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***Legislative Council***

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**Panel on Education**

**Background brief prepared by the Legislative Council Secretariat  
for the meeting on 13 December 2010**

**The English Schools Foundation**

**Purpose**

This paper summarizes the concerns of Members of the Legislative Council about the governance, school administration and financial arrangements of the English Schools Foundation ("ESF").

**Background**

2. ESF was established in September 1967 under the English Schools Foundation Ordinance (Cap. 1117) ("the Ordinance"), and is vested with the power, subject to the provisions of the Education Ordinance (Cap. 279), to own, manage, administer and operate within the territory schools offering, without regard to race or religion, a modern liberal education through the medium of English to boys and girls who are able to benefit from such an education. As at the end of the 2009-2010 school year, ESF operated nine primary schools, five secondary schools and one special school, while its associate company, the ESF Educational Services Limited ("ESL"), operated four kindergartens and two private independent schools. The schools directly operated by ESF receive a subvention, which has been frozen since 2000, from the Government. The schools and kindergartens operated by ESL do not receive any subsidy from the Government.

**Concerns of the Public Accounts Committee ("PAC")**

3. In February 2005, PAC issued its Report No. 43 which covered, inter alia, government subsidies to ESF and its corporate governance and school administration. Amongst others, PAC expressed the following areas of

concern -

*Government subsidies to ESF*

- (a) there was divergence of views between the Education and Manpower Bureau ("EMB") and ESF on whether ESF schools were different from international schools and whether the existing government subsidies to the ESF schools should continue;
- (b) the EMB's arrangements for freezing ESF per-class subsidies and capping the number of ESF classes eligible for recurrent government subsidies were at variance with the Government's parity of subsidy principle for providing government subsidies to ESF schools;
- (c) EMB should expeditiously complete the review of government subsidies to ESF; and
- (d) EMB and ESF should come to an agreement expeditiously over the future of government subsidies to ESF;

*Corporate governance and school administration of ESF*

- (e) ESF and its schools had not adopted a high standard of corporate governance and had not exercised proper financial and administrative controls to achieve value for money;
- (f) the large size of ESF's membership, standing at 132, was not conducive to making decisions effectively;
- (g) the external members of ESF did not constitute a majority at any of ESF's four annual general meetings held in the 2000-2001 to 2003-2004 financial years;
- (h) large percentages of internal and external members failed to attend ESF's meetings;
- (i) ESF's existing arrangement for an internal auditor reporting directly to the Financial Controller was not sufficient to help ESF discharge its monitoring functions effectively;

*Corporate governance and school administration of ESF's schools*

- (j) there were chaos and negligence in the administration of some

ESF schools;

- (k) the school administration guidelines provided by ESF were fundamentally inadequate and some schools had not taken more initiative to ensure propriety and achieve value for money in their operation;
- (l) with the exception of one school, the composition of school councils did not include alumni;
- (m) most school councils did not specifically set out their delegated decision-making powers;
- (n) some school councils did not participate in major school activities recommended by ESF; and
- (o) most schools did not require council members to declare their personal interests which might conflict with their roles.

The conclusions and recommendations of PAC concerning government subsidies to ESF, the corporate governance and school administration of ESF and its schools in the PAC Report No. 43 are in **Appendices I, II and III** respectively.

4. To address the concerns raised by PAC, ESF established a Governance Task Force to examine how the governing structure of ESF should be reformed. In June 2005, ESF approved a framework for the reform. In June 2006, ESF approved the proposals for legislative amendments to the Ordinance and the Regulations of The English Schools Foundation.

### **Deliberations of the Panel on Education**

5. ESF briefed the Panel on Education ("the Panel") on the legislative proposals at its meeting on 22 March 2007. In the context of discussing the draft Bill, members had considered the school administration and financial arrangements of ESF as well as government subsidies to ESF. The deliberations of the Panel are set out in the ensuing paragraphs.

#### School administration

6. Members noted that as at December 2006, ESF had implemented only about 60% of the recommendations made by the Independent Commission Against Corruption ("ICAC") concerning staff recruitment and school

administration. Members queried why ESF had not implemented all the proposals.

7. ESF explained that it accepted all the recommendations made by ICAC but the implementation of some of the recommendations would take time. For instance, the development of a web-based budgeting financial control system for the 20 ESF schools would involve tremendous system design and development works as well as staff training before the system could be implemented. Subject to the early enactment of the Bill, ESF envisaged that all the ICAC recommendations could be implemented by the end of 2007.

### Financial management

8. Members were concerned how the reform in the governance structure of ESF and its schools would improve the monitoring of the schools' daily operation, including administration and financial management matters. Members considered that ESF should conduct internal reviews on its financial and audit systems to facilitate early detection and rectification of any system irregularities and ensure system reliability and integrity in the long term.

