A brief account of Chapter 1 of Report 69 "Administration of lump sum grants by the Social Welfare Department" by the Director of Audit at the Public Hearing of the Public Accounts Committee of the Legislative Council on Tuesday, 12 December 2017

Mr. Chairman,

Thank you for inviting me to give a brief account of Chapter 1 of Report No. 69 of the Director of Audit, entitled "Administration of lump sum grants by the Social Welfare Department".

This Audit Report comprises six PARTs.

PART 1 of the Report, namely "Introduction", describes the background to the audit.

The Social Welfare Department (SWD) provides subventions to welfare organisations (organisations) for the provision of 140 types of welfare services, grouped generally under four areas comprising elderly services, family and child welfare services, rehabilitation services, and youth and corrections services. In January 2001, a lump sum grant (LSG) subvention system was rolled out as a major revamp of the provision of funding to organisations. The aim of introducing the LSG subvention system was to enhance organisations' efficiency and effectiveness, improve their service quality and encourage innovation. In 2016-17, the SWD paid total subventions of $12.5 billion to 165 organisations under the system.

Under the LSG subvention system, organisations have the flexibility in deploying LSG subventions to pay staff expenses and other operating costs. The SWD draws up Funding and Service Agreements (FSAs) with individual service units (ASUs) of an organisation. The FSAs define the welfare services to be provided by the ASUs. As at 31 March 2017, the SWD had drawn up FSAs for some 2,700 ASUs of the 165 organisations.

The Audit Commission (Audit) has recently conducted a review of the administration of LSGs by the SWD. The review has focused on financial monitoring, assessment and monitoring of organisations' service quality, and governance of organisations.

PART 2 of the Report primarily examines financial monitoring in relation to LSG subventions.

An organisation can retain unspent LSG subventions in a reserve to meet future spending. Audit observation revealed that the aggregate amount of these reserves had been on the rise. As at 31 March 2016, a total of $4.7 billion of reserves was retained by organisations. Audit visited six organisations and found that only some had planned their use of reserves. Meanwhile, in 2015-16, 31 organisations had incurred LSG operating deficits. Among them, 14 organisations had incurred deficits for three consecutive years, including 8 organisations that had depleted their LSG reserves.

In July 2017, the Director of Administration informed the SWD that the SWD's prevailing practice of reviewing and disclosing the remunerations of organisations' top three-tier staff (i.e. determining whether an organisation needs to make disclosure based on the 50% income threshold) had been at variance with the intents of the Circular Memorandum issued by the Director in March 2003. Owing to such variance, of the 165 organisations receiving LSG subventions in 2015-16, only 66 were required to disclose the remunerations of their senior staff.

Audit examination revealed that in addition to FSA activities as agreed with the SWD, some organisations also used LSG subventions to provide non-FSA activities, such as self-financing activities. However, the organisations had not apportioned the overheads between FSA activities and non-FSA activities. Instead, the overheads had been allocated entirely to FSA activities, thereby government subventions might have been used to cross-subsidise non-FSA activities.

Audit has recommended that the SWD should take measures to follow up and help organisations address these issues.

PART 3 of the Report examines self-assessment of service quality by organisations.

According to the SWD's LSG Manual, if a subvented organisation fails to achieve a reasonable standard of performance, the SWD may withhold or terminate its LSG subvention. To ensure that performance standards are achieved, the SWD has adopted a self-assessment mechanism. Under the mechanism, organisations are required to conduct and submit to the SWD self-assessment of attainment of performance standards on a regular basis, so that these organisations could take the initiative to improve their services. Audit examination revealed overstatement and understatement of performance reported by organisations. Audit has recommended that the SWD should remind organisations of the importance of accurate reporting of their attainment of performance standards, so as to ensure that organisations would exercise due caution in conducting self-assessment.

PART 4 of the Report examines the SWD's monitoring of services delivered by organisations.

The SWD monitors the quality of organisations' services by reviewing performance reports submitted regularly by organisations and by conducting performance visits and annual performance reviews.

From the performance reports submitted by organisations, Audit selected and examined 20 ASUs that had underperformance in Output or Outcome Standards in three or more consecutive years in the five-year period 2012-13 to 2016-17. Audit found that although the organisations concerned had submitted action plans to improve their services, the underperformance persisted. All of the ASUs had received full LSG subventions from the SWD.

Among the some 2,700 ASUs, only eight ASUs' had their subventions pegged to caseloads. As these ASUs had attained the required caseloads, they received full subventions from the SWD. However, Audit found that some ASUs had underperformed. There were also cases where no services had been provided to the service users, and some ASUs had overstated caseloads as they had not discharged users in a timely manner. Furthermore, some users had received two types of services at the same time, despite that the services should not be provided concurrently to the same user. Moreover, we found that an ASU had admitted non-FSA users into its FSA activities, but the ASU had not sought clarification from the SWD on whether such an arrangement was permissible.

Furthermore, of the 2,700 FSAs drawn up with ASUs, 2,200 (82%) did not contain Outcome Standards, and 1,700 (63%) were non-time-defined and hence the ASUs concerned were not subjected to comprehensive reviews.

Audit has recommended the SWD to follow up these issues and improve the effectiveness of organisations' services.

PART 5 of the Report examines matters relating to the governance and management of organisations.

The Best Practice Manual (BPM) encourages organisations to enhance their governance in financial management, human resource management as well as corporate governance and accountability. Audit found that some organisations did not accurately report their implementation of the BPM guidelines in their self-assessment reports. In addition, the SWD had not incorporated into the BPM four items relating to human resource management.

Of the six organisations visited, Audit found that only two had compiled attendance rates of board/committee members. In the period 2013-14 to 2015-16, the proportion of board/committee members who did not attend any board/committee meetings was as high as 21%. Furthermore, four organisations had not used registration forms to record members' declaration of interests. During 2013-14 to 2015-16, staff turnovers of the six organisations were on the high side, ranging from some 14% to 35%. Audit further noted that pay-related issues had affected the organisations' staff morale and stability.

Audit has recommended that the SWD should follow up the above issues, alert organisations to these issues and render assistance to them.

PART 6 of the Report examines issues relating to the review of the LSG subvention system.

More than eight years have elapsed since the LSG subvention system was last reviewed, it is now an opportune time to conduct a further review to optimise the system.

Our views and recommendations had been agreed by the department/bureau concerned. I would like to take this opportunity to acknowledge with gratitude their full cooperation and assistance as well as positive response during the course of the audit review.

Thank you, Mr. Chairman.