

CHAPTER 4

**THE GOVERNMENT OF THE
HONG KONG SPECIAL ADMINISTRATIVE REGION**

GENERAL REVENUE ACCOUNT

GOVERNMENT SECRETARIAT

Education and Manpower Bureau

GOVERNMENT DEPARTMENTS

Education Department

Student Financial Assistance Agency

Social Welfare Department

**Government's support and administration
of kindergarten education**

GOVERNMENT’S SUPPORT AND ADMINISTRATION OF KINDERGARTEN EDUCATION

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GOVERNMENT'S SUPPORT AND ADMINISTRATION OF KINDERGARTEN EDUCATION

Summary and key findings

A. **Introduction.** In Hong Kong, children aged between three to six usually receive kindergarten education. All kindergartens are privately run and are categorised as non-profit-making kindergartens or private kindergartens. In September 1999, 171,000 children were enrolled in 756 kindergartens. The Government aims to promote the development of high quality kindergarten education within a non-compulsory private sector school system. This is achieved through a programme of support for kindergarten education, which includes: (a) registration of all kindergartens under the Education Ordinance (Cap. 279) to ensure compliance with the statutory requirements; (b) advice to kindergarten operators on the curriculum; (c) upgrading of the qualifications of kindergarten teachers and principals; (d) refund of rent, rates and government rent to non-profit-making kindergartens; (e) assistance to needy parents to pay kindergarten fees; and (f) direct subsidy to eligible kindergartens (paras. 1.2 to 1.4).

B. **Audit review.** Audit has conducted a review of the Government's support and administration of kindergarten education (paras. 1.7 to 1.8). The audit findings are summarised in paragraphs C to I below.

C. **Control of kindergartens' miscellaneous fees.** While school fees charged by kindergartens are subject to the Education Department's assessment and approval, miscellaneous fees charged by kindergartens are not subject to such control. Because of the lack of control on miscellaneous fees, many kindergartens derived substantial profits from such fees. The average profit margin from miscellaneous fees income of the kindergartens selected by Audit for examination was 159%. Although the Education Department (ED) has issued guidelines on the profit limit of 15% on selling school items, many kindergartens selected for examination did not follow the ED's advice. These guidelines did not explicitly mention whether the profit limit also applied to the provision of paid services such as birthday parties and graduation ceremonies (paras. 2.2 to 2.11).

D. **Services provided by the Advisory Inspectorate of the ED.** The ED's Advisory Inspectorate (Inspectorate) is responsible for monitoring, evaluating and improving the quality of teaching and learning in kindergartens. Despite the fact that non-profit-making kindergartens receiving government financial assistance had better performance in the delivery of education, the Inspectorate put more emphasis on inspecting them. In the past five years, kindergartens with good or satisfactory performance had on average been inspected once every 2.9 years. However, kindergartens with less than satisfactory performance had on average been inspected once every 3.2 years (paras. 3.4 to 3.12).

E. Many kindergartens had consistently been assessed by the Inspectorate to have less than satisfactory performance. This indicates that, in assisting these kindergartens to improve the quality of kindergarten education, the Inspectorate's work has been less than effective. Audit observed that the Inspectorate had not taken timely follow-up inspections on those kindergartens with less than satisfactory performance, and that there was a lack of post-inspection support. Furthermore, the Inspectorate has only played an advisory role in the delivery of kindergarten education (paras. 3.17 to 3.28).

F. **Refund of rent, rates and government rent.** The objective of the rent and rates reimbursement is to provide financial assistance to non-profit-making kindergartens to meet their rental expenses so that they do not have to charge the parents higher school fees. The total expenditure on such reimbursement amounted to \$160 million in 1999-2000. Audit noted that some kindergartens had profit levels substantially higher than the amount of rent and rates reimbursement. It is doubtful whether the Government should continue to provide financial assistance to these kindergartens (paras. 4.2 to 4.9).

G. **Kindergarten Subsidy Scheme (KSS).** The KSS provides a direct subsidy to non-profit-making kindergartens, so that they can employ professionally trained teachers to meet the minimum proportion of qualified kindergarten teachers required by the Government without having to increase their fees substantially. The expenditure on the KSS amounted to \$113 million in 1999-2000. One of the conditions that the KSS kindergartens have to fulfill is that they should maintain an acceptable operating standard in both management and professional aspects. Audit noted that 13 kindergartens under the KSS were assessed to have less than satisfactory performance in the school year 1998-99. Of these 13 kindergartens, six of them had regularly been given less than satisfactory assessment since the school year 1990-91. Apart from issuing one warning letter to a kindergarten, the ED had not taken any action against the other five KSS kindergartens (paras. 4.12 to 4.17).

H. **Management information of kindergarten education.** There has been a lack of adequate management information to facilitate the planning and decision making of the ED's senior management. For example, there was inadequate management information summarising the performance of kindergartens, broken down into different categories of kindergartens, and showing the trend of performance over a period of time (paras. 5.2 to 5.5).

I. **Kindergarten Fee Remission Scheme (KGFRS).** The KGFRS is administered by the Student Financial Assistance Agency (SFAA). The KGFRS provides parents-in-need with financial assistance in the form of fee remission, so that their children can receive kindergarten education. The total expenditure on fee remission amounted to \$311 million in 1999-2000. All applications for fee remission are subject to a means test. Audit observed that many applicants had used self-certified income statements as income proof, which are not entirely reliable, and that the SFAA did not specifically target these applicants for home visits to verify the details of applications for fee remission (paras. 6.2 to 6.11). The SFAA did not require applicants to submit documentary proof of dependant

parents and other dependant children to substantiate the information given in the application. There were cases where claims for dependant parents were not substantiated (paras. 6.14 to 6.18). Both the SFAA and the Social Welfare Department (SWD) processed applications for school fee assistance. Audit noted that there were irregularities and overpayments in some cases. Audit further noted that the SFAA can improve the performance of operations of the various student financial assistance schemes it administers by conducting an internal benchmarking exercise (paras. 6.21 to 6.27 and 6.33).

J. **Audit recommendations.** Audit has made the following main recommendations that:

— the Director of Education should:

- (i) extend the profit limit of 15% to cover all the paid services provided by kindergartens (para. 2.12(a));
- (ii) issue warning letters to and introduce stiffer sanctions against those kindergartens which have failed to follow the ED's guidelines on the maximum profit margin for selling school items and providing paid services (para. 2.12(c) and (d));
- (iii) inspect those kindergartens with less than satisfactory performance more frequently (first inset of para. 3.15);
- (iv) conduct follow-up inspections on a timely basis to ensure that kindergartens have taken necessary action on the ED's recommendations (first inset of para. 3.29);
- (v) provide post-inspection support to kindergartens with less than satisfactory performance (second inset of para. 3.29);
- (vi) establish a mechanism for dealing with kindergartens which have a consistently poor record of performance (third inset of para. 3.29);
- (vii) review the need for rent and rates reimbursement to kindergartens which have made substantial profits (second inset of para. 4.10);

- (viii) issue warning letters to those KSS kindergartens with less than satisfactory performance and take appropriate sanction measures against those kindergartens which make no improvement (first and third insets of para. 4.18);
 - (ix) develop a computerised management information system to facilitate the analysis and retrieval of crucial management information (second inset of para. 5.6); and
 - (x) improve on the crucial management information and make it available to the ED's senior management (third inset of para. 5.6);
- the Controller, SFAA should:
- (i) discourage the use of self-certified income statement as income proof and use a risk-based approach to conducting home visits (first and second insets of para. 6.12);
 - (ii) request applicants to submit documentary proof of dependant family members in appropriate cases and consider cross-checking with the records of the SWD (para. 6.19); and
 - (iii) conduct an internal benchmarking exercise to identify improvement opportunities for administering student financial assistance schemes (first inset of para. 6.34).
- the Director of Social Welfare should take prompt actions to detect and rectify the irregularities in school fee assistance paid under the Comprehensive Social Security Assistance Scheme, and provide adequate guidelines to staff to ensure that they are familiar with the KGFRS (para. 6.28); and
- the Controller, SFAA and the Director of Social Welfare should run a computer program to facilitate data matching and verification of records (second inset of para. 6.29).

K. Response from the Administration. The Administration has generally accepted the audit recommendations. The Secretary for Education and Manpower has said that she welcomes the audit review highlighting areas for improvement which will help rectify existing malpractices among kindergartens.

PART 1: INTRODUCTION

1.1 This PART describes the background to kindergarten education in Hong Kong and the objective and scope of the audit review.

Background

1.2 Kindergarten education in Hong Kong refers to education offered to children aged between three to six. In Hong Kong, all kindergartens are privately run. They can be categorised as non-profit-making kindergartens or private kindergartens, depending on their sponsoring organisations which can be either voluntary agencies or private enterprises. In September 1999, 171,000 children were enrolled in 756 kindergartens as follows:

Kindergartens	Number	Children	Percentage of children
Non-profit-making	468	110,000	64%
Private	288	61,000	36%
Total	<u>756</u>	<u>171,000</u>	<u>100%</u>

Government's support and administration of kindergarten education

1.3 The Government aims to promote the development of high quality kindergarten education within a non-compulsory private sector school system. This is achieved through the following support programmes for kindergarten education:

- *Registration of all kindergartens under the Education Ordinance (Cap. 279).* Inspectors of the Education Department (ED) visit registered kindergartens regularly to ensure compliance with the statutory requirements (e.g. charging of school fees as approved by the ED, maximum number of children in a classroom and safety standards);
- *Advice to kindergarten operators on the curriculum.* The Advisory Inspectorate of the ED conducts regular visits to kindergartens to give advice to principals and teachers on matters such as the curriculum and teaching approaches; and
- *Upgrading of the qualifications of kindergarten teachers and principals.* Since September 1995, the minimum entry qualifications for new kindergarten teachers have been raised. They are required to have completed Secondary Five education with at least two passes in the Hong Kong Certificate of Education Examination, one of which must be Chinese Language or Chinese Literature. Since September 1997, all kindergartens

have been required to have at least 40% of their teachers professionally trained to become Qualified Kindergarten Teachers (QKTs). The ratio is increased yearly. By September 2000, at least 60% of the teachers in each kindergarten should be QKTs. To become a QKT, a person has to complete a one-year part-time training course recognised by the ED. Starting from September 2002, all newly appointed kindergarten principals must have completed the Certificate in Kindergarten Education Course.

1.4 While the Government does not operate any kindergartens, it provides funding for kindergarten education, which takes the following forms:

- *Refund of rent, rates and government rent to non-profit-making kindergartens.* Since 1982, non-profit-making kindergartens, upon successful applications, have been provided with financial assistance by the ED in the form of rent and rates reimbursement. These kindergartens would not have to charge the parents higher school fees to meet their rental expenses. Government rent has also been reimbursed since 1997. Funding for such reimbursement for the financial year 1999-2000 was \$160 million;
- *Assistance to needy parents to pay kindergarten fees.* In 1990, the Kindergarten Fee Remission Scheme (KGFRS) was introduced to provide needy parents with financial assistance, so that their children could receive kindergarten education. The KGFRS is administered by the Student Financial Assistance Agency (SFAA). In the financial year 1999-2000, funding for the Scheme was \$311 million; and
- *Direct subsidy to eligible kindergartens.* Since 1995, financial assistance has been provided to non-profit-making kindergartens under the Kindergarten Subsidy Scheme (KSS). This Scheme enables kindergarten operators to employ QKTs and to pay them the salaries recommended by the Government, so as to improve the quality of kindergarten education and to minimise the impact of fee increases on parents. In the financial year 1999-2000, funding for the KSS was \$113 million.

Recent events

1.5 In early 1999, there was extensive media coverage alleging that certain kindergartens were unregistered. They were also alleged to have over-enrolled pupils, overcharged school fees and admitted under-aged pupils. In November 1999, the Office of the Ombudsman completed an investigation into the registration and inspection of kindergartens overseen by the ED. The Ombudsman made a number of recommendations. At the time of audit, the ED was in the process of implementing the Ombudsman's recommendations. This audit review does not cover those issues which have already been investigated by the Ombudsman.

1.6 In early 1999, the Education Commission (EC) carried out a comprehensive review of the overall education system which includes early childhood education. The review of early childhood education focused on professional competence, quality assurance and monitoring systems, and interface between early childhood education and primary education. In July 2000, the EC completed the final stage of public consultation on reform proposals on the overall education system. As far as early childhood education is concerned, the EC's aim is to examine the future

development with a view to building up a new culture for quality early childhood education in Hong Kong in the 21st century. This audit does not cover those areas where recommendations have been made by the EC.

Audit review

1.7 Audit conducted a review of the Government's support and administration of kindergarten education. Audit has noted that there is scope for improvement in the following areas:

- the control of miscellaneous fees charged by kindergartens (Part 2);
- the services provided by the Advisory Inspectorate (Part 3); and
- the administration of the refund of rent, rates and government rent and the KSS (Part 4).

In addition, Audit also examined the adequacy of management information of kindergarten education (Part 5).