9. ESF explained to members the various systems and measures in place to monitor the daily operation of the schools with emphasis on the administrative and financial aspects. Under the new governance structure, schools would be responsible for their own financial management and required to submit regular reports on their financial position to the Board of Governors ("the Board") and the Chief Executive Officer ("CEO"). ESF was developing a web-based financial management system to facilitate on-line monitoring of the financial operation and transactions in each school. Any significant or unreasonable spending by individual schools would be readily detected by the system. In addition, ESF had strengthened the internal audit functions as recommended by PAC, and established an Audit Committee to oversee the strategic issues as well as to examine the internal audit reports prepared by individual schools. The Audit Committee would also oversee the system reliability matters and recommend the appropriate timing for conducting reviews on system operation and application.

10. According to the Administration's reply to a written question concerning ESF raised at the Council meeting on 27 October 2010, ESF had introduced a series of reform measures since the end of 2008 which included, among others, –

- (a) the establishment of independent Standing Committees, with no staff among their membership, overseeing audit, finance and remuneration matters;

- (b) the introduction of a Code of Conduct with relevant declaration of interest arrangements;
- (c) putting in place the Standing Orders to regulate the conduct of its business;
- (d) the introduction of a vigorous annual budgeting process;
- (e) the formulation of a long-term financial strategy for the renewal of its building stock and the establishment of a Major Building Projects Committee to monitor the major construction projects for reporting to the Board; and
- (f) a review of the housing policy and its property holdings.

#### Government subsidies

11. Members noted the concern of some ESF parents about the lower level of government subsidies to ESF schools as compared with aided schools. Some parents were of the view that ESF schools should be subsidized on the basis of the average unit costs, as in the case of aided schools.

12. According to ESF, the Administration would discuss with it subvention matters after it had implemented the necessary reforms in governance and school administration.

#### **The English Schools Foundation (Amendment) Bill 2007**

13. Hon Abraham SHEK took forward the proposals for the legislative amendments by introducing The English Schools Foundation (Amendment) Bill 2007 to the Council on 30 May 2007. The Bill sought to make changes to the governance structure of ESF and the administration of its schools. The main proposals of the Bill were as follows -

- (a) the supreme governing body would be the Board consisting of 26 voting members and one non-voting member who was the CEO of ESF. Twenty-two voting members would be external members, i.e. non-employees of ESF, among whom 10 would be independent community representatives to be nominated by a Nominating Committee;
- (b) there would be five advisory committees advising the CEO;

- (c) three standing committees under the Board should be established to advise on auditing, remuneration and financial management matters respectively;
- (d) the School Councils of ESF schools would have more defined functions and would be encouraged to include alumni among their membership; and
- (e) each school of ESF should establish a parent teacher association comprising the parents of students of the school, its teaching staff and principal.

14. A Bills Committee was formed to examine the Bill with focus of its deliberations on the objects of ESF and composition of the Board, the Nominating Committee and the School Councils. The Bill was passed by the Council on 5 March 2008 with two major amendments, namely, to add a definition of students with special educational needs and to designate one of the six seats for parent representatives on the Board for the parents of students with special educational needs who should be elected by all parents of students in ESF schools.

### **Relevant papers**

15. A list of the relevant papers on the LegCo website is in **Appendix IV**.

Council Business Division 2  
Legislative Council Secretariat  
7 December 2010

**Extract from the Public Accounts Committee Report No. 43**

**Chapter 2**

**Government subsidies to the English Schools Foundation**

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**Conclusions and recommendations** The Committee:

**Reviews of government subsidies to English Schools Foundation schools and international schools**

- notes that:

- (a) government subvention to the English Schools Foundation (ESF) on the parity of subsidy principle was premised on the 1965 Education Policy White Paper in recognition of the need for English schools for English-speaking children, which led to the establishment of the ESF in 1967 through the enactment of The English Schools Foundation Ordinance;
- (b) similar to private international schools, ESF schools follow a non-local curriculum and their students do not sit for local examination. However, ESF schools are provided with recurrent government subsidies whereas private international schools do not receive the same level of subsidies from the Government, even after the Government's review of its subsidies to international schools in 1995;
- (c) since 1999, the Education and Manpower Bureau (EMB) has been discussing with the ESF the gradual reduction of its recurrent subsidies to the ESF under a phased programme. The ESF has indicated its willingness to work with the Government for a smooth transition, but has emphasised that the phasing-out programme should stretch over a period of 13 years;
- (d) the EMB considers that the focus of its discussion with the ESF was not on "whether" recurrent government subsidies to the ESF should be withdrawn, but rather "how" the withdrawal should be phased; and
- (e) it is the ESF's view that the discussion between the EMB and itself

over the years on the future of government subsidies to the ESF was never concluded and that it is an integral part of the local education system. Its position on the parity of subsidy principle remains unchanged and it should be entitled to government funding as other schools in the aided sector;

