

CHAPTER 3

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

GOVERNMENT FUNDS

GOVERNMENT SECRETARIAT

Chief Secretary for Administration's Office
Commerce and Industry Bureau
Education and Manpower Bureau
Environment and Food Bureau
Health and Welfare Bureau
Home Affairs Bureau
Security Bureau

GOVERNMENT DEPARTMENT

Social Welfare Department

<p>Administration of grants from government funds</p>
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ADMINISTRATION OF GRANTS FROM GOVERNMENT FUNDS

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ADMINISTRATION OF GRANTS FROM GOVERNMENT FUNDS

Summary and key findings

A. **Introduction.** The Government has established a number of funds to finance, through the award of grants, projects/activities of individuals and organisations for specific purposes. The initial capital injection into these funds and provision of additional funding come mainly from the Government. The operation of these funds is normally steered by a council or a committee, comprising members of the public appointed by the Government and government officials, and supported by a secretariat staffed by officers of government bureaux or departments. Audit has recently conducted a review of the performance of the government bureaux and departments in administering the grants from ten government funds. They are the AIDS Trust Fund (ATF), the Beat Drugs Fund (BDF), the Disaster Relief Fund (DRF), the Environment and Conservation Fund (ECF), the Emergency Relief Fund (ERF), the Innovation and Technology Fund (ITF), the Language Fund (LanF), the Lotteries Fund (LF), the Queen Elizabeth Foundation for the Mentally Handicapped (QEFMH) and the Sir David Trench Fund for Recreation (SDTF). The audit has identified a number of areas where there is room for improvement (paras. 1.1 to 1.4).

B. **Need to review the actual time taken for processing applications for grants.** In 2000-01, the ten government funds received a total of about 4,200 applications for grants. Except for the ERF, the ITF and the LF, performance targets have not been set on the time taken for processing applications for grants for the other funds. The results of the audit analysis of the actual processing time for the applications approved in 2000-01 are as follows (paras. 2.3 and 2.4):

- (a) **The ERF.** All the payments for grants were processed within the target processing time (para. 2.4(b));
- (b) **The ITF.** The actual processing time, counted from the date of application, was more than two months for 48.7% of the approved applications for one programme project, and more than three months for 35% of the approved applications for another programme project (para. 2.4(a));
- (c) **The LF.** The time taken to process 413 approved applications involving grants of \$139 million exceeded the target processing time (para. 2.5); and
- (d) **Funds without target processing time.** Some funds did not have performance targets for processing applications. The actual processing time for 919 (89%) approved applications was more than three months, including 453 (44%) approved applications with processing time of more than six months (para. 2.7).

Audit considers that there is a need for the administrators of the funds to investigate the circumstances leading to the long processing time, take necessary action to minimise delay and set performance targets for processing applications (paras. 2.5 and 2.7).

C. **Need to improve budgetary control.** In 2000-01, the total amount of grants approved by the ten government funds was \$2,140 million. With the exception of the ERF, applicants for grants from the other nine government funds were required to submit a budget with an itemised breakdown of their funding requirements. However, Audit noted that, for five government funds (i.e. the ATF, the ECF, the ITF, the LanF and the SDTF), their secretariats had not strictly enforced the expenditure control requirements. Two of them (i.e. the ATF and the SDTF) did not have specific requirements that the approved budget for individual items should not be exceeded. As a result, the expenditure of some projects financed by these funds exceeded the total approved budget and the approved budget for individual items. Audit considers that there is a need for the administrators of the funds to set out budgetary control requirements and to ensure that grantees comply with them (paras. 3.1, 3.3 to 3.9 and 3.11).

D. **Need to strengthen payment control.** Under the different disbursement and expenditure control procedures for different funds, grantees are required to submit audited accounts, statements of accounts and/or invoices/receipts to account for the expenditure incurred. Audit notes that there are inadequacies in the payment control requirements. The auditors of the funded projects of the BDF, the ECF and the SDTF are only required to state that the audited accounts properly present the financial position. They are not required to provide an additional assurance that the conditions of grant have been met. In the case of the ITF, its secretariat staff found that the audited accounts submitted before July 2000 by the grantees did not provide adequate audit assurance that the conditions of grant were met, and that \$16.9 million should be recovered from the grantees. Audit also notes that for the BDF, the LF and the SDTF, under the existing submission procedures, grantees are not required to provide adequate information to the secretariats to account for the use of the grants. For the BDF, the ECF and the SDTF, their secretariats did not ensure that the grantees had complied with the submission requirements to account for the disbursement of grants (paras. 3.21 and 3.22).