1.8 As regards the SFAA, Audit has observed that there is room for improvement in the administration of the KGFRS (Part 6).

General response from the Administration

1.9 The Administration has generally accepted the audit recommendations. The **Secretary for Education and Manpower** has said that:

- she welcomes the audit report highlighting areas for improvement which will help rectify existing malpractices among kindergartens. In line with the EC's review of the education system in Hong Kong, the Education and Manpower Bureau (EMB) acknowledges the importance of early childhood education in a person's development and has pledged to ensure that no one is deprived of early childhood education for the lack of financial means; and
- the EMB is also committed to enhancing the quality of early childhood education through a package of measures. This includes closer monitoring, more stringent law enforcement, increasing the transparency of kindergarten profiles and operations, performance indicators, quality assurance through self-evaluation and whole-school inspections, upgrading of training and qualifications of teachers and principals, promoting best practices, and enhancing home-school cooperation.

PART 2: CONTROL OF KINDERGARTENS' MISCELLANEOUS FEES

2.1 This PART examines the adequacy of control of miscellaneous kindergarten fees by the ED.

Control of school fees and miscellaneous fees charged by kindergartens

2.2 To ensure that the school fees charged by kindergartens are reasonable and not excessive, the Director of Education is empowered under section 14(1)(d) of the Education Ordinance and regulation 65 of the Education Regulation to control and approve the school fees charged by kindergartens. All kindergartens are required to submit their applications for fee increase to the ED for assessment and approval.

2.3 Under the ED's fee assessment mechanism, the fee levels are determined on the basis of the kindergartens' estimated income and expenditure, and are subject to profit ceilings of 5% of the expenditure for non-profit-making kindergartens and 10% of the expenditure for private kindergartens.

2.4 While school fees are subject to the ED's assessment and approval, similar controls do not exist for monitoring the miscellaneous fees charged by kindergartens for the sale of school items and other paid services. These miscellaneous fees include charges for:

- *sale of school items* such as textbooks, workbooks, school uniforms, school bags and stationery; and
- *providing paid services* such as birthday parties, graduation ceremonies, Christmas parties and other occasional celebrations.

Guidelines on charging of miscellaneous fees

2.5 In connection with the sale of school items to pupils of kindergartens, since 1975, the ED has issued and regularly updated (the latest update was made in 1995) a code of practice to provide guidance to kindergartens on how these items should be charged. Where kindergartens are involved either directly or indirectly in the sale of such items to pupils, they are advised to observe the guideline that the profit from the sale of school items should be limited to 15% of the cost price of the kindergartens' suppliers and that no purchase should be compulsory. The provision of paid services was not explicitly mentioned in the 1995 code of practice.

2.6 In April 2000, the ED issued a circular, covering the sale of school items and the provision of paid services to pupils, to inform kindergartens of further guidelines to be observed. The salient points of the guidelines are that:

- the items or services should be solely for teaching and learning purposes. Items necessary for the operation of the kindergarten (students' handbooks, attainment records, teaching aids, etc.) should be covered by the operational expenses; and
- kindergartens should inform parents in writing that the acquisition of school items or the services is entirely voluntary, and should clearly inform parents about the charges of such items or services.

Audit review of control of miscellaneous fees

2.7 Audit conducted a review to ascertain whether there were adequate controls over the charging of miscellaneous fees. Audit randomly selected and analysed the 1998-99 (Note 1) audited accounts of 50 kindergartens submitted to the ED. The audited accounts selected are restricted to those non-profit-making kindergartens in receipt of KSS. These kindergartens have to submit audited accounts to enable the ED to verify if the KSS subsidies have been spent solely on teachers' salaries. However, non-profit-making kindergartens in receipt of rent, rates and government rent reimbursement and private kindergartens are normally not required to submit audited accounts to the ED.

2.8 Of the 50 accounts analysed, Audit found that the profit margin from miscellaneous fees income could be as high as 445%. The average profit margin was 159%. Details of the audit analysis are at Appendix A. On average, the miscellaneous fees income represented 18% of the total income (inclusive of school fees, miscellaneous fees and government subsidies) of the kindergartens.

2.9 The high profit margin from miscellaneous fees is a cause for concern. To ascertain whether these kindergartens had followed the ED's advice that the profit from the sale of school items should be limited to 15% of the cost price of the kindergartens' suppliers, Audit analysed the accounts of 40 kindergartens (out of the 50 accounts mentioned in paragraph 2.7 above) because these audited accounts contained sufficient details. (Note: as mentioned in paragraph 2.5 above, the ED has not issued any specific guidelines on the profit limit on the provision of paid services such as parties and celebrations.)

Note 1: *Unless otherwise stated in the audit report, all years refer to school years (i.e. from September to August of the following year).*

2.10 Audit found that all of these 40 kindergartens had not followed the ED's advice on the 15% profit limit. The profit level of 31 kindergartens even exceeded 100% of the related costs. On average, the profit from sale of school items amounted to 141% of the related costs, which far exceeded the limit of 15% suggested by the ED. Details of Audit's analysis are at Appendix B.

Audit observations and recommendations on control of miscellaneous fees

2.11 While school fees charged by kindergartens are subject to the ED's assessment and approval, miscellaneous fees charged by kindergartens are not. **Because of the lack of control, many kindergartens derived substantial profits from miscellaneous fees. As pointed out in paragraph 2.8 above, the average profit margin from miscellaneous fees income of the selected kindergartens (which are non-profit-making kindergartens in receipt of KSS) was 159%. The higher the profit from miscellaneous fees, the more the parents have to pay.** Although the ED has issued guidelines on the profit limit on selling school items, many kindergartens selected for examination did not follow these guidelines. Furthermore, the ED has not issued any specific guidelines on the profit limit on the provision of paid services such as parties and celebrations. While Audit did not have information on other kindergartens, the high rate of kindergartens found not following the ED's advice suggests that the situation may not be entirely satisfactory.

2.12 **Audit has recommended that the Director of Education should:**

- (a) **extend the profit limit of 15% to cover all the paid services provided by kindergartens;**
- (b) **ensure that kindergartens comply with the guidelines on maximum profit margin, as stipulated in the ED's circulars or codes of practice on selling school items and providing paid services, by test-checking the records of a number of kindergartens;**
- (c) **issue warning letters to the operators of kindergartens who have failed to follow the ED's guidelines on maximum profit margin for selling school items and providing paid services;**
- (d) **introduce stiffer sanctions (e.g. promulgating the names or withdrawing government financial assistance) against those kindergartens which have repeatedly ignored the ED's advice; and**
- (e) **consider, as a last resort, cancelling the registration of those hard-core kindergartens which have consistently ignored the ED's advice and warning letters, and failed to make improvements.**

Response from the Administration

2.13 The **Secretary for Education and Manpower** has said that she recognises that miscellaneous fees are a grey area which has been exploited by profiteering kindergartens. The ED will redefine school fees to include miscellaneous fees, which are essential to a child's education, so that they will also be subject to approval by the Director of Education in future.

2.14 The **Director of Education** has said that:

- (a) the miscellaneous fees, which do not form part of the school fee, are collected through trading activities. As education service providers, kindergarten operators should be self-regulated and held accountable to parents for ensuring that the profit obtained from trading operation is reasonable. While trading operation, being a non-educational activity, is not subject to the ED's approval, the codes of practice and circulars that the ED issued in 1995 and 2000 on the sale of school items and providing paid services have provided clear guidelines for kindergarten operators to follow on conducting such activities;
- (b) the ED would revise the guidelines issued in 1995 to spell out explicitly the profit limit of 15% for paid services provided by schools and draw the attention of kindergarten operators to the 15% profit limit again during school inspections. In addition, the ED will redefine more clearly the components of school fee to prevent the collection of miscellaneous charges for essential items, such as electricity for air-conditioning, supplementary reading/working sheets prepared by schools, teaching aids, original copy of student card, etc., and put this into practice in 2001-02. The list of essential components of schools' fees will be shown in the ED Homepage and included in the kindergarten profiles for parents' information;
- (c) given that miscellaneous fees are paid to schools during trading activities at the choice of parents, the ED believes that increasing the transparency on the collection of miscellaneous charges by providing more information to parents and promoting parental education are far more efficient and effective in monitoring such activities. To this end, the ED has been collaborating with the Consumer Council with a view to helping parents to exercise their consumer rights and naming non-complying kindergartens in serious cases. The ED will also include information on miscellaneous fees in the 2000-01 kindergarten profiles for parents' reference. Kindergartens' responses to the invitation to provide information for publication in the 2000-01 kindergarten profiles will be reviewed. For kindergartens in receipt of government subsidy under the KSS/the scheme on reimbursement of rent and rates, the ED will consider withdrawing the subsidy for repeated non-compliance of the guidelines;

- (d) the ED does not rule out the possibility of considering legislative amendments to the Education Regulations to make providing the information of miscellaneous fees mandatory, if the situation warrants it;

- (e) instead of test-checking the details of profits derived from selling school items and providing paid services in a number of kindergartens, the ED will implement a series of other monitoring measures, details of which are stated in insets (b), (c) and (d) above. With all the measures in place, kindergartens will be unable to collect fees for essential items, the expenditure of which should be included in school fees. The increasing transparency coupled with the naming of kindergartens in serious cases of non-compliance will have sufficient deterrent effect to those kindergartens which have charged high miscellaneous fees. During the course of implementation of the various measures, the ED will review the situation and look for room for further improvement in this aspect, where necessary. For those found to have charged excessive miscellaneous fees, the ED may consider asking them to submit additional information on miscellaneous fees;

- (f) in parallel, the ED will continue its effort to monitor the operation of kindergartens through:
 - (i) inspecting the school records related to the sale of school items and paid services to ensure that the purchase and acquisition of paid services are entirely voluntary;

 - (ii) conducting investigations into written allegations for non-compliance with the guidelines; and

 - (iii) issuing warning letters for substantiated irregularities; and

- (g) at the same time, the ED will continue to impress on kindergarten operators the need to adhere to the ED's guidelines. In fact, the issue on collection of miscellaneous fees was one of the topics covered in the workshop on registration and management held in early August this year for kindergarten operators. The ED will continue to organise similar workshops on a regular basis.

**PART 3: SERVICES PROVIDED BY
THE ADVISORY INSPECTORATE OF THE ED**

3.1 This PART examines the work of the Advisory Inspectorate of the ED.

Aims and principles of kindergarten education

3.2 The Guide to the Pre-primary Curriculum, which was endorsed by the Curriculum Development Council (CDC — Note 2) in 1996 and issued for the guidance of all kindergartens, states that:

“the overall aim of kindergarten education is to provide children with a balanced development in the moral, intellectual, physical, social and aesthetic aspects.”

The Guide also states that:

- the kindergarten curriculum should take into account the developmental characteristics and individual needs of young children with due emphasis on sensory experience, observation and experiments to arouse children’s interest in learning;
- factual knowledge obtained through stereotype textbook teaching or rote-learning is only superficial. These teaching methods will only curb the creativity and cognitive thinking of children, and do not guarantee that children can remember and make use of the knowledge acquired; and
- *therefore, children should be educated in a natural and pleasant environment, and it is through various activities and life experiences that children attain a balanced development in different aspects.*

Note 2: *The CDC advises the Government, through the Director of Education, on matters relating to school curriculum development from kindergarten to the sixth form. It has a three-tier structure and operates through a system of coordinating committees. Membership of the CDC and its coordinating and subject committees includes heads of schools, teachers, tertiary academics, representatives from the Hong Kong Examinations Authority and the Vocational Training Council, parents and employers.*

3.3 In planning the kindergarten curriculum, it is stated in the Guide that the kindergartens should follow these major principles:

- catering for the overall physical, intellectual, language, emotional and social development of children;
- motivating children's curiosity and thirst for knowledge, and encouraging interaction and independent thinking;
- fostering knowledge, skills and attitudes in different areas of learning; and
- providing children with opportunities to express themselves, to be creative and to enjoy the fun of activities.

Functions of the Advisory Inspectorate

3.4 According to section 80 of the Education Ordinance, the Director of Education and any inspector of schools may inspect any school for the purposes of ascertaining whether the Ordinance is being complied with and whether the school is being operated satisfactorily.

3.5 The Kindergarten Section of the Advisory Inspectorate Division of the ED (hereinafter referred to as the Inspectorate) is responsible for monitoring, evaluating and improving the quality of teaching and learning in kindergartens. The Inspectorate ensures that the aims and principles of kindergarten education have been pursued by kindergartens. To fulfill its role, it undertakes the following three main kinds of activities:

- ***Kindergarten inspections.*** The Inspectorate regularly carries out full inspections of kindergartens to assess the standards of teaching and learning, to identify areas of strengths and weaknesses and to provide advice for improvement. It also conducts other inspections such as follow-up inspections and complaint inspections as situations warrant;
- ***In-service teacher training.*** The Inspectorate conducts in-service teacher training programmes in the form of workshops and seminars to help teachers keep abreast of new teaching techniques and curriculum innovations; and

- *Advisory and supporting services.* To enhance the curriculum support to kindergartens, the Inspectorate provides educational services such as producing curriculum reference materials.