- expresses concern that there is a divergence of views between the EMB and the ESF on whether ESF schools are no different from private international schools and whether the existing government subsidies to the ESF schools should continue;
- strongly urges:
  - (a) the EMB to expeditiously complete the review of government subsidies to the ESF; and
  - (b) the EMB and the ESF to come to an agreement expeditiously over the future of government subsidies to the ESF;

**Freezing government subsidies to English Schools Foundation schools and recent fact-finding exercise**

- expresses serious concern that:
  - (a) the EMB's arrangements for freezing ESF per-class subsidies and capping the number of ESF classes eligible for recurrent government subsidies are at variance with the Government's parity of subsidy principle for providing government subsidies to ESF schools; and
  - (b) the fact-finding exercise jointly conducted by the EMB and the ESF, which was originally scheduled for completion in July 2003, has not yet been completed;
- notes that:
  - (a) the EMB has reported to the Panel on Education of the Legislative Council the progress of its review of government subsidies to the ESF; and
  - (b) the EMB and the ESF will expedite completion of the fact-finding exercise;



- recommends that the Secretary for Education and Manpower should:
  - (a) 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
  - (b) seek the approval of the Executive Council and the Legislative Council for changes resulting from the EMB's review of government subsidies to the ESF.

**Extract from the Public Accounts Committee Report No. 43**

**Chapter 3**

**Corporate governance and Headquarters administration of  
the English Schools Foundation**

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**Conclusions and recommendations** The Committee:

**Corporate governance**

- expresses concern that the Education and Manpower Bureau (EMB) has not ensured that the English Schools Foundation (ESF), which receives substantial recurrent government subsidies, adopt a high standard of corporate governance, whilst noting that the EMB only has a small representation on the Foundation and its Executive Committee (ExCom) and that the Government's policy is to not micro-manage;
- condemns the ESF Headquarters senior executive management for its failure to ensure that the ESF and its schools adopt a high standard of corporate governance and to exercise proper financial and administrative controls to achieve value for money in the operations of the ESF and its schools, as evidenced by the following:
  - (a) the administration of some ESF schools was conducted in a chaotic and negligent manner, and the school administration guidelines provided by the ESF were fundamentally inadequate, as revealed in Chapter 4 of the Committee's Report on the subject "School administration of the English Schools Foundation";
  - (b) the ESF's existing arrangement for an internal auditor reporting directly to the Financial Controller is not sufficient to help the Foundation discharge its monitoring functions effectively;
  - (c) the approval of the ExCom was not sought for extra payments made to two senior staff upon their leaving the ESF in the 2002-03 ESF financial year, and the minutes of the ExCom meeting which discussed issues concerning the termination of the employment of a senior staff

member had not been entered in the ESF's minute books;

- (d) prior approval had not been sought from the ExCom for the sale of four ESF staff quarters in June and July 2002;
  - (e) the ESF leased 10 staff quarters for its senior staff at a total annual rent of \$6.8 million, when it had 13 vacant ESF-owned Teaching-staff Grade quarters of an estimated total annual rental value of \$2.6 million;
  - (f) the ESF had been paying the rates and management fees of leased staff quarters, as long as the monthly rent (excluding rates and management fees) of the quarters did not exceed the rent entitlement of the staff concerned;
  - (g) the ESF reimbursed a senior staff member for the expenses on treatment in a first-class ward at a hospital, when the staff member was only entitled to receive treatment in a second-class ward; and
  - (h) most of the ESF staff having an annual budget for entertainment expenses used up all, or a large portion of, their budgets. Of the total entertainment expenses reimbursed to staff in the 2002-03 ESF financial year, 77% were related to staff functions;
- expresses concern that the large size of the Foundation's membership, standing at 132, is not conducive to making decisions effectively;
  - expresses serious dismay that:
    - (a) the external members of the Foundation did not constitute a majority at any of the Foundation's four annual general meetings held in the 2000-01 to 2003-04 ESF financial years. As a result, when decisions relating to ESF staff benefits were required to be made at meetings of the Foundation, there might have been an over-reliance on the internal members; and
    - (b) large percentages of internal and external members failed to attend Foundation meetings;
  - expresses serious dismay and finds it unacceptable that the ESF's existing arrangement for an internal auditor reporting directly to the Financial

Controller is not sufficient to help the Foundation discharge its monitoring functions effectively;