E. **Need to improve monitoring of the progress of funded projects.** An important part of the control measures exercised by the secretariats of the funds is to ensure the timely completion of projects. Organisations or individuals receiving grants from the funds are required to complete the projects within an agreed time-frame and to submit evaluation reports to the secretariats of the funds shortly after the completion of the projects. Up to 31 October 2001, out of 884 ongoing projects of seven funds (i.e. the BDF, the DRF, the ECF, the ITF, the LanF, the QEFMH and the SDTF), 468 projects with total approved grants of \$297 million had remained uncompleted after the scheduled completion dates, and out of 1,637 ongoing projects of the LF, 123 projects with total approved grants of \$1,861 million had been in progress for more than five years. There was no readily available information on the number and details of all ongoing projects of the ATF. Audit noted that the reporting requirements had not been complied with by the grantees and that there was inadequate management information for the secretariats of the funds to monitor the progress of the funded projects. Audit considers that there is a need for the administrators of the funds to closely monitor the progress of the projects financed by the funds (paras. 3.43 and 3.45 to 3.47).

F. **Need to improve the existing performance evaluation procedures.** Except for the grantees of the ERF (who are victims of disasters and receive fixed-rate ex-gratia payments) and grantees of certain projects of the LF (who are subject to separate monitoring procedures of the Social Welfare Department), all the other grantees are required to report the impact of the projects, attainment of their original objectives and effectiveness in the evaluation reports. However, Audit noted that the majority of the secretariats of the funds only carried out evaluations of the effectiveness of funded projects on a project-by-project basis. They did not conduct comprehensive reviews to ascertain the overall effectiveness of the funds or set performance indicators/targets to measure the effectiveness, efficiency and quality of the projects financed by the funds. Moreover, they did not have any formal reporting channels to disclose information about the achievement of the objectives of the funds and the projects funded by them. In Audit's view, to enhance public accountability, it is necessary for the administrators of the funds to establish performance evaluation procedures to analyse and report the performance of the funds and the projects financed by them (paras. 3.57 to 3.59).

G. **Need to make an early decision on charging of administrative overheads.** Administrative expenses are incurred by the grantees in the disbursement of the grants to the beneficiaries. At present, grantees are not allowed to charge administrative expenses in the disbursement of grants except for the DRF and the LanF. Audit estimated that the total amount of administration charge, based on the tertiary institutions' proposal to charge the ITF 15% administrative overheads, was \$26 million in 2000-01. In Audit's view, there is a need for the Administration to reach an early decision on whether administration charges should be paid to grantees and the basis for computing such charges (paras. 4.1 and 4.10).

H. **Need to control the acquisition and disposal of assets and stores.** In implementing projects funded by the government funds, grantees are allowed to purchase assets and stores such as machinery, computers and office equipment. Audit notes that the secretariats of the ATF, the BDF, the ECF, the LanF, the QEFMH and the SDTF have not laid down adequate control requirements for the acquisition and disposal of assets and stores. Audit also notes that the value of assets and stores purchased with the grants from the funds is significant. Out of the total expenditure of \$312 million for ten selected projects completed in 2000-01 for each of the funds, the expenditure for the purchase of assets was \$51 million. Audit considers that the administrators of the funds need to satisfy themselves that there is adequate control over the acquisition and disposal of assets (paras. 5.1 to 5.6).

I. **Audit recommendations.** Audit has made the following main recommendations:

Time taken for processing applications for grants

- (a) the administrators of the ATF, the BDF, the DRF, the ECF, the ITF, the LanF, the QEFMH and the SDTF should review the actual time taken for processing applications for grants and set performance targets for the time required for processing applications (para. 2.8(a));

- (b) the administrator of the LF should investigate the circumstances of those projects which had long processing time and identify any deficiencies in the processing procedures, and closely monitor the time taken for processing applications with a view to ensuring that there are no undue delays in processing applications (para. 2.8(b));
- (c) the administrators of all the ten funds covered in this audit review should monitor closely the actual performance with reference to the performance targets (para. 2.8(c));

Budgetary control exercised by secretariats of the funds

- (d) the administrators of the ATF, the DRF, the QEFMH and the SDTF should consider specifying budgetary control requirements in the conditions of grant (para. 3.12);
- (e) the administrators of the ECF, the ITF and the LanF should take action to ensure that grantees comply with the budgetary control requirements stipulated in the conditions of grant (para. 3.13);

Control over the disbursement of grants

- (f) the administrators of the BDF, the ECF and the SDTF should consider requesting the auditors of the grantees, who are required to submit audited accounts of the funded projects, to provide an assurance that the conditions of grant have been met (para. 3.26(a));
- (g) the administrators of the BDF, the LF and the SDTF should consider requiring the grantees, who presently only submit either statements of accounts or invoices/receipts, to submit both the statements of accounts and invoices/receipts to the secretariats of the funds for checking (para. 3.26(b));

Monitoring of progress and performance evaluation of funded projects

- (h) the administrators of the funds should:
 - (i) take necessary action to closely monitor the progress of funded projects (para. 3.48);
 - (ii) establish procedures to evaluate the performance of projects financed by the funds (para. 3.60(b)); and

- (iii) consider establishing formal reporting channels to provide information to the various stakeholders on the performance of the funds and the projects funded by them (para. 3.60(c));

Charging of administrative overheads

- (i) the Secretary for the Treasury should:

- (i) decide whether and under what circumstances an administration charge is payable for services rendered by the organisations concerned in handling the grants (para. 4.11(a));
- (ii) if it is decided that an administration charge is payable, in consultation with the Director of Accounting Services, critically review the costing data of the organisations concerned so as to ensure that the charge is reasonable (para. 4.11(b)); and
- (iii) issue guidelines on the basis for computing the administration charge to the administrators of the funds (para. 4.11(c)); and

Acquisition and disposal of assets and stores by grantees

- (j) the administrators of the funds should:

- (i) review the asset acquisition and disposal procedures of the grantees receiving substantial grants with a view to ensuring that sufficient control measures are in place for the acquisition, proper accounting and disposal of assets and stores (para. 5.7(a)); and
- (ii) consider taking action to periodically review the operation of the asset acquisition and disposal procedures of grantees receiving substantial grants and verify the existence of all major assets, including the returned assets (para. 5.7(b)).

J. **Response from the Administration.** The administrators of the funds generally accept the audit recommendations (paras. 2.9 to 2.18, 3.14 to 3.20, 3.30 to 3.42, 3.49 to 3.56, 3.61 to 3.68, 4.12 to 4.13 and 5.8 to 5.16).

PART 1: INTRODUCTION

Background

1.1 The Government has established a number of funds to finance, through the award of grants, projects/activities of individuals and organisations for specific purposes, such as social welfare, environmental conservation, language proficiency and technology upgrading. **As at 31 March 2001, there were a total of eleven government funds, managed by government bureaux and departments, which made grants to individuals and organisations.** The initial capital injection into these funds and provision of additional funding come mainly from the Government. A summary of the objectives of these eleven funds is given at Appendix A.

1.2 These eleven government funds were established under ordinances or trust deeds which set out the framework and the salient features for the proper management and administration of the funds. The operation of these funds is normally steered by a council or a committee, comprising members of the public appointed by the Government and government officials, and supported by a secretariat staffed by officers of government bureaux or departments. The councils or the committees advise on the policy and practices regarding the use of the funds, while the secretariats are responsible for their day-to-day management. The Bureau Secretary or Head of Department responsible for administering the fund is referred to in this report as the administrator of the fund.

Audit review

1.3 Audit has recently conducted a review of the performance of the government bureaux and departments in administering the grants from the government funds mentioned in paragraph 1.1 above. This review covers the ten government funds listed in Table 1 below. (The Quality Education Fund was excluded because it was reviewed in 2001 and the results were included in Report No. 37 of the Director of Audit of October 2001.)

Table 1**Ten government funds administered by government bureaux and departments**

Fund	Administrator of the fund	Fund balance as at 31 March 2001 (\$ million)	Number of projects approved in 2000-01	Amount of grants paid in 2000-01 (\$ million)
1. AIDS Trust Fund (ATF)	Secretary for Health and Welfare	360	68	19
2. Beat Drugs Fund (BDF)	Secretary for Security	414	36	16
3. Disaster Relief Fund (DRF)	Director of Administration	11	26	44
4. Environment and Conservation Fund (ECF)	Secretary for the Environment and Food	41	88	10
5. Emergency Relief Fund (ERF)	Director of Social Welfare (Note 1)	21	1,611	7
6. Innovation and Technology Fund (ITF)	Commissioner for Innovation and Technology	4,926	141	309
7. Language Fund (LanF)	Secretary for Education and Manpower	376 (Note 2)	1	21
8. Lotteries Fund (LF)	Director of Social Welfare	4,112	1,404	550
9. Queen Elizabeth Foundation for the Mentally Handicapped (QEFMH)	Secretary for Health and Welfare	137	93	9
10. Sir David Trench Fund for Recreation (SDTF):				
Main Fund	Secretary for Home Affairs	148	317	6
Arts and Sport Development Fund (ASDF)	Secretary for Home Affairs	204	57	49
Total		<u>10,750</u>	<u>3,842</u>	<u>1,040</u>

Source: Records of the secretariats of the funds

Note 1: The Director of Social Welfare Incorporated is the Trustee of the ERF. Officers of the Social Welfare Department, Housing Department, Marine Department and Agriculture, Fisheries and Conservation Department are responsible for payment of grants.

Note 2: The closing date of the annual accounts of the LanF is 31 August. The fund balance as at 31 August 2001 was \$376 million. There was no call for application of grants from the LanF in 2000-01.

Note 3: Apart from the BDF which is audited by an accounting firm, the Director of Audit is the auditor of the other nine funds. Except for the BDF, the annual audited accounts of the other nine funds are required to be laid before the Legislative Council.

1.4 The review has identified a number of areas where there is room for improvement, particularly in the administration of grants from these ten funds. The audit findings and recommendations are given in PARTS 2 to 5 of this report.