Organisation of the Inspectorate

3.6 The Inspectorate is headed by a Principal Inspector, who is assisted by a team of Inspectors and Assistant Inspectors. As at 30 September 1999, the Inspectorate had the following ranks and number of staff:

Rank	Establishment	Strength
Principal Inspector	1	1
Inspectors	5	5
Assistant Inspectors	4	3
Total	<u>10</u>	<u>9</u>

Inspection system

3.7 Inspection enables the Inspectorate to assess the quality of education being delivered in kindergartens, to form a basis of knowledge for disseminating good practices, and to assist kindergartens with less than satisfactory performance. The Inspectorate allocated most of its staff resources to inspections (see Table 2 in paragraph 3.13 below). In 1998-99, the Inspectorate conducted 298 full inspections and 37 other inspections.

3.8 The Principal Inspector of the Inspectorate determines the frequencies and priorities of kindergartens to be visited by the inspectors according to her knowledge and experience of kindergartens. She submits, on a half-yearly basis, an Inspection Work Plan for the approval of the Assistant Director of Education (Chief Inspector of Schools), who is the head of the Advisory Inspectorate Division of the ED. The Inspection Work Plan lists out the kindergartens to be visited for full inspection by each inspector in the coming half year.

Audit observations on inspection system

3.9 Audit conducted an analysis of the types of the 298 kindergartens that were selected for full inspection by the Inspectorate in 1998-99. Details are shown in Table 1 below.

Table 1

Kindergartens selected for full inspection in 1998-99

Type of kindergartens	Number of kindergartens selected for full inspection	Total number of kindergartens	Percentage of kindergartens inspected
	(a)	(b)	(c) = (a) ÷ (b) × 100%
Non-profit-making:			
• and receiving government financial assistance	208	396	53%
• but not receiving any government financial assistance	20	59	34%
Private	70	289	24%
Total	<u><u>298</u></u>	<u><u>744</u></u>	

Source: ED's records

3.10 As can be seen from Table 1 above, more non-profit-making kindergartens receiving financial assistance from the Government were inspected (53%) than those **not** in receipt of any government financial assistance (34%), and private kindergartens (24%).

3.11 However, Audit noted that non-profit-making kindergartens receiving government financial assistance, as assessed by the Inspectorate, generally performed better than other types of kindergartens in the delivery of education. (The performance of kindergartens will be dealt with in paragraphs 3.21 to 3.28 below). It can be seen from Table 3 in paragraph 3.21 below that, for example, 91% (i.e. 189 out of 208) of non-profit-making kindergartens receiving government financial assistance were assessed to have "satisfactory" performance (Note 3). However, only 65% (i.e. 13 out of 20) of the non-profit-making kindergartens not receiving any government financial assistance, and 44% (i.e. 31 out of 70) of the private kindergartens inspected received a "satisfactory" performance. **This casts doubt on whether the current practice of putting more emphasis on inspecting those non-profit-making kindergartens receiving government financial assistance is appropriate.**

Note 3: *The performance of kindergartens can be broadly classified into "good", "satisfactory" and "less than satisfactory".*

3.12 Audit further noted that, for the past five years from 1994-95 to 1998-99, on average, kindergartens with “good” or “satisfactory” performance were inspected once every 2.9 years. However, inspection for kindergartens with “less than satisfactory” performance took a longer interval of 3.2 years (see Appendix C for details of calculations). Audit considers that this arrangement is not entirely satisfactory. **To enable the Inspectorate to advise sooner the management of the kindergartens concerned for the implementation of improvements, kindergartens with “less than satisfactory” performance should be inspected more frequently than those with better performance.**

3.13 In addition to the half-yearly Inspection Work Plan which sets out the kindergartens to be visited for full inspection (paragraph 3.8 above), the Principal Inspector also prepares a plan that summarises the staff resources available in the Inspectorate and the deployment of such resources to various activities of the Inspectorate. An audit analysis of the staff resources used for the three years from 1996-97 to 1998-99 is shown in Table 2 below.

Table 2

Percentage of inspectors’ time spent on various activities for the period 1996-97 to 1998-99

Activities of the Inspectorate	1996-97	1997-98	1998-99
	(%)	(%)	(%)
Main activities			
Kindergarten inspections	55	48	49
In-service teacher training	11	9	7
Advisory and supporting services	14	20	17
Sub-total	<u>80</u>	<u>77</u>	<u>73</u>
Administration and staff development			
Administration and office routine	16	19	22
Staff development	4	4	5
Sub-total	<u>20</u>	<u>23</u>	<u>27</u>
Total	<u>100</u>	<u>100</u>	<u>100</u>

Source: ED’s records

3.14 As can be seen from Table 2 above, in those three years, the percentage of time spent on each activity has fluctuated. For example, the time spent on administration and office routine increased from 16% to 22%, while the time spent on the more essential task of inspection decreased from 55% to 49%. **Given that the role of the Inspectorate is to ensure the quality of kindergarten education, the decrease in resources allocated to inspections is a matter of concern.**

Audit recommendations on inspection system

3.15 Having regard to the objective of inspection which is to ensure the quality of kindergarten education, **Audit has recommended that the Director of Education should:**

- **inspect those kindergartens with less than satisfactory performance more frequently;**
- **consider setting up a rated-point inspection system to determine the priorities and frequencies for visiting kindergartens;**
- **in setting up the rated-point system, consider taking the following factors into consideration:**
 - (i) **past inspection results;**
 - (ii) **number of pupils enrolled;**
 - (iii) **complaints received; and**
 - (iv) **number of teaching staff and their qualifications; and**
- **review the adequacy of resources allocated to inspections, having regard to the proposed rated-point system.**

Response from the Administration

3.16 The **Director of Education** has said that:

- starting from the 2000-01 school year, the ED will adopt a new inspection mode — Quality Assurance Inspection (QAI) to kindergartens based on the experience of quality assurance inspections conducted in primary and secondary schools in the past three years. Kindergartens will be selected for QAI on a stratified random sample basis, according to past performance results, in order to cover and reflect the overall performance of kindergartens at territory-wide level. The ED plans to make public the QAI reports starting from 2001-02. This helps to increase school transparency and accountability, thus encouraging kindergartens to make continuous improvement. The ED will publish annual summary reports which highlight the strengths and weaknesses identified during inspections to kindergartens. These reports will also contain summary information on the various aspects of performance of kindergartens inspected. The annual summary reports will give useful information on the quality of kindergarten education, which in turn reflects the effectiveness of the whole monitoring system;

- the ED believes that in order to monitor and improve the quality of education in schools, the most effective way is to adopt a “pressure and support” approach. Indeed, this is in keeping with the best practice elsewhere. Inspections to individual kindergartens are conducted as a drive of external pressure for implementation of quality curriculum. Meanwhile, the ED also provides various support measures to encourage schools’ self-improvement. Providing support services (e.g. issuing guidelines and curriculum reference materials, developing performance indicators for reference of kindergartens, organising seminars/workshops on curriculum implementation for kindergarten teachers, and giving talks on various curriculum aspects to groups of kindergartens) leads inevitably to more administration work. The Inspectorate also provides advice and professional support to the ED directorate on policy and curriculum issues. In addition, the Inspectorate handles an increasing number of public enquiries requiring professional input. As a result, the time spent on administration and office routine has increased; and

- nevertheless, the ED will review the adequacy of resources allocated to inspections, having regard to the new QAI mode.

Inspection of kindergartens

3.17 In conducting a full inspection, the inspectors are provided with guidelines on how to assess whether a kindergarten has achieved the aims of kindergarten education (see paragraphs 3.2 and 3.3 above). Six major aspects are normally examined in such an inspection. They are:

- (a) management and coordination;

- (b) curriculum organisation and planning;

- (c) class teaching;
- (d) pupils' learning;
- (e) assignments and assessment; and
- (f) resources for teaching and learning.

3.18 After each inspection, the inspector has to compile an inspection report. The report gives details of the following:

- the kindergarten's strengths and weaknesses in the six aspects;
- advice and recommendations for improvement given **verbally** during the inspection to the head of kindergarten;
- an overall performance of the kindergarten (i.e. good, satisfactory, and less than satisfactory); and
- follow-up actions (such as another visit) if necessary.

3.19 The inspection reports are for the ED's internal reference only. They are not made available to the kindergartens concerned or to the public.

3.20 Depending on the size and characteristics of the kindergartens, the average time spent on a full inspection was about two and half mandays, including the time spent on preparation, inspection, travelling and report writing.

Performance of kindergartens

3.21 In 1998-99, the Inspectorate conducted 298 full inspections. The performance of these 298 kindergartens is shown in Table 3 below.

Table 3

Performance of kindergartens in 1998-99

Type of kindergarten	Performance							
	Good		Satisfactory		Less than satisfactory		Total	
	(No.)	(%)	(No.)	(%)	(No.)	(%)	(No.)	(%)
Non-profit-making:								
• and receiving government financial assistance	5	2%	189	91%	14	7%	208	100%
• but not receiving any government financial assistance	1	5%	13	65%	6	30%	20	100%
	6	3%	202	88%	20	9%	228	100%
Private	2	3%	31	44%	37	53%	70	100%
	—		—		—		—	
Total	8	3%	233	78%	57	19%	298	100%

Source: ED's records

3.22 As can be seen from Table 3 above, non-profit-making kindergartens received higher overall ratings than private kindergartens. While only 9% of non-profit-making kindergartens were assessed as “less than satisfactory”, 53% of private kindergartens were assessed as “less than satisfactory”.

3.23 Audit reviewed the ED’s inspection files of the 57 kindergartens (see Table 3 above) with less than satisfactory performance to ascertain the reasons for such performance. Audit noted from the inspection reports that these kindergartens had some of the following weaknesses (classified according to the six major aspects assessed by the Inspectorate — see paragraph 3.17 above) in the delivery of kindergarten education:

Management and coordination

- (a) the kindergarten was loosely managed. Teachers lacked supervision and guidance;
- (b) staff meeting was infrequent, and records of meetings were not properly kept;
- (c) coordination among teachers was lacking;

Curriculum organisation and planning

- (d) no curriculum planning was made, or the curriculum was loosely planned and organised;
- (e) the curriculum was not planned to cater for all-round development for children;
- (f) the curriculum adhered strictly to books of the resource packages and was biased towards academic learning of reading, writing and arithmetic. Much emphasis was put on rote-learning, repetitive and mechanical copying and recitation exercises;
- (g) teaching/learning programmes were not designed to cater for children’s diversified abilities, needs and interest. Some kindergartens put too much emphasis on the learning of English. Some schemes of work were set beyond children’s abilities;

Class teaching

- (h) the quality of teaching varied among teachers. Trained teachers usually showed better performance than untrained teachers;

- (i) teachers showed little knowledge and skills in teaching young children and were extremely weak in handling class discipline;
- (j) class teaching was very much teacher-directed and biased towards learning of book knowledge. Activities were not well-planned and not interesting. Teachers failed to make more effective use of teaching aids to facilitate the achievement of teaching objectives;

Pupils' learning

- (k) learning was mainly achieved by rote. Children learnt passively but attentively in class. Classroom atmosphere was dull;
- (l) little chance was given for free play and child-initiated activities, thus limiting children's opportunities to develop their divergent and creative thinking;
- (m) children were forced to learn at the same pace and their individual needs were being overlooked;

Assignments and assessment

- (n) children were given excessive classwork and homework written assignments. The type of assignments was mainly mechanical drills. The demand of writing ability was high and was beyond children's ability;
- (o) assessment of children's ability was done mainly through dictations, tests and examinations;

Resources for teaching and learning

- (p) resources for teaching and play materials were very limited in quantity, quality and variety; and
- (q) school learning environment was not stimulating. Classrooms were not attractively decorated. Interest corners were not well equipped and their utilisation was rare.

3.24 Audit also noted that, of the 57 kindergartens which were assessed as less than satisfactory in their performance, 31 of them (i.e. 54%) had been regularly given such assessment from 1990-91 to 1998-99. During this period, a total of 113 inspections had been carried out on these 31 kindergartens (i.e. 10 non-profit-making and 21 private kindergartens). Less than satisfactory performance assessments were given in 108 inspections.

ED's actions to enhance the quality of kindergarten education

3.25 The ED has taken the initiative to implement a series of measures for enhancing the quality of kindergarten education. The ED has developed, in collaboration with members of academia and kindergarten practitioners, a set of performance indicators for kindergartens. A pilot scheme for the use of performance indicators is being implemented in a few selected kindergartens. The performance indicators are used as a tool for self-evaluation and self-improvement for kindergartens. The Inspectorate will also use the performance indicators to assess the performance of kindergartens from September 2000.

3.26 The ED also intends to provide, from September 2000, inspection reports to kindergartens for information and follow-up action after each inspection, instead of just verbally informing the heads of kindergartens of the weaknesses observed during inspections. Furthermore, with effect from September 2001, the ED would publish inspection reports on the Internet for the information of the parents and the general public.