- acknowledges that:
  - (a) the Foundation has approved the draft guidelines for restructuring the governance and management of the ESF, and a task force appointed by the ExCom has started work on the proposed restructuring. The major changes proposed include:
    - (i) separating the governance and management roles; and
    - (ii) replacing the Foundation by the ESF Council as the supreme governing body of no more than 25 members with a 2:1 ratio of external members to internal members; and
  - (b) the ESF has set up an audit committee, the Chairman of which is appointed by the ExCom from amongst external members with audit, financial and accounting experience. The audit committee will report to the ExCom;
- recommends that the ESF should:
  - (a) conduct a review on the role of the Foundation Office including the need for its continued existence;
  - (b) adopt measures to ensure that external members will constitute a majority at each of the respective meetings of the Foundation and the ExCom;
  - (c) issue reminders to the related organisations if the attendance rates of their representatives at Foundation meetings are low;
  - (d) amend the Regulations of the English Schools Foundation to the effect that ESF staff members of the ExCom would abstain from voting on matters concerning ESF staff benefits at its meetings;
  - (e) consider repealing section 10(2) of The English Schools Foundation Ordinance so that subsidiary legislation in the form of regulations made under the Ordinance is required to be published in the Gazette and tabled in the Legislative Council;

- (f) ensure that its internal audit office is staffed by well qualified and experienced personnel reporting directly to the audit committee; and
- (g) 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;

### **Financial management**

- expresses serious concern that as at 31 August 2003:
  - (a) ESF current liabilities of \$355 million were more than 11 times its current assets of \$31 million; and
  - (b) while the ESF used a bank overdraft of \$99 million to finance its expenditure, its Foundation Office and schools held bank deposits of \$17 million;
- notes that:
  - (a) the Foundation entered into an alternative arrangement with its bankers in January 2005 to offset credit balances on its accounts with any debit balances on other accounts; and
  - (b) the ESF is examining the adoption of 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;
- recommends that the ESF should:
  - (a) take action to reduce its net current liabilities; and
  - (b) adopt a more prudent method of budgeting and avoid relying on bank overdraft;

## **Staff remuneration and recruitment**

- expresses serious concern and has reservations about the appropriateness of the following:
  - (a) the salaries of most of the senior staff of the Foundation Office were set on the basis of the salary of a Civil Service Directorate Grade officer, and the salary scale of ESF school principals was set 14 years ago based on a similar scale in the United Kingdom;
  - (b) in the 2003-04 school year, the estimated average annual remuneration of \$947,400 per ESF teaching staff member was the highest when compared with that of the teaching staff of the seven largest private international schools in terms of student number;
  - (c) ESF teaching staff received the highest contract gratuity and responsibility allowance benefits when compared with the seven largest private international schools;
  - (d) different ESF schools adopted different policies on the allocation of responsibility allowances; and
  - (e) half of the members of the Remuneration Study Group (RSG), which comprises one ESF school principal, three ESF teaching or non-teaching staff members, two parent representatives and two community representatives, established by the ESF to conduct reviews of the remuneration packages of its teaching staff are its own staff;
  
- notes that:
  - (a) the RSG will report to the ExCom in June 2005; and
  - (b) the ESF will draw up central guidelines by 30 April 2005 on the payment of responsibility allowances to teaching staff for compliance by its schools, with reference to the practices adopted by private international schools;
  
- recommends that:
  - (a) the ESF should take into consideration Audit's findings on the

remuneration of the teaching staff of the seven largest private international schools, and immediately 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;

- (b) the membership of the RSG should not be drawn from ESF's own teaching and non-teaching staff; and
  - (c) the ESF should implement as soon as possible new remuneration packages on newly recruited teaching staff, and on existing teaching staff over a period of time, taking into account the effects of the new remuneration packages on their financial commitments;
- asks the ESF to forward the report of the RSG to the Committee. The Committee will then invite the Director of Audit to review the report and to inform the Committee of his comments;
  - expresses alarm and strong resentment over the following:
    - (a) the minutes of the ExCom meeting held on 23 June 2003, during which two resolutions were passed to the effect that the employment of Staff C be terminated and that the former Chairman of the ESF be authorised to deal with such termination, had not been entered in the ESF's minute books;
    - (b) the ExCom authorised the former Chairman of the ESF to agree at his discretion with Staff C the terms of cessation, without the need to seek the ExCom's final approval;
    - (c) the former Chairman of the ESF did not report at an ExCom meeting following the making of an extra payment to Staff C; and
    - (d) the approval of the ExCom was not sought for extra payments made to two senior staff, i.e. Staff B and Staff C, upon their leaving the ESF in the 2002-03 ESF financial year;
  - urges the ESF to:
    - (a) record, if given, the approval of the ExCom in its meeting minutes regarding extra payments to ESF senior staff upon their leaving the