PART 2: TIME TAKEN FOR PROCESSING APPLICATIONS FOR GRANTS

Applications for grants from the funds

2.1 In general, applications for grants from the ten government funds are processed by the secretariats of the funds before approval. The procedures adopted by the secretariats of the ten funds for processing applications for grants are similar. A summary of these procedures is as follows:

- (a) upon receipt of applications for grants for projects, the secretariats of the funds conduct preliminary screening of the applications and seek clarification or further information from the applicants. Where necessary, individual applications may be vetted with the assistance of outside experts;
- (b) applicants may be required to attend assessment meetings to present their projects and answer committee members' questions;
- (c) the administrators, councils or committees of the funds decide on the applications based upon the recommendations of the secretariats of the funds;
- (d) the secretariats of the funds inform the applicants of the results of the applications; and
- (e) the secretariats of the funds arrange payments of grants to the successful applicants.

Processing time for applications for grants

2.2 To ensure that applications for grants are processed timely, different procedures are established by the secretariats of the funds, as follows:

- (a) ***Funds which have fixed schedules for holding approval meetings.*** The secretariats of the ATF, the BDF, the LanF, the QEFMH and the SDTF (Main Fund — capital projects and special projects) have fixed schedules for holding committee meetings to discuss and approve the applications for grants. For each round of meetings, a closing date for the submission of applications is announced beforehand. All applicants are notified of the results of their applications after the meetings. Applicants are usually notified of the results about three months after the closing date for submission of applications, although no target has been set on the time required by the secretariats for processing the applications; and

- (b) ***Funds for which applications are approved on a case-by-case basis.*** The secretariats of the DRF, the ECF, the ERF (Note 1), the ITF, the LF and the SDTF (Main Fund — non-capital projects and ASDF projects) process applications on a case-by-case basis. Audit notes that:

- (i) the Secretariat of the ERF has set time limits for processing the payment of grant counting from the date of application;
- (ii) the Secretariat of the LF has set targets for the time required for processing applications;
- (iii) the Secretariat of the ITF has only set targets for the time required for processing applications for projects of two (out of four) programmes under the ITF; and
- (iv) the secretariats of the DRF, the ECF and the SDTF have not set targets for the time required for processing applications.

Audit observations on the time taken for processing applications for grants

Actual processing time for applications for grants made in 2000-01

2.3 In 2000-01, apart from the LanF (Note 2), the other nine funds received a total of about 4,200 applications for grants. Table 2 and Figure 1 below show the average time taken to process applications for grants under the nine funds.

Note 1: *The Director of Social Welfare Incorporated is the Trustee of the ERF. Officers of the Social Welfare Department, Housing Department, Marine Department and Agriculture, Fisheries and Conservation Department are responsible for payment of grants.*

Note 2: *There was no call for application for grants from the LanF in 2000-01. Applications for grants from the LanF resumed in 2001-02 after further capital injection into the LanF in February 2001.*

Table 2
Time taken for processing applications for grants in 2000-01

Fund	Average actual processing time (Note 1) (Days)	Target processing time (Note 1)
ATF	98 (Note 2)	None
BDF	95 (Note 2)	None
DRF	17	None
ECF:		
Research projects	217	None
Environmental Education and Community Action (EE&CA) projects	123	None
ERF:		
Social Welfare Department (SWD)		
— grants in respect of death or personal injury	33 (Note 3)	3 years (Note 3)
Agriculture, Fisheries and Conservation Department (AFCD)		
— grants for loss of crops, livestock or fish	14 (Note 3)	14 working days (Note 3)
— grants to repair fishing vessels	43 (Note 3)	90 working days (Note 3)
ITF:		
University-Industry Collaboration Programme (UICP) projects	64	30 working days (Note 4)
Small Entrepreneur Research Assistance Programme (SERAP) projects	86	2 months (Note 4)
General Support Programme (GSP) projects and Innovation and Technology Support Programme (ITSP) projects	165	None
LanF	(Note 5)	None
LF:		
Major grants (Note 6)	173	9 months
Minor grants (Note 6)	110	4 months
QEFMH	116 (Note 2)	None
SDTF:		
Main Fund		
— capital projects and special projects	288 (Note 2)	None
— non-capital projects	241	None
ASDF		
— Arts projects	108	None
— Sports projects	109	None

Source: Audit's analysis of the records of the secretariats of the funds

Note 1: Unless otherwise indicated, both the actual and target processing time represent the time taken from the date of application to the date of notifying the applicant of the results.

Note 2: The secretariats of the ATF, the BDF, the QEFMH and the SDTF have set fixed schedules for holding committee meetings to examine the applications. The actual processing time is counted from the closing date for the submission of applications to the date of notifying the applicants of the results.

Note 3: The actual and target processing time represent the time taken from the date of application to the date of payment of grant.