Audit observations on performance of kindergartens

3.27 **Many kindergartens had consistently been assessed to have less than satisfactory performance. This indicates that, in assisting these kindergartens to improve the quality of kindergarten education, the Inspectorate's work has not been entirely effective.** Audit welcomes the initiatives recently taken by the ED to enhance the quality of kindergarten education. Nevertheless, Audit observes that improvements can be made by the Inspectorate in the following aspects:

- ***Follow-up inspections not timely taken.*** Where a kindergarten is found to have shortcomings in the delivery of kindergarten education, the inspector may recommend in the inspection report that a follow-up inspection should be conducted. However, Audit noted that of the 31 kindergartens that had been regularly assessed to have less than satisfactory performance (see paragraph 3.24 above), follow-up inspections were only carried out in five of them. Follow-up inspections were **not** conducted in the other kindergartens because either no follow-up inspections were recommended by the inspectors, or where follow-up inspections had been recommended, they were not carried out. Table 4 below shows the examples of cases where follow-up inspections were not carried out until the next full inspections.

Table 4

Examples of cases where follow-up inspections were not carried out

Kindergarten	Follow-up inspection recommended in	Next full inspection carried out in	Time between the two full inspections
A	December 1995	May 1999	41 months
B	February 1996	May 1999	39 months
C	June 1996	June 1999	36 months
D	May 1996	April 1999	35 months
E	June 1996	March 1999	33 months

Source: ED's records

As shown in Table 4 above, the next full inspections were not conducted until some three years later. In the absence of proper follow-up action, the Inspectorate is unable to ensure that improvements have been made timely by the kindergartens with less than satisfactory performance. The delay could also send a wrong message to the kindergartens that there is no urgency in making improvements;

- ***Lack of post-inspection support.*** Despite recommendations for improvement being repeatedly made by the ED's inspectors, some kindergartens had not made any improvements. This might be due to these kindergartens' lack of knowledge as to how to improve. In this regard, Audit noted that the Advisory Inspectorate Division of the ED has provided post-inspection support to primary and secondary schools, but not to kindergartens. Such post-inspection support includes:
- (i) providing post-inspection school-based support service to schools, particularly in the areas of action planning and the teaching and learning aspects;
 - (ii) organising teachers' network with experience-sharing seminars to assist schools in enhancing the teaching and learning of specific subjects; and
 - (iii) disseminating the good practices identified in quality assurance inspections through avenues such as experience-sharing sessions, seminars and workshops.

Audit considers that it would be helpful to those kindergartens with less than satisfactory performance if similar post-inspection support is also made available to them; and

- ***The Inspectorate only plays an advisory role.*** If a kindergarten fails to perform satisfactorily in the delivery of kindergarten education, the inspector will verbally inform the head of the kindergarten of the weaknesses and request him to make improvements. In the subsequent inspections, if the kindergarten is still found to be performing unsatisfactorily, the inspector will again verbally advise the kindergarten to make improvements. It was noted in the audit review that many kindergartens (see paragraph 3.24 above) had been consistently assessed to have less than satisfactory performance. According to section 22 of the Education Ordinance, the Director of Education is empowered to cancel the registration of a kindergarten if he considers that the management committee is not managing the school satisfactorily, or that the education of the pupils is not being promoted in a proper manner. Despite the fact that the performance of some kindergartens has consistently been not up to the required standard, the ED has not asked them to make improvements by reference to section 22 of the Education Ordinance.

3.28 As pointed out in paragraph 3.25 above, in September 2000 the ED expects that kindergartens will use the performance indicators for self-evaluation and self-improvement. **The development of a self-evaluation culture at kindergartens would contribute to the enhancement of performance of kindergartens, and hence to the overall improvement in the quality of kindergarten education.** Upon the implementation of the self-evaluation scheme, the ED needs to closely monitor its effectiveness to ensure that it will achieve the expected results.

Audit recommendations on performance of kindergartens

3.29 **Audit has recommended that the Director of Education should formulate a strategy to ensure that kindergartens will take improvement action on the deficiencies identified in an inspection. In particular, he should:**

- **ensure that the ED's Inspectorate conducts follow-up inspections on a timely basis to ascertain whether those kindergartens, which have been identified to have shortcomings in the delivery of kindergarten education, have taken necessary action on the ED's recommendations;**
- **provide post-inspection support to those kindergartens with less than satisfactory performance;**
- **establish a mechanism for dealing with those kindergartens which have a consistently poor record of performance. The mechanism should include:**
 - (i) **issuing warning letters to kindergartens demanding improvement actions to be taken within a reasonable period of time; and**
 - (ii) **in serious cases in which a kindergarten has repeatedly ignored the ED's advice for improvement, invoking section 22 of the Education Ordinance to cancel the registration of the kindergarten; and**

- upon implementation of the self-evaluation scheme, closely monitor the effectiveness of the scheme to ascertain whether it has achieved the expected results.

Response from the Administration

3.30 The **Secretary for Education and Manpower** agrees that she would step up action against unsatisfactory kindergartens, including more frequent inspections and monitoring of follow-up improvements, and impose sanctions which will make a greater impact on protracted unsatisfactory performance.

3.31 The **Director of Education** has said that:

- the ED will adopt a two-pronged approach in inspections. Whilst adopting the new QAI approach (see first inset of paragraph 3.16 above), the ED will continue to monitor the performance of those kindergartens with less than satisfactory performance by making follow-up visits. The ED will use the new set of performance indicators in assessing the performance of kindergartens (see paragraph 3.25 above). In prioritising kindergartens for subsequent follow-up visits, the ED will consider kindergartens with less than satisfactory rating in certain important performance indicators or kindergartens with a high percentage of performance indicators being rated as less than satisfactory. However, it should be pointed out that kindergartens should also make efforts to improve in areas such as staff qualifications, stability of the teaching force, health and safety factors, physical setting and resources as part of their self-improvement process. The ED will advise and assist the kindergartens to improve their performance;
- providing quality education to young children is and will always be a major goal of the ED. To achieve this end, the ED will continue to adopt the “pressure and support” approach. The ED will provide support by strengthening school-based support services to kindergartens, implementing effective enhancement measures through various channels such as conducting workshops and seminars, disseminating good practices to enable school to conduct self-evaluation, and to make self-development and improvement;
- for those kindergartens with continuous less than satisfactory performance, written warning will be issued. For kindergartens receiving government financial assistance in the form of KSS or rent and rates reimbursement, consideration will be given to withdrawing government financial assistance. Where circumstances so warrant, the ED will not rule out the possibility of cancelling the registration of the kindergarten; and
- it is intended upon the promotion of self-evaluation culture among kindergartens, officers from the Regional Education Offices when visiting kindergartens will discuss with the kindergartens and provide professional support for their self-improvement measures. The effectiveness of promotion of self-evaluation among kindergartens will be monitored through the acceptance of kindergartens adopting an annual self-evaluation exercise and development planning for self-improvement. School self-evaluation and QAI are two complementary processes in the quality assurance framework aiming at achieving continuous school improvement. School improvement will be reflected in the annual summary QAI report which provides information on the overall performance of kindergartens.

PART 4: REFUND OF RENT, RATES AND GOVERNMENT RENT AND KINDERGARTEN SUBSIDY SCHEME

4.1 This PART examines the adequacy of the administration of refund of rent, rates and government rent and the KSS by the ED.

Background to the reimbursement

4.2 In accordance with the 1981 White Paper on Primary Education and Pre-primary Services, the Government has been providing financial assistance to non-profit-making kindergartens in the form of reimbursement of rent and rates since 1982. The objective of the reimbursement is to provide financial assistance to kindergartens, so that they do not have to charge the parents higher fees to meet their rental expenses. It was stated in the White Paper that the Government recognised that, in non-profit-making institutions, one of the more important elements in determining fee levels was the rental which had to be paid for the premises. At that time, rentals ranged widely from \$0.5 per square foot per month for some non-profit-making institutions inside public housing estates to \$5 or more per square foot for premises elsewhere. It was considered that wherever similar services were provided to similar standards, the fees charged by non-profit-making institutions should be broadly similar and this was clearly difficult to achieve with such widely divergent rent. In order to make this possible, as well as to encourage the establishment of non-profit-making pre-primary educational institutions, it was intended to reimburse non-profit-making kindergartens, both within and outside the public housing estates, for the rent paid. In addition, the Government would also reimburse non-profit-making kindergartens for the rates paid. Since 1997, the reimbursement of government rent where applicable has also been provided.

4.3 The ED's criteria for assessing applications for rent reimbursement for non-profit-making kindergartens are as follows:

- operating standard;
- curriculum standard;
- compliance with the Education Ordinance and Education Regulations;
- objective factors (including supply and demand for kindergarten places in the district; enrolment capacity and financial implication); and
- the acceptability of the kindergarten premises.

Based on the above criteria, a committee set up within the ED will consider each application on its own merits. To ensure that the rentals are reasonable, the amounts of the rent reimbursement have to be vetted by the Rating and Valuation Department. Only the amounts of rent recommended by the Rating and Valuation Department are accepted for reimbursement purposes. If an application is approved, a kindergarten has to reduce the school fees by an amount commensurate with the rent reimbursement.

4.4 If the performance of a kindergarten in receipt of rent reimbursement is assessed by the ED to be less than satisfactory, the ED will issue a warning letter to the kindergarten for improvement action to be taken. If the performance of the kindergarten is still found to be less than satisfactory in the next inspection, the ED will suspend the rent reimbursement payable to the kindergarten. Kindergartens with unsatisfactory performance, after receiving the warning, usually show improvement in performance in the subsequent inspection.

4.5 As regards government rent and rates reimbursement, non-profit-making kindergartens are eligible for such reimbursement on the recognised school accommodation upon application.

4.6 In 1999-2000, a total of 299, 373 and 103 kindergartens were in receipt of rent, rates, and government rent reimbursement respectively (some kindergartens received all three items of subsidy). The total government expenditure amounted to \$160 million for the financial year 1999-2000. The reimbursement of rent accounted for the largest amount, being \$145 million or 91% of the total expenditure.

Audit analysis of operating profits of kindergartens receiving reimbursement

4.7 Audit conducted an analysis of the audited accounts of kindergartens receiving rent and/or rates and/or government rent reimbursement (hereinafter referred to as rent and rates reimbursement) to ascertain the extent to which these kindergartens had been assisted by the Government through such reimbursement.

4.8 Unlike KSS kindergartens which are required to submit audited accounts to the ED for monitoring purpose (see paragraph 2.7 above), there is no such requirement for kindergartens in receipt of rent and rates reimbursement. Nevertheless, as many kindergartens in receipt of rent and rates reimbursement have also joined the KSS, Audit obtained the audited accounts of these kindergartens for review. Based on the 133 available audited accounts relating to kindergartens in receipt of rent and rates reimbursement, Audit noted that 12 kindergartens (9%) had operating profits of over \$1 million in 1998-99. Details of the operating profits of these 12 kindergartens and the average amount of rent and rates reimbursement received by them from 1996-97 to 1998-99 are shown in Table 5 below.

Table 5

**Analysis of the operating profits of the twelve kindergartens
for the period from 1996-97 to 1998-99**

Kindergarten	Operating profit for 1998-99	Average operating profit for 1996-97 to 1998-99	Average annual amount of rent and rates reimbursement for 1996-97 to 1998-99	Ratio of operating profit to rent and rates
	(a) (\$)	(b) (\$)	(c) (\$)	(d) = (b) ÷ (c)
F	2,360,929	2,169,665	462,853	4.7
G	2,326,667	1,527,575	57,575 (rates only)	26.5
H	1,594,603	1,621,369	369,853	4.4
I	1,510,223	1,459,655	1,454,313	1.0
J	1,434,141	1,329,576	527,121	2.5
K	1,408,669	1,463,882	467,128	3.1
L	1,299,078	1,184,130	197,675 (rates only)	6.0
M	1,169,201	1,174,710	344,190	3.4
N	1,155,471	1,091,895	539,205	2.0
O	1,053,018	763,875	448,657	1.7
P	1,040,292	717,999	517,735	1.4
Q	1,006,266	299,678	925,680	0.3

Source: ED's records

Audit observations and recommendations on operating profits of kindergartens receiving reimbursement

4.9 As can be seen from Table 5 above, many kindergartens had operating profits far in excess of the amounts of rent and rates reimbursement received from the Government. **Audit notes that the objective of the reimbursement was to provide financial assistance to enable them to meet their rental expenses so that they would not have to charge higher school fees. As some kindergartens have been able to produce profit levels substantially higher than the amount of rent and rates reimbursement, it is doubtful whether the Government should continue to provide financial assistance to these kindergartens.**

4.10 **Audit therefore has *recommended* that the Director of Education should:**

- **require all the kindergartens in receipt of rent and rates reimbursement to submit audited accounts to the ED annually for monitoring purposes;**
- **review the need for rent and rates reimbursement to those kindergartens which have made substantial profits; and**
- **consider redistributing the savings achieved by paying fewer cases of reimbursement of rent and rates to pay for services which will improve the quality of kindergarten education.**

Response from the Administration

4.11 The **Director of Education** has said that:

- to encourage the establishment of non-profit-making schools, all non-profit-making schools, including kindergartens, primary and secondary schools, are eligible for reimbursement of rates under the existing policy. Given this purpose and on the grounds of equity, the ED considers that the current practice of granting rates reimbursement should be maintained. However, consideration will be given to adjusting the school fees of participating kindergartens by an amount commensurate with the rates reimbursed, as in the case of rents (see last sentence of paragraph 4.3 above);
- as regards the government rent reimbursement, the ED will also consider whether an adjustment should be made to the school fees of participating kindergartens by the amount reimbursed; and

- given that the rent reimbursement scheme was designed to subsidise school fees, if the ED was to reduce or remove the rental subsidy from those kindergartens with substantial profit, students attending these kindergartens were likely to pay higher school fees. Nevertheless, to ensure the best use of public money, the ED will review the existing policies on rent reimbursement to kindergartens taking into full account the likely implications. In reviewing the policies, the ED will also consider requiring all the kindergartens in receipt of rent reimbursement to submit audited accounts to the ED annually for monitoring purposes.