ESF;

- (b) enter all minutes of ExCom meetings in its minute books;
  - (c) refrain from delegating to any person the authority to agree on the terms of cessation of a senior staff member without the approval of the ExCom; and
  - (d) ensure that the approval of the ExCom is obtained before making extra payments to its senior staff upon their leaving the ESF;
- expresses serious concern that in the 2002-03 and 2003-04 ESF financial years, eight ESF interview teams travelled to the United Kingdom and Australia to conduct interviews for recruiting ESF school principals and teaching staff;
  - notes that the ESF:
    - (a) will reduce the number of its school principals travelling overseas to interview applicants; and
    - (b) will reduce the time spent by its interview-team members overseas by conducting more video-conference interviews;

### **Staff housing and medical benefits**

- expresses dismay that:
  - (a) as at 1 April 2004, the ESF leased 10 staff quarters for its senior staff at a total annual rent of \$6.8 million. However, at the same date, it had 13 vacant ESF-owned Teaching-staff Grade quarters with an estimated total annual rental value of \$2.6 million; and
  - (b) in addition to the rent, the ESF had been paying the rates and management fees (without a specified maximum amount) of the quarters, irrespective of the rent entitlement of the staff member, so long as the monthly rent (excluding rates and management fees) of a leased quarters did not exceed the rent entitlement of the staff member concerned;



- notes that the ESF:
  - (a) has taken action in respect of Audit's recommendations on:
    - (i) accommodating eligible staff in its own staff quarters, instead of leasing quarters for them, as far as possible;
    - (ii) leasing the vacant staff quarters to its staff and outsiders to generate rental income; and
    - (iii) selecting those appropriate ESF-owned Teaching-staff Grade quarters for re-grading as Senior-staff Grade quarters for allocation to its senior staff; and
  - (b) will take action in respect of Audit's recommendations on:
    - (i) seeking the approval of the ExCom for paying the rates and management fees of ESF-leased quarters for its senior staff, irrespective of their rent entitlements; and
    - (ii) conducting 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;
- recommends that the ESF should:
  - (a) consider offering housing allowance to its staff instead of providing staff quarters; and
  - (b) strictly adhere to the maximum monthly rent entitlement of its staff;
- expresses serious concern that:
  - (a) if the ESF does not take action to reduce its surplus quarters, the number surplus to requirements will progressively increase to 199 in the 2030-31 school year, due to the retirement of teaching staff eligible for staff quarters; and
  - (b) as at 1 April 2004, of the 30 ESF-owned staff quarters leased to ineligible staff, 21 (70%) were let below market rent. Audit's estimates showed that the difference between the market rent and

actual rent of these 21 staff quarters amounted to \$1.1 million a year;

- expresses astonishment and finds it unacceptable that prior approval had not been sought from the ExCom before the sale of four ESF staff quarters in June and July 2002;
- notes that:
  - (a) the ESF will negotiate with the Government on the removal of the non-assignment clauses in the government leases of its staff quarters at the Braemar Heights and at the Beacon Hill School;
  - (b) it is ESF practice to seek professional advice when benchmarking market rental values of its staff quarters for letting to ineligible staff, and the ESF will file and retain such advice; and
  - (c) in future, all sales of ESF staff quarters will require the prior approval of the ExCom;
- recommends that the ESF should formulate a policy and a plan for disposing of its surplus staff quarters;
- expresses serious concern that:
  - (a) the staff of the Foundation Office do not have the medical expertise to assess the medical claims under its in-house medical scheme for its non-teaching staff and their dependants, and under its in-house dental scheme for all its staff and their dependants, and that the two schemes require substantial staff resources; and
  - (b) the ESF does not set an annual maximum amount of reimbursable dental expenses for each of its senior staff and teaching staff and their dependants;
- expresses astonishment and finds it unacceptable that in mid-2001, an ESF senior staff member was reimbursed the expenses on treatment in a first-class ward at a hospital. However, this staff member was not entitled to receive the treatment in this hospital without the written confirmation from the doctor concerned and without the approval from the Foundation Office, and he was only entitled to receive the treatment in a second-class ward;

- notes that the ESF:
  - (a) has proceeded with obtaining proposals from insurers on the following, and the exercise is scheduled for completion by 28 February 2005:
    - (i) engaging a medical insurance company to provide a medical scheme for its non-teaching staff and their dependants and a dental scheme for all ESF staff and their dependants, with reference to similar schemes of other local educational institutions; and
    - (ii) setting an annual maximum amount of reimbursable dental expenses for each member of ESF senior staff and teaching staff and each of their dependants; and
  - (b) has agreed to seek and record the prior approval of the ExCom if the medical benefits received by an ESF staff member exceed his entitlement. In emergency cases, the ESF will seek delegated authority for the Chief Executive or the Human Resources Director to approve emergency treatment;