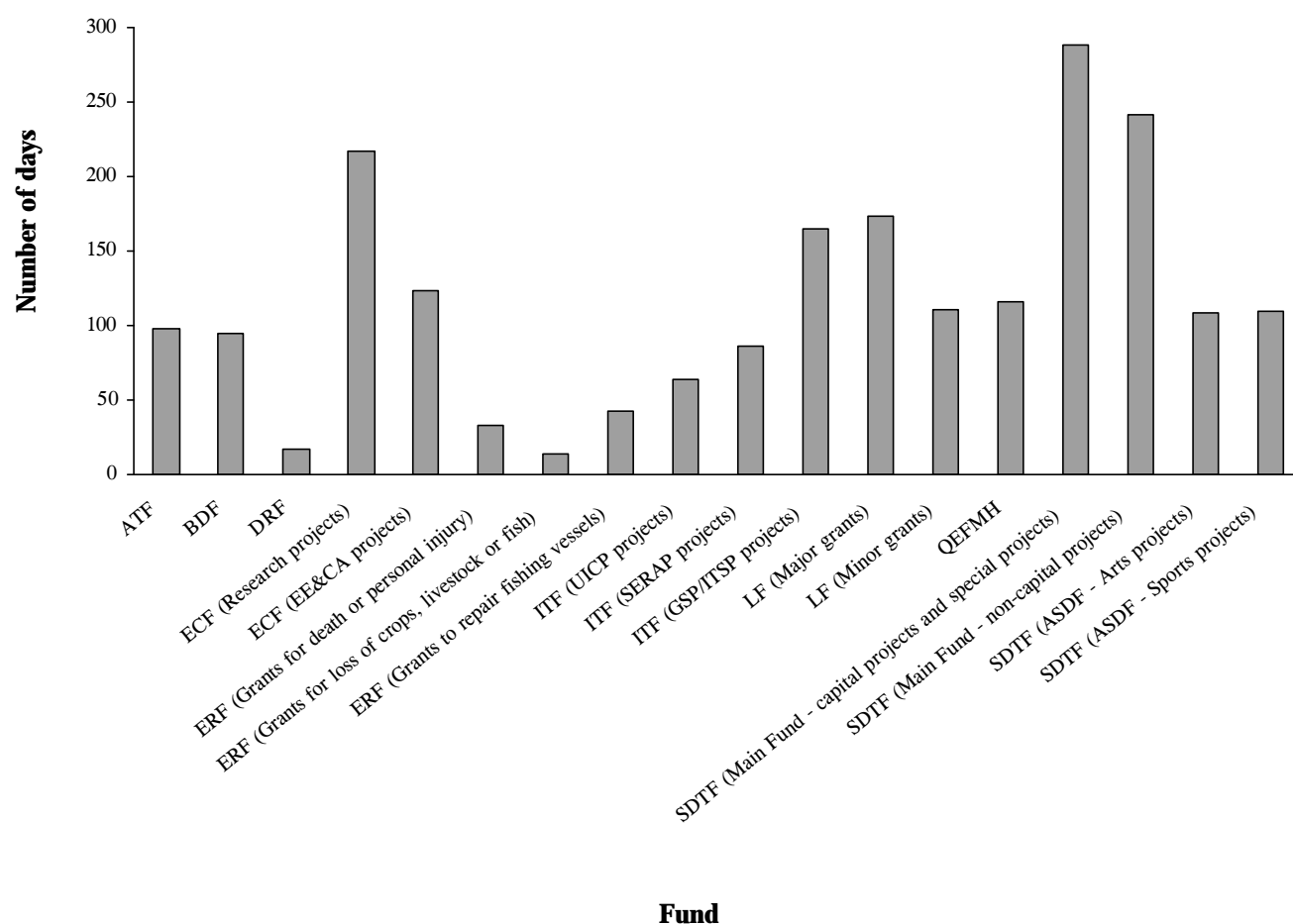
Note 4: The target processing time is the time taken from the date of receipt of full information relating to the applications to the date of notifying the applicants of the results.

Note 5: There was no call for application for grants from the LanF in 2000-01.

Note 6: The Secretariat of the LF classifies grants exceeding \$400,000 each as major grants, and grants not exceeding \$400,000 each as minor grants.

Figure 1

Average time taken for processing applications for grants in 2000-01



Source: Audit's analysis of the records of the secretariats of the funds

Comparison of the performance targets set by the ERF, the ITF and the LF with the actual processing time

2.4 As mentioned in paragraph 2.2(b) above, only the secretariats of the ERF, the ITF (for part of the applications) and the LF have set performance targets for the time taken for processing applications or payments for grants. **The target processing time set by the Secretariat of the ITF is counted from the date of receipt of full information relating to the applications, whereas those set by the secretariats of the ERF and the LF are counted from the date of submission of the applications.** Based on Table 2 in paragraph 2.3 above, Audit noted that:

- (a) **for the applications of the ITF in 2000-01, the average actual processing time (i.e. counted from the date of submission of the applications for grants to the date of notifying the applicants of the results) was longer than the target processing time. The actual processing time for individual applications was more than two months for 48.7% of the UICP applications, and more than three months for 35% of the**

SERAP applications. In response to Audit's enquiry, the Secretariat of the ITF explained that, given the research and development nature of these projects, there was a need to seek clarifications from applicants before it could start the vetting process. The average actual processing time in 2000-01, counted from the date of receipt of full information relating to the applications to the date of notifying the applicants of the results, was 11 working days (against the target of 30 working days) for the UICP applications and 44 days (against the target of two months) for the SERAP applications. **In Audit's view, to ensure that applications are timely processed, the administrator of the ITF should consider setting performance targets for the total processing time counting from the date of submission of applications for grants to the date of notifying the applicants of the final results; and**