Background to Kindergarten Subsidy Scheme

4.12 The KSS was introduced in September 1995 with the aim of improving the quality of kindergarten education. The KSS provides a direct subsidy to non-profit-making kindergartens, so that they can employ professionally trained teachers to meet the minimum proportion of QKTs required by the Government in a kindergarten without having to increase their fees substantially. By September 1999, at least 50% of the teachers in each kindergarten should be QKTs. This should be increased to 60% by September 2000. The subsidy is payable on a per class basis. For 1999-2000, the rate of subsidy per class per annum is \$34,700. If a kindergarten employs at least 10% more than the minimum proportion of QKTs required by the Government, the kindergarten will be entitled to an enhanced rate of subsidy of \$41,000. In 1999-2000, of the 756 kindergartens in Hong Kong, 287 had joined the KSS. The expenditure on the KSS amounted to \$113 million in the financial year 1999-2000.

4.13 Kindergartens that receive subsidy from the KSS are required to fulfil the following major conditions of subsidy:

- (a) to employ the minimum proportion of QKTs as required by the Government;
- (b) to pay teachers according to the salary scales recommended by the Government;
- (c) to accept any adjustments made by the ED to the approved school fees corresponding to the amount of government subsidy received;
- (d) to spend the government subsidy solely on teachers' salaries;
- (e) to comply with the Education Ordinance and Regulations in force; and
- (f) to maintain an acceptable operating standard in both management and professional aspects.

If any of the above conditions are not fulfilled, the Government may demand the kindergartens to repay the subsidy in full.

KSS kindergartens with less than satisfactory performance

4.14 During 1998-99, the Inspectorate conducted a total of 298 full inspections. Of these 298 inspections, 146 inspections (or 49%) were conducted on kindergartens that had joined the KSS. Details of the inspection results of these 146 KSS kindergartens are shown in Table 6 below.

Table 6

Results of full inspections of KSS kindergartens conducted in 1998-99

Performance	Number	Percentage
Good	3	2%
Satisfactory	130	89%
Less than satisfactory	13	9%
	<u>146</u>	<u>100%</u>

Source: ED's records

4.15 Audit noted that of those 13 kindergartens which were assessed to have less than satisfactory performance, six of them had regularly been given such an assessment since 1990-91. Details are shown in Table 7 below.

Table 7

KSS kindergartens regularly given less than satisfactory performance during 1990-91 to 1998-99

Number of KSS kindergartens	Number of inspections for each kindergarten in column (a) during the period	Number of less than satisfactory performance assessments given to each kindergarten in column (a)
(a)	(b)	(c)
2	6	5
3	5	5
1	4	4
<u>6</u>		

Source: ED's records

Audit observations and recommendations on KSS kindergartens with less than satisfactory performance

4.16 The consistently unsatisfactory records of performance of some of the KSS kindergartens is a matter of concern. As mentioned in the last inset of paragraph 4.13 above, one of the conditions that the KSS kindergartens have to fulfil is that they should maintain an acceptable operating standard in both management and professional aspects. Non-fulfilment of this condition may result in the Government demanding repayment of the subsidy. **The six kindergartens that had consistently been assessed to have less than satisfactory performance received total subsidies of \$1.6 million in 1998-99 alone. However, Audit noted that the ED, apart from issuing one warning letter to one kindergarten in April 2000, had not taken any action against the other five KSS kindergartens.**

4.17 Audit noted that the ED had adopted a different approach in dealing with kindergartens which were in receipt of rent reimbursement and which had less than satisfactory performance. In those cases, the ED would suspend the rent reimbursement payable to the kindergartens concerned (details of the arrangement for rent reimbursement are given in paragraphs 4.3 and 4.4 above). During the period 1998-99 to 1999-2000, the ED had stopped the reimbursement to one kindergarten.

4.18 **Audit has *recommended* that the Director of Education should:**

- **issue warning letters to those KSS kindergartens with less than satisfactory performance requiring improvement action to be taken within a specified period;**
- **carry out timely follow-up inspections to ensure that improvement action has been taken by the kindergartens; and**
- **take appropriate sanction measures (such as withdrawal of government subsidies and/or demand repayment of subsidy) against those kindergartens which make no improvement.**

Response from the Administration

4.19 The **Director of Education** has said that the ED has reviewed the KSS from time to time since its inception in 1995. The ED noted that some KSS kindergartens had not adopted suitable teaching and learning activities in the curriculum. Indeed, the ED has been stepping up its enforcement actions in this respect. As a first step, the ED has issued warning letters to some of these kindergartens. The ED will continue this measure where necessary and carry out timely follow-up visits to ensure that appropriate action has been taken. Further sanction measures, such as withdrawal of KSS subsidy will be considered against those kindergartens that repeatedly ignore the ED's advice and show no improvement.

PART 5: MANAGEMENT INFORMATION OF KINDERGARTEN EDUCATION

5.1 This PART examines the adequacy of management information of kindergarten education.

Management information of kindergarten education

5.2 To enable the senior management of the ED to form management strategies to promote the development of quality kindergarten education, it is imperative that crucial management information is available. Crucial management information would facilitate the ED's senior management to address the following concerns:

- what problems have been encountered by the ED in supporting the kindergarten education;
- whether resources have been efficiently and effectively allocated to improve the quality of kindergarten education;
- how the quality of kindergarten education can be further improved; and
- what has been achieved by the ED in supporting kindergarten education.

5.3 **However, Audit noted that there has been a lack of adequate management information to facilitate the planning and decision making of the ED's senior management.** For example, it would be useful to have adequate analyses summarising the performance of kindergartens, broken down into different categories of kindergartens, and showing the trend of performance over a period of time. An analysis of the performance of kindergartens during 1994-95 to 1998-99 is produced by Audit in Appendix D. The following are examples of useful management information arising from this analysis:

- during the period, the overall performance of non-profit-making kindergartens (Figure 1 of Appendix D) was better than that of private kindergartens (Figure 2 of Appendix D);
- the performance of private kindergartens had been on the decline. Fewer kindergartens were assessed to have good or satisfactory performance, and more were assessed to have less than satisfactory performance (Figure 2 of Appendix D); and
- during the period, the number of kindergartens which were assessed to have satisfactory performance had increased. However, the overall number of kindergartens which were assessed to have good performance had decreased from 11% to 3% (Figure 3 of Appendix D).

5.4 The above analysis of management information would help the ED's senior management formulate strategy for improving the quality of kindergartens education. Other examples of useful management information include:

- information that shows the different categories of deficiencies of kindergartens (e.g. management and pupils' learning) together with the number of kindergartens that have such deficiencies; and
- information on the full cost of the ED's support for kindergarten education (e.g. the cost for providing the Inspectorate services and the KSS) and the trend of costs over time.

5.5 Useful management information, such as that stated in paragraphs 5.3 and 5.4 above, has not been regularly produced by the ED. If required, the information can be compiled manually.

Audit recommendations on management information of kindergarten education

5.6 **To improve the quality of kindergarten education, Audit has *recommended* that the Director of Education should:**

- **identify relevant management information that is useful to the ED's senior management for formulating and implementing strategies;**
- **develop a computerised management information system to facilitate the analysis and retrieval of crucial management information; and**
- **improve on the crucial management information retrieved from the computer system and make it available to the ED's senior management.**

Response from the Administration

5.7 The **Director of Education** has said that for effective information management, the ED seeks every opportunity to improve the existing management information system. The ED agrees that an integrated information system is an effective tool for optimising the collection, updating and the use of information throughout a multi-level organisation. In this regard, the ED is developing a centralised "School Dossier" system. Crucial kindergarten information will be included for retrieval and analysis in strategic management exercises.

PART 6: KINDERGARTEN FEE REMISSION SCHEME

6.1 This PART examines the adequacy of the KGFRS administered by the SFAA.

Background of the KGFRS

6.2 The KGFRS was introduced in 1990 to provide parents-in-need with financial assistance in the form of fee remission, so that their children could receive kindergarten education. There are two levels of fee remission, at 50% or at 100% of kindergarten fee. The amount of fee remission is calculated on the basis of the actual fee charged or the weighted average fee of non-profit-making kindergartens, whichever is the smaller. The weighted average fee is adjusted annually. In 1999-2000, the highest monthly fee remission is \$1,024 for half-day session, and \$1,916 for whole-day session. The total expenditure for the KGFRS was \$311 million in the financial year 1999-2000.

Eligibility criteria

6.3 Applicants for the KGFRS should be the parents (or legal guardians) of the pupils. Parents may apply for fee remission if they have a child who is:

- a Hong Kong resident;
- at least three years old; and
- studying in a kindergarten registered with the ED.

6.4 Any person in receipt of the Comprehensive Social Security Assistance (CSSA) from the Social Welfare Department (SWD) will not be considered for fee remission, as kindergarten fee assistance has already been included in the CSSA. All applications for fee remission are subject to a means test. The SFAA determines the eligibility and level of fee remission by a points-system.

6.5 Under the points-system, points are calculated according to the applicant's average monthly family income (for the past 12 months preceding the date of the application for fee remission) and the applicant's family size. An applicant who scores between 5 to 17 points will be entitled to 50% remission. If he scores 18 points or more, he will be entitled to 100% remission. Over 90% of the applicants score below 18 points and receive 50% remission. In 1999-2000, a family with an average monthly income of over \$23,200 will not normally be eligible for any assistance. The points awarded to different average monthly income groups are shown in Appendix E. The points awarded to family members are shown in Appendix F.

Incomes declared by applicants

6.6 In submitting an application for fee remission, an applicant has to provide proof of the declared family income. According to the guidance notes for application for fee remission, an applicant can provide income proof in the following three ways:

- by providing documentary evidence such as salary statements, salary tax demand notes and bank statements showing auto-payments of salaries, and in the case of sole proprietors or partners of partnership business, by providing documentary evidence such as profit and loss accounts and profit tax demand notes;
- if documentary evidence cannot be produced, by completing an income certificate in which the employers of the applicant and the applicant's spouse have to state and certify their income; and
- if both documentary evidence and income certificate cannot be produced (e.g. for people who are self-employed or with no fixed income and who cannot produce any income proof), by completing a self-certified income statement to declare the income of the applicant and the applicant's spouse.

Verification of declared incomes

6.7 For those applicants who have provided income proof by means of a self-certified income statement, the SFAA checks the reasonableness of the declared incomes against the income statistics of different trades published by the Census and Statistics Department (C&SD). The SFAA adjusts upwards the declared incomes if they are found lower than those shown in the income statistics published by the C&SD. The following example, which is an actual case, shows how this is done:

This case involves a family of four. The applicant claimed to be a construction worker with an annual salary of \$10,800 (i.e. \$900 per month). The applicant lived with his family in a public housing estate and paid a monthly rental of \$1,190. The applicant could not produce any other income proof apart from his self-certified income statement. The SFAA referred to the income statistics for construction workers published by the C&SD, and assessed the applicant's annual income at \$103,000 (i.e. \$8,583 per month or about at nine times higher than the self-certified amount).

6.8 The SFAA also conducts 30 to 45 home visits every year to verify the details of the applications for fee remission. These visits are selected on a random basis.