### **Entertainment expenses**

- expresses serious dismay that:
  - (a) in the 2002-03 ESF financial year, most of ESF staff having an annual budget for entertainment expenses used up all, or a large portion of, their budgets. Of the total \$291,639 entertainment expenses reimbursed to these staff, 77% were related to staff functions; and
  - (b) the ESF has not set a maximum limit on reimbursable entertainment expenses allowed for each participant in each function. As a result, the amount of entertainment expenses reimbursed for each participant in a function was as high as \$1,000;
- notes that the ESF has implemented Audit's recommendations on strictly enforcing its revised policy on reimbursement of entertainment expenses which:

- (a) prohibits reimbursement of entertainment expenses relating to staff functions; and
  - (b) requires ESF staff submitting claims to clearly state the name of each ESF participant and his capacity; for guests, their names and the organisations they represent; and the purpose of the function; and
- recommends that the ESF should set up a new system so that only designated staff of the ESF may submit claims for reimbursement of entertainment expenses on a need basis.

**Extract from the Public Accounts Committee Report No. 43**

**Chapter 4**

**School administration of the English Schools Foundation**

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**Conclusions and recommendations** The Committee:

- acknowledges that the objective of the audit review is to examine the administration of English Schools Foundation (ESF) schools, and the Committee has therefore focused on matters pertaining to that objective rather than the quality of education provided by ESF schools;

**Overall audit observations**

- expresses serious dismay that:
  - (a) there were chaos and negligence in the administration of some ESF schools; and
  - (b) the school administration guidelines provided by the ESF were fundamentally inadequate and that some schools had not taken more initiative to ensure propriety and to achieve value for money in their operation;
- acknowledges that:
  - (a) the ESF is revising the Schools' Circulars/Administrative Memoranda to help schools deal with various administrative matters;
  - (b) the ESF will provide adequate support to schools in implementing its guidelines through more systematically programmed seminars and school visits; and
  - (c) the newly created audit committee of the ESF will oversee the programme of internal audits;

**Corporate governance of schools**

- expresses serious concern that:
  - (a) with the exception of one school, the composition of school councils did not include alumni;
  - (b) most ESF school councils had not specifically set out their delegated decision-making powers; and
  - (c) some school councils did not participate in major school activities as recommended by the ESF, e.g. councils of most schools did not participate in formulating staff development policies and plans (11 councils) and in setting targets and priorities for curriculum development (8 councils);
  
- expresses dismay that:
  - (a) the council of one school did not hold any meetings during a period of 23 months when the post of Chairman of the school council was vacant; and
  - (b) most schools did not require council members to declare their personal interests which might conflict with their roles;
  
- acknowledges that:
  - (a) more alumni may be invited to join school councils once alumni lists are complete;
  - (b) each school council will itemise delegated decision-making powers, and a bi-annual agenda item will be initiated by ESF representative to review the delegated powers of the school council;
  - (c) the ESF will rewrite the roles of school council members so as to encourage them to participate actively in significant school activities;
  - (d) sub-committees will be set up to help school councils fulfil their roles and responsibilities more effectively;
  - (e) the ESF has issued letters to school councils reminding them of the minimum requirement of meetings and encouraging them to meet six times a year; and

- (f) school council members will be required to declare their personal interests which may conflict with their roles, and declaration registers have been prepared to record the interests of the members;

### **Strategic planning, budgeting and cash management**

- expresses concern that:
  - (a) some schools had not consulted their councils, non-teaching staff, parents of students, students and the ESF in the development of their school plans;
  - (b) some schools produced development plans covering only one to two years, and that different schools had different planning cycles, which were also inconsistent with the ESF's cycle;
  - (c) some schools produced less comprehensive development plans focusing only on certain areas of school activities;
  - (d) some schools had not carried out any evaluation of their programmes in accordance with their development plans;
  - (e) some schools had not regularly sought the views from some stakeholders regarding their needs and expectations;
  - (f) many schools had not developed formal procedures for budgetary planning and control;
  - (g) most schools did not provide a clear linkage of their budgets to their development plans;
  - (h) some schools did not have a bidding system to assess the funding needs of their departments;
  - (i) many schools did not submit their budgets to their councils for approval, nor regularly inform their councils of the use of school funds against the approved budgets;
  - (j) some school councils had not been involved in monitoring the use of funds against the school financial plans or budgets in the past three school years;