- (b) **for the ERF and the LF, the average actual processing time for approved applications or payments for grants in 2000-01 was within the target processing time.** A further analysis of the actual processing time for the approved applications of the ERF and the LF in 2000-01 indicated that:
 - (i) all the payments for grants from the ERF were processed within the target processing time; and
 - (ii) **a large number of approved applications for grants from the LF exceeded the target processing time. Details are shown in Table 3 below.**

Table 3

Analysis of time taken to process the LF applications approved in 2000-01

	Major grants exceeding \$400,000 each (Note 1)			Minor grants not exceeding \$400,000 each (Note 2)		
	Number of applications		Amount of grant (\$ million)	Number of applications		Amount of grant (\$ million)
Within the target processing time	<u>155</u>	<u>77%</u>	<u>1,358.17</u>	<u>867</u>	<u>70%</u>	<u>48.63</u>
Exceeded the target processing time by:						
1 month or less	3	1%	9.35	84	7%	7.25
over 1 to 2 months	4	2%	5.49	80	7%	7.26
over 2 to 3 months	6	3%	7.73	43	3%	4.91
over 3 to 6 months	11	5%	15.84	79	6%	9.31
over 6 to 9 months	4	2%	10.09	33	3%	3.63
over 9 to 12 months	7	4%	18.36	16	1%	1.35
over 12 to 24 months	7	4%	13.51	30	2%	2.25
over 24 months	4	2%	22.15	2	1%	0.55
Sub-total	<u>46</u>	<u>23%</u>	<u>102.52</u>	<u>367</u>	<u>30%</u>	<u>36.51</u>
Total	<u>201</u>	<u>100%</u>	<u>1,460.69</u>	<u>1,234</u>	<u>100%</u>	<u>85.14</u>

Source: Records of the Secretariat of the LF

Note 1: The target processing time for major grants was nine months counted from the date of submission of the applications.

Note 2: The target processing time for minor grants was four months counted from the date of submission of the applications.

2.5 As shown in Table 3 in paragraph 2.4 above, the time taken by the Secretariat of the LF to process 46 (or 23%) approved applications for major grants (totalling \$102.52 million), and 367 (or 30%) approved applications for minor grants (totalling \$36.51 million) was longer than the target processing time. Of these 413 applications, the actual processing time for 18 applications for major grants (totalling \$54.02 million) and 48 applications for minor grants (totalling \$4.15 million) exceeded the target processing time by more than nine months. Audit considers that there is a need for the administrator of the LF to investigate the circumstances leading to the long processing time and take necessary action to minimise delays.

**The time taken to process grant applications
for funds without processing time performance targets**

2.6 Audit noted that for those funds without performance targets for the time taken for processing applications (i.e. the ATF, the BDF, the DRF, the ECF, the ITF (GSP projects and ITSP projects), the LanF, the QEFMH, the SDTF — see Table 2 in para. 2.3 above), their secretariats did not compile statistics on the actual time taken to process the applications for grants. The results of an audit examination of the processing time for the applications for grants from these funds in 2000-01 are given in Table 4 below.

Table 4

Time taken to process applications for grants in 2000-01

Fund	3 months or less		Over 3 to 6 months		Over 6 months		Total
	(Number of cases)	(%)	(Number of cases)	(%)	(Number of cases)	(%)	(Number of cases)
ATF	35	51 %	33	49 %	–	–	68
BDF	–	–	121	100 %	–	–	121
DRF	24	100 %	–	–	–	–	24
ECF:							
Research projects	1	10 %	2	20 %	7	70 %	10
EE&CA projects	31	40 %	37	48 %	9	12 %	77
ITF (GSP projects and ITSP projects)	3	4 %	61	92 %	3	4 %	67
QEFMH	–	–	143	100 %	–	–	143
SDTF:							
Main Fund — capital projects and special projects	–	–	–	–	236	100 %	236
Main Fund — non-capital projects	–	–	40	17 %	195	83 %	235
ASDF (Arts projects)	18	39 %	27	59 %	1	2 %	46
ASDF (Sports projects)	3	42 %	2	29 %	2	29 %	7
Total	115	11 %	466	45 %	453	44 %	1,034

89%

Source: Audit's analysis of records of the secretariats of the funds

2.7 As shown in Table 4 in paragraph 2.6 above, for those funds without processing time performance targets, the actual processing time for 919 (466 + 453 or 89%) approved applications was more than three months, including 453 (44%) approved applications with processing time of more than six months. In Audit's view, there is a need for the administrators of the funds to set performance targets for processing applications and to regularly monitor the actual processing time against the performance targets.

