded to EDB.

Procurement policy and procedures

3. During the school audit in January 2007, EDB's School Audit Section reminded the school of the need to establish proper procedures for tendering and purchasing of goods and services. On receiving the management letter

from EDB in May 2007, the school replied in writing in July 2007 that such procedures had been set up and it would ensure that all quotation records would be properly kept. Given the school's written confirmation, no follow-up action would be required by EDB. However, during the Audit's visit, it was found that no formal procurement policy and procedure were laid down by the school. While the school informed Audit that it had followed the procedures promulgated in EDB Circular No. 15/2007, no tender exercise was carried out for some procurements and no record was available proving that the departure from the procurement guidelines had been approved by the Incorporated Management Committee. In response to Audit's query, the school has drawn up a procurement policy in line with the EDB guidelines. The school advises that the policy has been implemented since September 2010. Relevant documents have been forwarded to EDB for record.

(2) HKCCCU Logos Academy (Logos)

The Audit report noted that Logos was involved in the following two incidents-

- (a) The trust arrangement used to hold one of the two properties purchased using school funds was not approved by the SMC. This was first identified by EDB's school audit in March 2009; and
- (b) The same trust arrangement used to hold a third property was also not approved by the SMC, as identified by the Audit at its visit in 2010.

2. The trust arrangement was first identified by EDB in the school audit inspection in March 2009. After obtaining additional information and seeking clarification from school, EDB issued a management letter to the school in February 2010 highlighting that the relevant documents regarding the trust arrangement were not available for inspection. EDB had also requested in the same letter justification/rectification of the arrangement and other financial irregularities in writing within one month. In the absence of any response from the school, written reminders were issued to the school for a reply in March and August 2010 respectively. Despite repeated reminders, there was no response or action from the school on rectifying the trust arrangement and other financial irregularities, advisory letters were then issued to the school in September and October 2010 respectively. A warning letter was issued to the school in November 2010 requiring the school to provide, among other irregularities detected, detailed information and concrete actions to be taken in

respect of the above arrangement, including proper documentation and justifications for the purchase of the properties as well as the approval of the SMC for the purchase and making the trust arrangement. A reply dated 23 November 2010 was finally received from the school. The school undertook to take rectification actions promptly. EDB is studying the reply and will monitor the situation closely. EDB will keep in view the need to take any further actions where necessary.

(3) Good Hope School

Good Hope School was found to be involved in:

- (a) Improper use of school funds (loan to a third-party company); and
- (b) Lack of tender exercise for a procurement involving a substantial amount.

Improper use of school funds (loan to a third-party company)

2. During the school audit inspection in December 2007, EDB's School Audit Section found the improper use of school funds involving an amount comprising a loan of \$60,000 to and an investment of around \$200,000 in the school bus company. A management letter was issued to the school on 28 October 2008. In response to the management letter, the school provided a written reply on 27 February 2009 confirming that the school had worked out with the company on the plan of settlement of loan. The company has started to repay the loan to the school in three phases commencing in December 2008. Audit revealed the same irregularities in 2010 when the school was in the course of resolving the situation with the company.

3. Regarding the investment, after rounds of discussions, the school bus company eventually agreed with the school on 17.9.2009 that the company would be dissolved on 31.8.2010. The investment in the company was recovered by the school upon the former's dissolution. The school Supervisor confirmed that all the loans and investments with the company had been recovered in August 2010. The school no longer holds any shares of the company.

Lack of tender exercise for a procurement involving a substantial amount

4. EDB's School Audit Section issued a management letter to the school in October 2008 advising that the school should seek separate tenders for single

purchases exceeding \$50,000 each from at least 5 suppliers.

5. During the visit from 24 May to 10 June 2010, the Audit revealed that in one procurement exercise where the amount involved was \$587,000, no proper tendering exercise was carried out. The school confirmed that the procurement exercise was for the emergency repair of the stage lighting of the school hall. The school had only obtained three quotations instead of conducting proper tendering in accordance with the relevant guidelines.

6. Following EDB's advice, guidelines on tendering and procurement of goods and services were drawn up and incorporated in the Staff Handbook to ensure compliance with relevant ordinance, regulations and school circulars in October 2009.