- (k) some schools did not have effective control measures to ensure that budget holders managed their budgets effectively;
  - (l) some schools did not have any specific plans for using their surplus funds; and
  - (m) most schools did not have the practice of preparing cash-flow projection to help them manage their cash more effectively;
- acknowledges that:
- (a) a working group will produce guidance on school development planning to assist schools in the planning process;
  - (b) the ESF will require its schools to produce a longer-term development plan which will be in alignment with the ESF education development plan;
  - (c) the ESF will issue good practice guides to its schools to help them ensure that all significant aspects of school activities are included in their development plans;
  - (d) procedures for performing school reviews have been written to ensure that schools conduct evaluations of their programmes against their current development plans. In November 2004, the ESF and the Education and Manpower Bureau agreed on a mutual exchange of evaluators on school inspections;
  - (e) a revised self-evaluation strategy will be drafted to ensure that schools seek stakeholders' views regarding their needs and expectations, and that schools will incorporate stakeholders' views into their school development plans;
  - (f) the ESF will issue guidelines to assist schools in budgetary planning and control, and that all school councils will need a finance sub-committee to deal with budgetary matters;
  - (g) the ESF will require all schools to cost their development plans and use the cost projections in compiling annual budgets;
  - (h) the role of principals in school budgeting will be included in the revised guidance for school councils;



- (i) from September 2005, all schools will start to report regularly their financial performance to their councils;
  - (j) the ESF will revise the guidance to school councils on the approval of school budgets and ensure consistent implementation at schools;
  - (k) monitoring the use of school funds against the approved budgets will be a regular agenda item in school council meetings;
  - (l) the ESF will remind schools of the best practice for recording and monitoring the expenses incurred by budget holders;
  - (m) the ESF will discuss with schools the strategic use of their reserves, and that schools will also have to report to school councils their need for retaining surplus funds;
  - (n) the ESF has entered into an alternative arrangement with its bankers to offset credit balances on its accounts with any debit balances on other accounts;
  - (o) training on cash-flow projections will be provided to school councils and administrative staff, where necessary; and
  - (p) the ESF will revise the guidance to school councils to provide for the setting up of finance sub-committees in schools to help monitor the use of school funds and the cash-flow position;
- urges the ESF to require its schools:
- (a) which do not have a bidding system for assessing the funding needs of their departments to adopt such a system for budget allocation purpose; and
  - (b) to establish formal policies and control procedures on virements of funds between budgets;

**Financial and administrative matters, procurement and energy management**

- expresses serious dismay that:

- (a) the ESF did not regularly revise its school circulars and administrative memoranda to ensure that they are up-to-date, and some of them had not been revised since the 1980s and 1990s;
- (b) some ESF schools had not set up their own internal control procedures to suit their particular circumstances;
- (c) the guidelines on internal control principles/procedures provided by the ESF to schools were inadequate, and that the internal control procedures of some schools were generally crude;
- (d) some schools had spent too generously on staff functions;
- (e) the ESF had not set any guidelines on the provision of staff welfare and benefits by schools, and that the provision was made solely at schools' discretion;
- (f) the propriety in managing travelling expenditure for official duties by school staff could have been improved;
- (g) some schools did not record and check their assets properly, thus rendering their asset registers not reliable as a tool for asset management;
- (h) the ESF had not drawn up a set of clear and comprehensive procurement guidelines to facilitate schools in procuring goods and services at best prices;
- (i) schools generally did not properly document the quotations obtained for the procurement of goods and services;
- (j) schools had not, as far as possible, coordinated their purchase orders for similar goods and services and had not taken advantage of bulk-purchase discounts to achieve savings; and
- (k) many schools had not conducted cost-benefit analysis of leasing versus outright purchase of school equipment;

- expresses dismay that:

- (a) instead of charging the expenditure on staff functions to a single account to facilitate monitoring and control, the six schools visited by the Audit Commission (Audit) had charged the expenditure to

different accounts;

- (b) schools had incurred expenses for those goods and services which were desirable but not essential;
- (c) some schools had not selected the most economical tariff available for their electricity accounts; and
- (d) some schools had not implemented energy saving measures;

- acknowledges that:

- (a) an audit committee was established in late November 2004 and it will report to the ESF Executive Committee;
- (b) the ESF internal auditor is updating the school circulars and administrative memoranda;
- (c) the ESF will place all updated and new circulars and memoranda on its website as soon as they are approved;
- (d) the ESF internal auditor has already started to update internal control procedures for schools;
- (e) the ESF plans to consider systematic auditing of internal control and to review the use of time in auditing;
- (f) the ESF will revise the structure of accounts of its schools so that all entertainment expenditure is charged to one single account;
- (g) the ESF will consider the appropriateness of setting aside an annual sum to be spent by its schools on staff functions;
- (h) the ESF will formulate a policy on the provision of staff welfare and benefits by its schools;
- (i) a policy on the reimbursement of travelling expenditure is being implemented;
- (j) the ESF will review the spending patterns of schools;
- (k) the ESF has issued revised procedure on asset recording and checking;