Audit observations and recommendations on verification of declared incomes

6.9 Self-certified income statements, as income proof, are much less reliable than documentary evidence and income certificates. The incomes stated are often found to be inaccurate when they are checked against the income statistics of the C&SD. **Although the SFAA adjusts the income according to the income statistics of the C&SD, there is no guarantee that the adjusted income is the true income of the applicant. It is therefore unsatisfactory to place too much reliance on self-certified income statements as the basis for granting fee remissions.**

6.10 Audit randomly examined 3,526 (Note 4) successful applications in 1998-99 to assess the extent to which applicants had used self-certified income statements as income proof. Audit noted that of the 3,526 successful applications, the income proof of 1,545 (44%) applications was based on self-certified income statements. Of these 1,545 applications, the declared incomes of 800 (52%) applications did not pass the reasonableness check, and were adjusted upwards by the SFAA according to the C&SD's income statistics. **The high incidence of adjustments indicates that the self-certified income statements are not entirely reliable.**

6.11 In addition, Audit examined the system of verification of declared incomes and noted the following inadequacies:

- the applicants are free to choose one of three forms provided by the SFAA (i.e. documentary evidence, income certificate and self-certified income statement) as income proof at the time of making their applications. Audit considers this practice should be discouraged because some applicants may choose to use the self-certified income statements, even though they may be able to provide other more reliable forms of income proof;
- despite the fact that there had been many applications with income proof based on self-certified income statements, the SFAA did not specifically target these applications for home visits. The SFAA only conducted home visits on a random basis; and
- the number of 30 to 45 home visits per year conducted by the SFAA is insufficient. In 1998-99, the SFAA only conducted 35 home visits. This represented less than 0.1% of the 67,513 successful applications in 1998-99. Even with such a small number of home visits, the SFAA had already detected two cases of inaccurate declaration of incomes based on the self-certified income statements. Although it is stated in the income statements that any person who obtains a subsidy by deception is liable on conviction to imprisonment, the SFAA had so far not initiated prosecutions against any fraudulent cases.

Note 4: *There is no readily available record in the SFAA indicating the number of applications that used self-certified income statements as the income proof. The SFAA received applications for fee remission from 18 geographic regions in Hong Kong, which covered all parts of Hong Kong Island, Kowloon, Outlying Islands and the New Territories. The SFAA filed all the 1998-99 applications in 305 cartons. Audit randomly selected one carton from each of the 18 geographic regions for examination. These 18 cartons contained a total of 3,526 successful applications.*

6.12 **Audit has recommended that the Controller, SFAA should:**

- **discourage the use of self-certified income statement as income proof by requiring applicants to give reasons for not being able to provide more reliable forms of income proof;**
- **change the existing practice of conducting home visits on a random basis to a risk-based approach by making more visits to those applicants who have used self-certified income statements as income proof;**
- **in the light of any irregularities which may be revealed by home visits, confirming the inadequacy of the present practice of conducting only 30 to 45 visits per year, consider the need for increasing the frequency of home visits; and**
- **deter under-reporting of income by taking prosecution action against those applicants who are suspected to have been involved in fraudulent cases.**

Response from the Administration

6.13 **The Controller, SFAA has said that:**

- it is not the SFAA's intention to provide choices on the type of income proof to be produced in support of an application. Unfortunately, there will always be applicants who insist that they are unable to produce alternative proof and those who, by nature of their employment, have no alternative but to use self-certified income statements. Nonetheless, he takes Audit's point that the SFAA should deter applicants from using self-certified statements as far as possible, especially if other income proofs may be available. To further clarify the appropriate type of income proof for submission, the SFAA will revise the application guidance notes for the 2001-2002 KGFRS application cycle and include in the application form or in the income statement form a section for applicants to state their reasons for not producing more acceptable evidence;
- the existing practice of selecting home visits on a random basis is on the advice of the Independent Commission Against Corruption (ICAC). He agrees however that a risk-targeting approach, especially at successful self-certified income statement cases, may be more appropriate. He will seek the views of the ICAC on how best this practice should be implemented. He is of the view that home visits are a valuable follow-up tool for verifying the authenticity of claims in support of applications which have been approved on the basis of documents submitted. In respect of the KGFRS, the low

number of visits conducted by its complement of seven Education Assistants (EA) is not therefore indicative of a lack of the SFAA's desire to conduct more home visits but rather of inadequate staff resources for a task that is time and labour intensive. He appreciates the need for conducting more home visits and will bid funding for this purpose in the 2001 Resource Allocation Exercise; and

- the SFAA is not shy at initiating prosecution action where suspected fraud is identified. With respect to the two KGFRS cases referred to in the third inset of paragraph 6.11 above, a prima facie case of fraudulent intent was not apparent to warrant referral for follow-up investigation by the Police Force. However, the SFAA is mindful of the possibility of fraudulent claims and will vigorously pursue prosecutions whenever appropriate.

Dependant family members

6.14 As the points-system (see paragraph 6.5 above and Appendix F) takes into account the number of family members in determining the fee remission to be granted, the SFAA requires an applicant to submit copies of his identity documents, those of his spouse and the child studying in the kindergarten for verification.

6.15 Regarding other dependant family members (i.e. the dependant parents of both the applicant and the applicant's spouse and other dependant children), the SFAA does not require the applicant to submit copies of their identity documents as documentary proof. The SFAA only verifies the identities of these dependants if an application is selected for home visit.

6.16 In 1998-99, there were about 50,000 cases in which the applicants claimed to have at least one dependant parent or dependant child. As the SFAA conducted 35 home visits in 1998-99, the SFAA only checked the identities of other dependant members of these 35 families. The SFAA had not detected any irregularities relating to dependant parents and other dependant children in the 35 home visits.

Audit observations and recommendations on dependant family members

6.17 Audit noted that the majority of applications were successful because any applicant who scored between 5 to 17 points in the means test was given a fee remission (see paragraph 6.5 above). It is important therefore that the applicants state truthfully the number of dependant family members because such information is used in the means test. In borderline cases, a claim for points for dependant family members will affect the result of the application for fee remission. An example is given in Appendix G. The application would have been unsuccessful if the SFAA had not taken into account in the means test those dependants whose identities could not be verified.

6.18 Audit also noted that of the 3,526 successful applications in 1998-99 randomly selected for examination (see paragraph 6.10 above), 154 applicants had submitted copies of identity cards of their dependant parents (although they were not required by the SFAA to do so). Audit cross-checked these 154 applications with the CSSA records maintained by the SWD, and observed that in two applications, the dependant parents of the applicants had declared to the SWD that they were not in receipt of any financial contribution from the applicants and that they were in receipt of CSSA from the SWD. Audit further noted that these dependant parents did not reside with the applicants. As the evidence suggests that these parents were not in any way financially supported by the applicants, it is doubtful whether they were indeed “dependant parents”. Audit considers that the SFAA should not have granted points for dependant parents in the above two applications.

6.19 **Audit has recommended that the Controller, SFAA should:**

- **in borderline cases, request the applicants of fee remission to submit documentary proof (e.g. copies of identity cards and birth certificates) of their dependant parents and other dependant children, so as to substantiate the information stated in the applications; and**
- **consider cross-checking the data in the application forms with the CSSA records of the SWD, to ensure that claims for dependant parents are fully substantiated (see also last inset of paragraph 6.29 below regarding data-matching).**

Response from the Administration

6.20 The **Controller, SFAA** has said that:

- prior to the 1998-99, copies of identity documents of family members were required to be produced at the time of application. This practice was changed in 1998-99 to better comply with the requirements of the Personal Data (Privacy) Ordinance (Cap. 486) since the points of other dependant family members may not necessarily have an impact on the eligibility or the level of fee remission even if such members were taken into account in the means test. As regards borderline cases, the SFAA will follow up these cases in the context of the annual counter-checking exercise in January/February and on a batched basis in respect of applications approved during the remainder of the kindergarten year; and
- he would be happy to explore with the Director of Social Welfare for the development of an appropriate computer program to facilitate cross-checking with the CSSA records maintained by the SWD to ensure that claims for dependant parents are substantiated.

Applicants in receipt of CSSA

6.21 According to the SFAA's eligibility criteria, any person in receipt of the CSSA from the SWD will **not** be considered for application for fee remission. This is because assistance for kindergarten fee has already been included in the CSSA which comprises various kinds of assistance, e.g. school fee assistance, rent assistance and water bill assistance. Under the KGFRS, the SFAA can grant school fee assistance, up to the actual fee charged by a kindergarten or the weighted average fee of non-profit-making kindergartens, **whichever is the smaller**. The SWD also observes this rule in granting fee assistance under the CSSA scheme. However, under exceptional circumstances, when there are strong reasons justifying a student attending a particular kindergarten that charges a higher fee, the SWD can exercise its discretion to grant fee assistance above the weighted average fee. To ensure that school fee assistance is not granted by both the SFAA and SWD, the SFAA requires the applicants of fee remission to choose to confirm one of the following statements in the application forms:

- statement 1: "My family is not in receipt of the CSSA from the SWD."; or

- statement 2: "My family has applied for the CSSA from the SWD, eligibility not yet confirmed."; or

- statement 3: "My family is in receipt of the CSSA from the SWD."

6.22 For those applicants who have confirmed statement 2, the SFAA will verify with the SWD to ascertain if the applicants are in receipt of the CSSA which includes school fee assistance. The SFAA will grant fee remission only if the SWD confirms that the applicants are not receiving school fee assistance.

6.23 As an additional control over possible abuses of the KGFRS, around February each year (half term of a school year), the SFAA randomly selects, from all applications, 500 successful applications for verification against the CSSA records of the SWD.

Matching exercise conducted by Audit

6.24 In order to detect possible abuses of the KGFRS, Audit performed a computer data-matching exercise to match the records of the fee remission processed by the SFAA with the records of the CSSA cases processed by the SWD in 1998-99.

6.25 The results of the matching exercise revealed that, of the 67,513 applicants who were successfully granted fee remission by the SFAA, 3,748 applicants (i.e. 6%) were also granted CSSA by the SWD. Although these 3,748 applicants were in receipt of both the fee remission and the CSSA, it does not necessarily mean that they had actually received duplicate fee assistance. In many cases, the fee remission might have been excluded in the SWD's calculation of the CSSA. In processing the CSSA application, the SWD would ascertain whether the applicant was in receipt of fee remission such as by checking with the kindergarten concerned. The SWD would normally not include school fee assistance in the CSSA granted to the applicant, if he was already in receipt of 100% remission of school fee from the SFAA.

Audit case studies

6.26 Audit randomly selected 100 cases from these 3,748 cases for further examination. Audit noted that there were actual or potential irregularities in 21 cases. Details are as follows:

- **in four cases**, the applicants had applied to the SFAA for fee remission, but had not disclosed this fact to the SWD when they later applied for the CSSA. In these four cases, the SWD did not verify with the kindergartens concerned whether the applicants were receiving fee remission. As a result, the applicants were granted school fee assistance from both the SFAA and the SWD. The amount of overpayments in these four cases ranged from \$1,023 to \$5,258 up to the end of 1998-99;
- **in one case**, the applicant had applied for fee remission, and had disclosed this fact to the SWD when he later applied for the CSSA. However the SWD, after having clarified with the kindergarten concerned that the fee remission application had still not been finalised, also granted CSSA school fee assistance to the applicant. As the applicant's fee remission application was eventually successful, the applicant received school fee assistance from both the SFAA and the SWD. However, the SWD did not subsequently exclude the fee remission element from the amount of the CSSA. The amount of overpayment involved was \$1,500; and
- **in 16 cases**, the SFAA granted the applicants fee remission based on the weighted average fee of non-profit-making kindergartens. However the SWD, without giving any documented justifications, granted the actual fee which was higher than the weighted average fee. As the SWD's discretion for paying a higher amount of assistance should be exercised only under exceptional circumstances, it appears that some of these 16 applicants might have been overpaid. The amount of potential overpayments in these cases ranged from \$88 to \$918.

Audit observations and recommendations on applicants in receipt of CSSA

6.27 **Audit noted that there were actual or potential irregularities in 21% of the cases selected for examination. This is indicative of the extent of similar irregularities for those cases not selected for examination.** Based on the results of the audit case studies, Audit has the following observations:

- duplicate payments occurred when the SFAA and the SWD both paid school fee assistance because some applicants did not disclose to the SWD that they had successfully applied for fee remission from the SFAA. When overpayments are found, the SWD will either adjust the amounts of school fee assistance payable to the CSSA recipients or request them to make refunds;

- the SWD staff had not documented the justifications for granting school fee assistance over and above the weighted average school fee in the 16 cases identified. This indicates that some SWD staff might be unfamiliar with the requirement of the fee remission scheme. As a result, the applicants in some of these 16 cases might have been overpaid; and

- the SFAA’s present practice of verifying annually 500 successful fee remission applications on a random basis with the SWD is not entirely effective. In 1998-99, of the 500 cases verified, the SFAA could only detect one case (0.2%) in which there was an overpayment. **More overpaid cases would have been detected if the SFAA had used a computer program to match applicants in receipt of both fee remission and the CSSA to identify more applications that “matched” for subsequent verification.** Audit’s computer matching exercise detected actual or potential irregularities in 21% of the cases selected for verification.