Audit recommendations on the time taken for processing applications for grants

2.8 **Audit has recommended that:**

- (a) **the administrators of the ATF, the BDF, the DRF, the ECF, the ITF, the LanF, the QEFMH and the SDTF should review the actual time taken for processing applications for grants and set performance targets for the time required for processing applications;**
- (b) **the administrator of the LF should:**
 - (i) **investigate the circumstances of those projects which had long processing time and identify any deficiencies in the processing procedures; and**
 - (ii) **closely monitor the time taken for processing applications with a view to ensuring that there are no undue delays in processing applications; and**
- (c) **the administrators of all the ten funds covered in this audit review should monitor closely the actual performance with reference to the performance targets to ensure that the processing of applications for grants is completed on time.**

Response from the Administration

2.9 The **Secretary for Health and Welfare (*the administrator of the ATF*)** has said that at present, members of the Council for the ATF meet four times a year to consider applications for the ATF and letters are issued shortly after the relevant Council meeting to notify applicants of the results. Therefore, in practice, there is a performance target for notifying applicants of the results.

2.10 The **Secretary for Security (*the administrator of the BDF*)** has said that:

- (a) since the establishment of the BDF in 1996, its vetting procedures and operation have been regularly reviewed to ensure that all applications were vetted expeditiously. As a result of vigorous and continuous efforts to streamline the vetting process, the actual time taken for processing the applications has decreased from 125 days in 1996-97 to 95 days in 2000-01. However, she will continue to keep the vetting mechanism of the BDF under review to look for ways of further streamlining the process and reducing the time required for processing applications; and

- (b) to provide the applicants with an indication of the time-frame of the application exercise, the Guide to Application already states the estimated processing time for the application. Although this is not a performance target, the Secretariat of the BDF is closely monitoring the actual processing time against the pledged time. She will keep the audit recommendations in view.

2.11 The **Director of Administration** (*the administrator of the DRF*) accepts the audit recommendations mentioned in paragraph 2.8(a) and (c) above. He has said that he always gives top priority to applications for grants from the DRF to ensure that they are processed in a timely manner. He will, with immediate effect, compile statistics on the actual time taken to process the applications for grants on a quarterly basis.

2.12 The **Secretary for the Environment and Food** (*the administrator of the ECF*) agrees with the audit recommendations mentioned in paragraph 2.8(a) and (c) above and will consider how best to implement them.

2.13 The **Director of Social Welfare** (*the administrator of the ERF*) has said that she is pleased to note from the audit report that the administration of the ERF has been generally satisfactory.

2.14 The **Commissioner for Innovation and Technology** (*the administrator of the ITF*) fully agrees that he needs to process all applications in a timely manner. He has said that:

- (a) he has already set performance targets for two of the ITF programmes (i.e. the SERAP and the UICP). He will closely monitor the actual performance on processing time with reference to the performance targets set;
- (b) as regards the other two ITF programmes (i.e. the GSP and the ITSP), he will keep the actual processing time for these programmes under regular review and consider the need for setting realistic performance targets for these two programmes in future; and
- (c) the time taken to obtain the required information for the SERAP and the UICP projects varies depending on the complexity of each project proposal and the response time of the applicant. Nevertheless, he will review the need for setting a more realistic performance target on the basis of the experience gathered from the operation of the ITF.

2.15 The **Secretary for Education and Manpower** (*the administrator of the LanF*) welcomes the audit recommendations mentioned in paragraph 2.8(a) and (c) above. She has said that:

- (a) the Corruption Prevention Department of the Independent Commission Against Corruption (ICAC) has completed a review on the administration of the LanF recently; and
- (b) she is reviewing the administration of the LanF in the light of the audit report and the ICAC Report and intends to implement all the recommendations in these two reports as soon as possible.

2.16 The **Director of Social Welfare** (*the administrator of the LF*) welcomes the audit review and will take the audit recommendations into account in improving the efficiency, economy and effectiveness of the administration of the LF. She has said that:

- (a) long processing time for applications has been recognised as a perennial problem of the LF. The delays were caused by insufficient or incomplete information submitted by applicants, revision of project scope, long time taken for consultation within the SWD and with external parties;
- (b) to tackle the problem, she has put in place a number of administrative measures since 2000-01 to help expedite the processing. These include streamlining the processing procedures, delegation of authority to the processing staff and fortnightly meetings of the Secretariat of the LF to closely monitor the processing of the LF applications; and
- (c) she has put in place various measures to revamp the LF procedures, including the following measures:
 - (i) since September 2001, most of the minor grant applications have been grouped together and processed annually in one allocation exercise under an annual block grant arrangement. This has brought a great relief to the applying and processing agents; and
 - (ii) for applications for fitting-out and furnishing new or reprovisioned premises, a lump-sum approach is now adopted to speed up the works to ensure timely commissioning of services.

2.17 The **Secretary for Health and Welfare** (*the administrator of the QEFMH*) accepts the audit recommendations to set performance target for the time taken for processing applications. He has said that there is an annual plan with fixed time scale for processing applications. At present, the arrangement is to invite applications in March with closing date in May and then for the Council of the QEFMH to meet to vet applications in June/July. Thereafter, the outcome is announced in August. He will advise the applicants of this plan when he invites applications.