- (l) the ESF has issued procurement guidelines for schools;
- (m) the requirement for schools to properly document the quotations for the procurement of goods and services has been made mandatory;
- (n) the practice of central purchasing is being implemented for purchase of high-value items such as information and communication technology equipment;
- (o) 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;
- (p) the ESF will urge individual schools to always plan and coordinate the purchasing requirements;
- (q) the ESF will give more guidance on documenting the practice of conducting cost-benefit analysis of leasing versus outright purchase of school equipment;
- (r) the ESF will require its schools to select the most economical tariff available for their electricity accounts; and
- (s) the ESF will disseminate the practices of energy saving measures implemented by some of its schools to other schools;

### **Human resources management, other income and support**

- expresses alarm and finds it unacceptable that:
  - (a) some schools did not properly record, in an assessment form, the interviewer's assessment of an applicant showing his relative merits together with the reasons for recommending or not recommending him for appointment;
  - (b) most schools did not seek the approval of their school councils to endorse the most suitable applicant for appointment to school posts;
  - (c) the ESF had not set any guidelines on the conduct of performance appraisal of school staff. As a result, some schools did not have a proper arrangement for conducting regular performance appraisal of

their staff;

- (d) salary increments were granted to ESF staff automatically, taking no account of work performance;
- (e) some candidates on the ESF supply teacher list had not been registered with the Education and Manpower Bureau as registered teachers; and
- (f) some unregistered teachers had worked as supply teachers in some ESF schools;

- acknowledges that:

- (a) the ESF has issued a school circular to require its schools to document in an assessment form the assessment of an applicant for school posts;
- (b) the ESF recognises the need for school councils' involvement in decisions on staff appointments and will establish appointment sub-groups in school councils for ratifying the appointments;
- (c) the guidelines on the conduct of performance appraisal will be established through the relevant committees of the Foundation;
- (d) the setting up of a formal performance appraisal system based on the guidelines and the conduct of regular performance appraisals of school staff are stated initiatives in the ESF's Development Plan 2004-07 which will be processed through the relevant committees of the Foundation;
- (e) the ESF agrees in principle that a mechanism for awarding salary increments to its staff should be devised;
- (f) the establishment and utilisation of supply teacher lists is now being reviewed;
- (g) the ESF has insisted that the policy on the employment of only qualified teachers is strictly enforced, and will give serious consideration to establishing a centrally administered supply teacher list; and
- (h) the ESF will implement the audit recommendations stated in

paragraphs 8.8, 8.15 and 8.21 of the Director of Audit's Report;

- urges the ESF to devise a mechanism for awarding salary increments to its staff.

### Relevant papers on the English Schools Foundation

Meeting	Date of meeting	Minutes/Paper	LC Paper No.
Legislative Council	3.3.2004	Hon Emily LAU Wai-hing raised an written question on "Auditing Accounts of English Schools Foundation"	<a href="#">Official Record of Proceedings Pages 77 - 78</a>
Panel on Education	13.12.2004	Paper provided by the Administration on "Review of the subvention arrangement for the English Schools Foundation"	<a href="#">CB(2)210/04-05(01)</a>
Legislative Council	23.2.2005	Report of the Public Accounts Committee on the Reports of the Director of Audit on the Accounts of the Government of the Hong Kong Special Administrative Region for the year ended 31 March 2004 and the Results of Value for Money Audits	<a href="#">Report No. 43</a>
Panel on Education	22.3.2007	Minutes of meeting (Item V)	<a href="#">CB(2)1546/06-07</a>
		Paper provided by The English Schools Foundation	<a href="#">CB(2)1333/06-07(02)</a>
		Extracts from Chapters 3 and 4 of the Public Accounts Committee Report No. 43 dated February 2005	<a href="#">CB(2)1358/06-07(02)</a>

<b>Meeting</b>	<b>Date of meeting</b>	<b>Minutes/Paper</b>	<b>LC Paper No.</b>
		Letter from the English Schools Foundation to Ms Audrey EU dated 7 May 2007	<a href="#">CB(2)1812/06-07(01)</a>
Legislative Council	12.3.2008	Report of the Bills Committee on The English Schools Foundation (Amendment) Bill 2007	<a href="#">CB(2)1248/07-08</a>
Legislative Council	27.10.2010	Hon Abraham SHEK Lai-him raised a written question on "Increase in school fees charged by English Schools Foundation Schools"	<a href="#">Official Record of Proceedings</a> Pages 21 - 24

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