6.28 Audit has recommended that the Director of Social Welfare should:

- **take prompt actions to rectify the irregularities noted in the audit case studies;**

- **consider reviewing those cases not covered in the audit case studies to detect and rectify any further irregularities;**

- **remind the SWD staff of the need to pay only the weighted average school fee in granting fee assistance under the CSSA. Any fee assistance granted over and above the weighted average school fee should be well justified and properly documented; and**

- **provide adequate guidelines to her staff to ensure that they are familiar with the KGFRS.**

6.29 Audit has recommended that the Controller, SFAA and the Director of Social Welfare should:

- **consider taking prosecution action, as a deterrent, against those applicants who are suspected to have obtained benefits by deception; and**
- **run a computer program to facilitate data matching and verification of records of the SFAA applicants with those of the CSSA database.**

Response from the Administration

6.30 The **Secretary for Education and Manpower** has said that she welcomes Audit's suggestions that there should be computer data matching between the SFAA and the SWD. Indeed, from an integrity protection angle, risks of overpayment or double payment can be significantly reduced if only one organisation is responsible for making payments for similar types of assistance. The EMB intends to explore this issue further.

6.31 The **Controller, SFAA** has said that:

- the SFAA will vigorously pursue prosecutions whenever appropriate. Insofar as discrepancies detected in KGFRS cases are concerned, reporting procedures on such cases will be strengthened to enable appropriate decisions to be made at the Deputy Controller level as to whether a case should be referred to the Police Force for investigation; and
- he notes Audit's observation that the matching of 500 successful KGFRS cases with the SWD may not be able to identify the extent of irregularities of joint KGFRS/CSSA recipients obtaining double benefits. He would be happy to explore with the Director of Social Welfare Audit's recommendation for the development of an appropriate computer program which would facilitate the identification of "matched" applicants for verification.

6.32 The **Director of Social Welfare** has said that:

- she has requested the Social Security Field Units (SSFU) concerned to take appropriate follow-up actions on the 21 cases identified with irregularities. If overpayment is discovered, the SWD will take the necessary recovery action. The SSFUs will also look into the other cases not covered in the audit case studies during the regular case review process and rectify irregularities, if any;

- she is concerned about Audit’s findings, which reveal that some of the SWD’s field staff might be unfamiliar with the standard procedures. To remind the field staff to adhere to the guidelines, she will re-circulate the relevant guidelines to the field staff. Moreover, she will also advise field staff to note the following ways and means to improve their performance:
 - (i) Supervisory/Deputy Supervisor of SSFUs to conduct regular briefing session on areas in need of improvement;
 - (ii) more on-the-job training particularly for inexperienced staff;
 - (iii) all grades of staff in SSFUs to familiarise themselves with the Social Security Manual of Procedures; and
 - (iv) to form study groups to enhance workers’ knowledge of work procedures;
- where fraud is established, the SWD will consider referring the cases to the Police Force for legal action; and
- she agrees that conducting data matching with the SFAA will be effective in preventing duplicate claims for assistance. She will liaise with the SFAA to make the necessary arrangements.

Internal benchmarking

6.33 Apart from administering the KGFRS, the SFAA is also responsible for the administration of other student financial assistance schemes, such as the Senior Secondary Fee Remission Scheme. While the processing procedures may not be fully comparable among these schemes, the productivity levels of the staff responsible for handling these schemes should be ascertained for performance measurement and monitoring. **To achieve this, an internal benchmarking can be conducted to measure and identify areas for improving the performance of operations of student financial assistance schemes administered. Internal benchmarking is the process of seeking out and studying the best practices that produce good performance within an organisation. By studying these practices, an organisation gains insight and ideas for improvements of operations. In addition, benchmarking can yield benefits in the education of executives and be used to determine strategic areas of opportunity. There is therefore a need for the SFAA to carry out an internal benchmarking exercise.**

Audit recommendations on internal benchmarking

6.34 **Audit has *recommended* that the Controller, SFAA should:**

- **conduct an internal benchmarking exercise to identify improvement opportunities for administering the student financial assistance schemes; and**
- **critically assess the manpower needs of the SFAA following the benchmarking exercise.**

Response from the Administration

6.35 **The Controller, SFAA has said that:**

- the SFAA conducts annual reviews of the procedures for all the financial assistance schemes. Based on these reviews, Administrative and Operational Manuals are revised annually for up-coming application exercises. In these reviews, the SFAA attempts to identify areas for service delivery improvements and streamlining of procedures as far as possible and for coping with annual growths in applications at staffing levels; and
- the SFAA will attempt internal benchmarking for monitoring performance within sections, between scheme activities where appropriate and for seeking out best practices that may be applicable for adoption in the administration of the schemes generally.

Miscellaneous fees income of 50 kindergartens in 1998-99

Kindergarten	Miscellaneous fees				Total income (Note) (e) (\$'000)	Miscellaneous fees as a percentage of total income (f) = (a) ÷ (e) × 100%
	Income	Costs	Profit	Profit margin		
	(a) (\$'000)	(b) (\$'000)	(c) = (a) - (b) (\$'000)	(d) = (c) ÷ (b) × 100%		
1	900	165	735	445%	3,313	27%
2	1,695	338	1,357	401%	6,208	27%
3	833	187	646	345%	3,435	24%
4	250	65	185	285%	992	25%
5	678	185	493	266%	4,629	15%
6	410	112	298	266%	3,882	11%
7	417	114	303	266%	2,722	15%
8	1,499	411	1,088	265%	4,741	32%
9	876	251	625	249%	3,987	22%
10	857	250	607	243%	4,421	19%
11	942	275	667	243%	5,057	19%
12	976	289	687	238%	5,224	19%
13	666	201	465	231%	3,143	21%
14	813	250	563	225%	4,669	17%
15	601	190	411	216%	3,123	19%
16	1,584	510	1,074	211%	7,002	23%
17	203	66	137	208%	2,328	9%
18	852	286	566	198%	4,253	20%
19	333	112	221	197%	3,477	10%
20	1,921	683	1,238	181%	7,536	25%
21	1,394	505	889	176%	6,992	20%
22	909	337	572	170%	4,795	19%
23	576	214	362	169%	4,721	12%
24	372	144	228	158%	1,858	20%
25	914	355	559	157%	4,985	18%
26	946	383	563	147%	5,547	17%
27	347	136	211	155%	2,042	17%

Kindergarten	Miscellaneous fees				Total income (Note) (e) (\$'000)	Miscellaneous fees as a percentage of total income (f) = (a) / (e) * 100%
	Income	Costs	Profit	Profit margin		
	(a) (\$'000)	(b) (\$'000)	(c) = (a) - (b) (\$'000)	(d) = (c) / (a) * 100%		
28	467	188	279	148%	3,127	15%
29	1,208	500	708	142%	6,531	18%
30	985	409	576	141%	5,384	18%
31	1,015	422	593	141%	5,431	19%
32	1,897	792	1,105	140%	8,918	21%
33	689	293	396	135%	4,143	17%
34	847	373	474	127%	2,988	28%
35	1,368	612	756	124%	5,383	25%
36	507	233	274	118%	3,706	14%
37	465	217	248	114%	3,000	16%
38	219	104	115	111%	1,514	14%
39	994	473	521	110%	5,437	18%
40	1,071	525	546	104%	6,120	18%
41	368	185	183	99%	4,802	8%
42	383	194	189	97%	2,264	17%
43	799	407	392	96%	5,365	15%
44	816	421	395	94%	4,324	19%
45	417	246	171	70%	1,846	23%
46	758	486	272	56%	3,153	24%
47	682	445	237	53%	6,236	11%
48	337	228	109	48%	2,909	12%
49	620	438	182	42%	3,480	18%
50	389	284	105	37%	10,400	4%
	<u>40,065</u>	<u>15,489</u>	<u>24,576</u>	<u>159%</u>	<u>221,543</u>	<u>18%</u>

Source: Audited accounts of kindergartens kept by the ED

Note: Total income includes school fees, miscellaneous fees and government subsidies (e.g. reimbursement of rent and rates).

**Kindergartens with profit from sale of school items
exceeding 15% of the cost price in 1998-99**

Kindergarten (Note)	Sales	Cost of sales	Profit from sales	Profit as a percentage of cost
	(a)	(b)	(c) = (a) - (b)	(d) = (c) ÷ (b) × 100%
	(\$)	(\$)	(\$)	(%)
1	388,878	81,580	307,298	377%
38	186,229	45,202	141,027	312%
16	950,854	232,309	718,545	309%
14	213,714	54,643	159,071	291%
32	1,207,820	310,459	897,361	289%
5	678,443	185,221	493,222	266%
2	892,812	244,813	647,999	265%
6	1,012,710	296,856	715,854	241%
27	176,000	57,214	118,786	208%
7	604,315	206,381	397,934	193%
10	480,160	164,496	315,664	192%
41	245,403	85,496	159,907	187%
11	527,390	194,994	332,396	170%
35	767,804	292,845	474,959	162%
4	134,913	51,660	83,253	161%
13	355,505	136,597	218,908	160%
15	247,577	96,459	151,118	157%
19	467,346	188,062	279,284	149%
8	505,380	203,959	301,421	148%
29	1,208,250	499,681	708,569	142%
3	577,918	241,690	336,228	139%
18	489,481	213,831	275,650	129%

Kindergarten (Note)	Sales	Cost of sales	Profit from sales	Profit as a percentage of cost
	(a)	(b)	(c) = (a) - (b)	(d) = (c) ÷ (b) × 100%
	(\$)	(\$)	(\$)	(%)
26	523,305	228,804	294,501	129%
12	777,950	344,955	432,995	126%
20	564,671	255,394	309,277	121%
23	411,867	187,219	224,648	120%
28	696,743	317,045	379,698	120%
21	383,953	181,096	202,857	112%
25	495,555	235,639	259,916	110%
34	520,481	256,748	263,733	103%
30	611,175	302,323	308,852	102%
24	147,042	74,317	72,725	98%
43	680,536	367,680	312,856	85%
46	374,049	216,296	157,753	73%
37	13,824	8,444	5,380	64%
45	301,725	184,906	116,819	63%
31	603,232	391,685	211,547	54%
47	485,272	340,319	144,953	43%
33	619,955	438,480	181,475	41%
48	257,157	202,828	54,329	27%
	<u>20,787,394</u>	<u>8,618,626</u>	<u>12,168,768</u>	<u>141%</u>

Source: Audited accounts of kindergartens kept by the ED

Note: The number assigned to each kindergarten in this Appendix refers to the kindergarten with the same number in Appendix A.

Inspection interval for kindergartens
from 1994-95 to 1998-99

Kindergartens with “good” or “satisfactory” performance

Number of inspections in the past 5 years	Interval of inspection	Number of kindergartens	Total interval	Average interval
(a)	$(b) = \frac{5}{(a)}$ (year)	(c)	$(d) = (b) \times (c)$ (year)	$(e) = \frac{\text{sum of (d)}}{\text{sum of (c)}}$ (year)
5	1.00	7	7.0	
4	1.25	48	60.0	
3	1.67	152	253.8	
2	2.50	191	477.5	
1	5.00	172	860.0	
		<u>570</u>	<u>1,658.3</u>	2.9

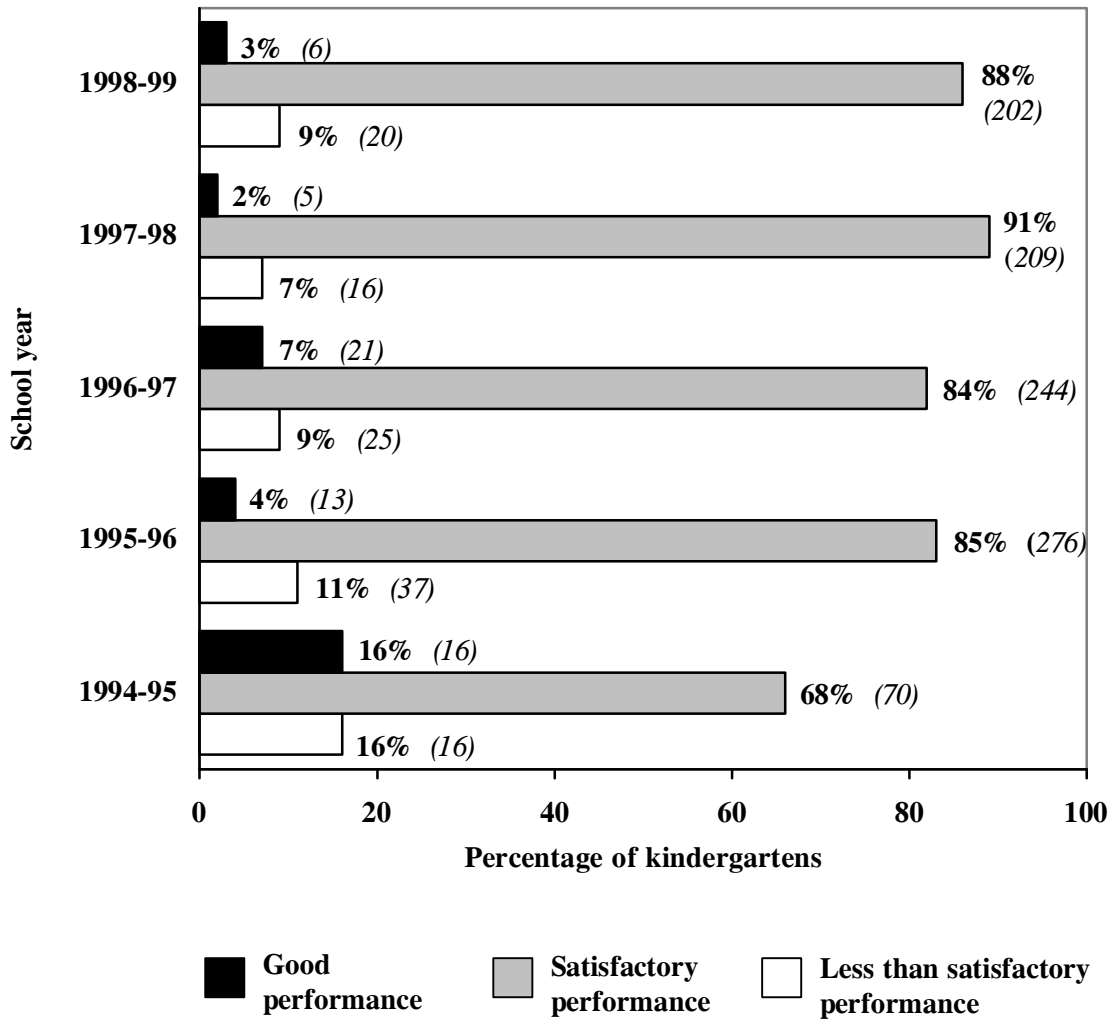
Kindergartens with “less than satisfactory” performance

Number of inspections in the past 5 years	Interval of inspection	Number of kindergartens	Total interval	Average interval
(a)	$(b) = \frac{5}{(a)}$ (year)	(c)	$(d) = (b) \times (c)$ (year)	$(e) = \frac{\text{sum of (d)}}{\text{sum of (c)}}$ (year)
5	1.00	3	3.0	
4	1.25	2	2.5	
3	1.67	13	21.7	
2	2.50	54	135.0	
1	5.00	39	195.0	
		<u>111</u>	<u>357.2</u>	3.2

Figure 1

Analysis of performance information during the period 1994-95 to 1998-99

Non-profit-making kindergartens



Source: ED's records

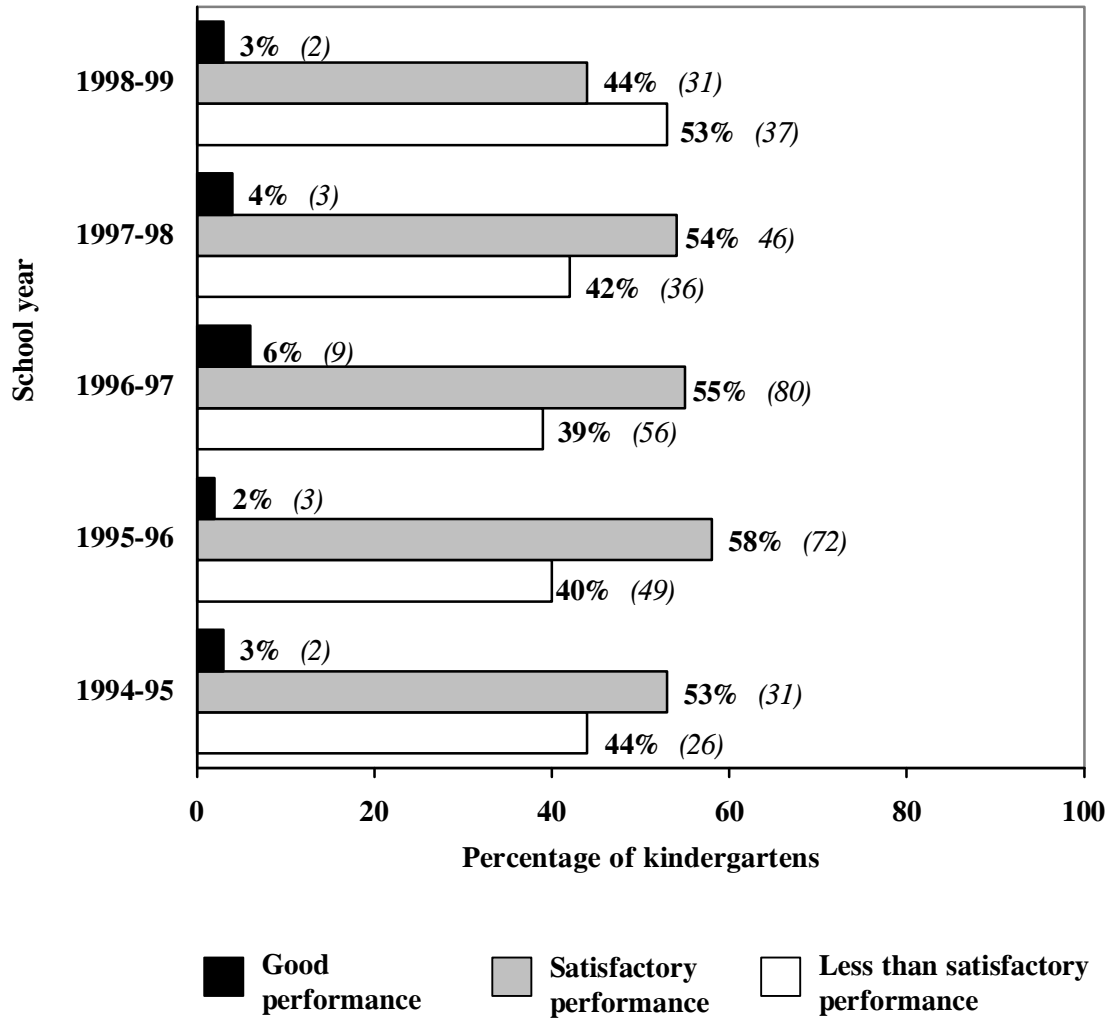
Note 1: The performance of kindergartens can be broadly classified into "good", "satisfactory" and "less than satisfactory".

Note 2: Number of kindergartens inspected by the Inspectorate is shown in brackets.

Figure 2

Analysis of performance information during the period 1994-95 to 1998-99

Private kindergartens



Source: ED's records

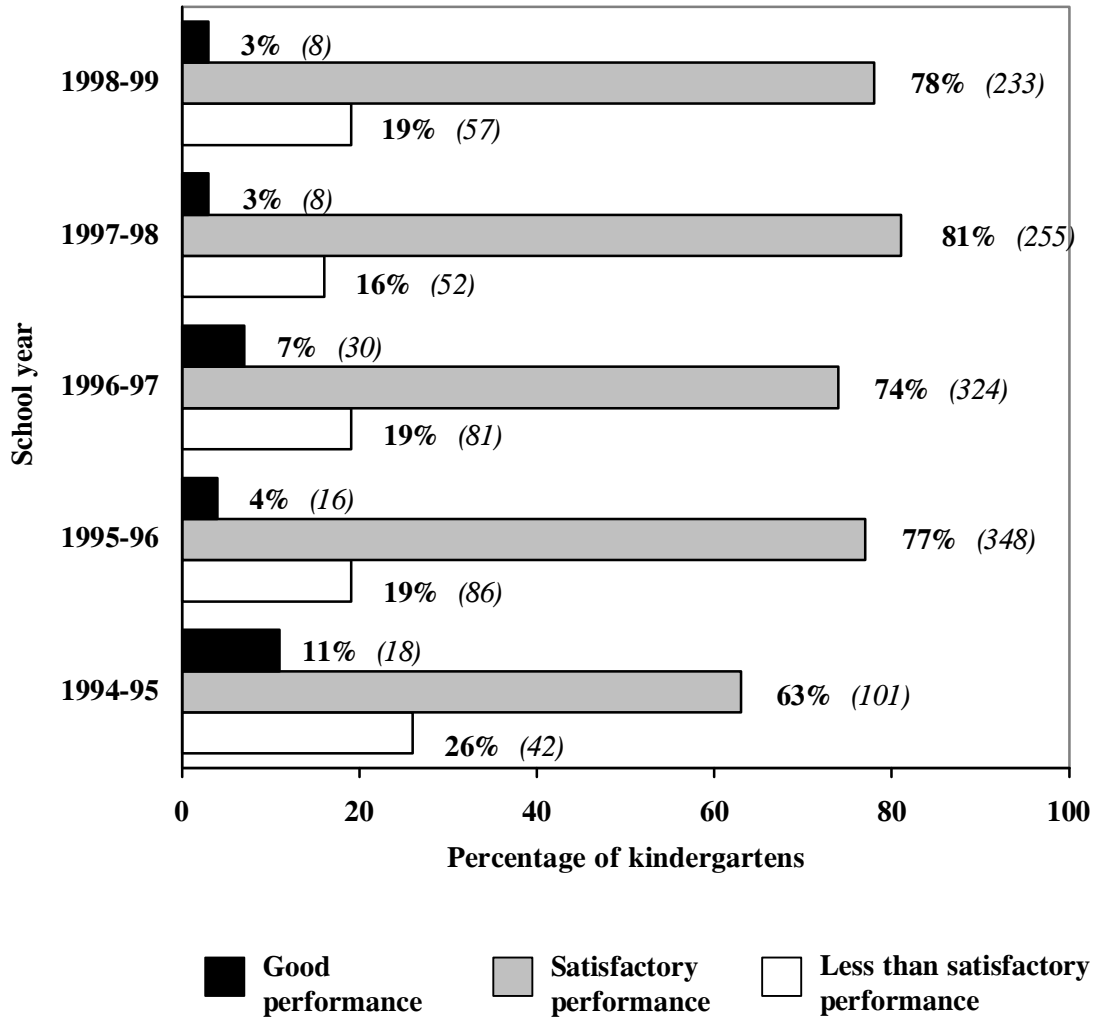
Note 1: The performance of kindergartens can be broadly classified into "good", "satisfactory" and "less than satisfactory".

Note 2: Number of kindergartens inspected by the Inspectorate is shown in brackets.

Figure 3

Analysis of performance information during the period 1994-95 to 1998-99

Non-profit-making kindergartens and private kindergartens



Source: ED's records

Note 1: The performance of kindergartens can be broadly classified into "good", "satisfactory" and "less than satisfactory".

Note 2: Number of kindergartens inspected by the Inspectorate is shown in brackets.

Appendix E
(paragraph 6.5 refers)

Points awarded to average monthly income groups

Average monthly income	Points awarded
(\$)	
≤ 4,800	20
4,801 — 6,500	16
6,501 — 8,300	12
8,301 — 10,000	8
10,001 — 11,700	5
11,701 — 13,400	4
13,401 — 14,700	3
14,701 — 16,000	2
16,001 — 17,400	1
17,401 — 18,800	0
18,801 — 20,400	-1
20,401 — 22,200	-2
22,201 — 23,200	-3
Over 23,200	Ineligible for any assistance

Source: SFAA

Appendix F
(paragraph 6.5 refers)

Points awarded to family members

Family member	Points awarded	
Applicant's spouse	1	
Each dependant parent of the applicant or applicant's spouse	1	
Each dependant child:	Under 18	18 or above
Attending full-time senior secondary school	3	3
Receiving full-time education up to first-degree (i.e. including kindergarten, primary to junior secondary school, Hong Kong Institute of Vocational Education, etc.)	2	2
Attending evening/part-time courses or not attending schools	1	0

Source: SFAA

**Illustrative example (based on actual case) of
dependant family members on the result of the application for fee remission**

An applicant applied for fee remission in 1998-99. He was a driver and his wife was a factory worker. They earned a family income of \$261,000 a year (i.e. about \$21,750 a month). The applicant claimed to have two dependant parents, a child studying in a kindergarten and another child receiving full-time education below secondary three. The points scored by the applicant are shown below.

Points scored by the applicant

	Number of points
Family income	-2 (Note)
Spouse	1
Dependant parents	2
Child studying in kindergarten	2
Another child receiving education below secondary three	2
Total points scored	<u><u>5</u></u>

Source: SFAA

Note: Two points are deducted for income in the range of \$20,401 to \$22,200 per month, see Appendix E.

The applicant scored five points which entitled him to 50% fee remission (see paragraph 6.5). In this case, the SFAA had neither required the applicant to submit documentary proof to support his claim for points for dependants parents and for the child receiving education under secondary three, nor verified the identities of these dependants by home visit. If these dependants had been disregarded in calculating the score, the applicant would have scored one point only (i.e. -2 points for the family income plus 1 point for the spouse and 2 points for the child studying in kindergarten), which would not have entitled him to fee remission.

Appendix H

Acronyms and abbreviations

CDC	Curriculum Development Council
C&SD	Census and Statistics Department
CSSA	Comprehensive Social Security Assistance
EC	Education Commission
ED	Education Department
EMB	Education and Manpower Bureau
ICAC	Independent Commission Against Corruption
KGFRS	Kindergarten Fee Remission Scheme
KSS	Kindergarten Subsidy Scheme
QAI	Quality Assurance Inspection
QKT	Qualified Kindergarten Teacher
SFAA	Student Financial Assistance Agency
SWD	Social Welfare Department