2.18 The **Secretary for Home Affairs** (*the administrator of the SDTF*) has said that he is receptive to the audit report. He has also said that:

SDTF (Main Fund)

- (a) streamlined processing procedure has been adopted with effect from 2001-02. In order to shorten the processing time, he will explore the possibility of further delegating the approving authority to his staff;
- (b) he will conduct annual reviews on the actual processing time for each application and consider establishing an application database for monitoring the progress of individual applications;

SDTF (ASDF)

- (c) for arts projects, he has set target for processing applications at three-month intervals; and
- (d) for sports projects, he will consider setting performance targets for processing applications in consultation with the Sports Development Board.

PART 3: MONITORING OF SPENDING AND PROGRESS OF PROJECTS

Budgetary control exercised by secretariats of the funds

3.1 In 2000-01, the total amount of grants approved by the ten government funds was \$2,140 million. Details are given at Appendix B. With the exception of the ERF which made fixed-sum ex-gratia payments to victims of disasters, applicants for grants from the nine government funds (i.e. the ATF, the BDF, the DRF, the ECF, the ITF, the LanF, the LF, the QEFMH and the SDTF) were required to submit a budget with an itemised breakdown (such as staffing and equipment) of their funding requirements. The following are the general funding procedures for the nine government funds:

- (a) the secretariat and the council or the committee of the fund vet the proposed budget and the project proposal to determine whether the budget is reasonable before the application is approved by the administrator of the fund;
- (b) after the project has been approved, unless otherwise stated, any variations in the approved budget require the further approval of the administrator of the fund; and
- (c) grantees are not allowed to incur expenditure in excess of the approved budgets without prior approval and should ensure that the grants are spent economically and judiciously for the purpose approved by the funds.

Furthermore, the administrators of five funds have stipulated additional requirements for the expenditure for individual budget items, as follows:

- (i) **grantees of the BDF** are not allowed to incur any expenditure in excess of the budget for individual items without prior approval;
- (ii) **grantees of the ECF, the ITF and the LanF** are not allowed to incur expenditure exceeding 20%, 10% (Note 3) and 5% respectively of the approved budgets for individual items without prior approval; and
- (iii) **grantees of the LF** are not allowed to make significant changes to the approved budget of expenditure on staff without prior approval.

Note 3: *In November 2000, the ITF specified that the actual expenditure in any individual item might exceed at most 10% of the original budgeted expenditure for that item if this did not result in any increase in the total amount of the approved grant. Before November 2000, prior endorsement of the fund was required if a grantee wished to make any significant changes in the budget.*

3.2 To ensure that the grants are used for the designated purposes, grantees of the nine funds are required to submit to the secretariat of the fund supporting documents such as statements of accounts, invoices/receipts and audited accounts on how the grants have been used (see para. 3.21 below). Staff of the secretariats of the funds examine the documents submitted, and raise queries with the grantees if necessary, in order to satisfy themselves that the expenditure incurred is a fair and proper charge to the grants.

Audit observations on budgetary control exercised by secretariats of the funds

3.3 For each of the nine funds (see para. 3.1 above), Audit selected ten projects completed in 2000-01 which had the largest amounts of approved budgets. For each selected project, Audit compared the total expenditure with the total approved budget, and the expenditure for individual budget items with the approved budget for such items. Audit found that:

- (a) grantees of all the nine funds were not allowed to incur expenditure exceeding the total budget. Moreover, except for the ATF, the DRF, the QEFMH and the SDTF, there were specific requirements that the grantees should not incur expenditure exceeding the approved budget for individual items (see para. 3.1(i) to (iii) above);
- (b) for all the selected projects funded by the BDF, the DRF, the LF, the QEFMH and the SDTF (Main Fund), the expenditure was within the total budget and the budget for individual items; and
- (c) **however, for some of the selected projects funded by the ATF, the ECF, the ITF and the LanF, the expenditure exceeded the total approved budget and the approved budget for individual items. For one of the selected projects funded by the SDTF (ASDF), the expenditure exceeded the approved budget for individual items.** Details of the audit findings are given in paragraphs 3.4 to 3.9 below.

The ATF

3.4 According to the conditions of grant, grantees of the ATF are not allowed to incur expenditure exceeding the total budget. However, there are no specific requirements that the grantees should not incur expenditure exceeding the approved budget for individual items. Audit noted that:

- (a) in five of the ten selected projects, the total expenditure exceeded the total budget. The total excess expenditure of \$0.99 million was borne by the grantees as the Secretariat of the ATF did not allow the grantees to claim the excess expenditure;
- (b) in eight of the ten selected projects, the expenditure for individual items exceeded the approved budget for those items by 1.3% to 713.6%. The excess expenditure was for staffing expenses (\$3.68 million), equipment expenses (\$0.297 million) and other expenses such as rent and management fee (\$1.998 million); and

- (c) at the time of completion of field audit work in December 2001, there was no documentary evidence in the project files indicating that additional justifications had been provided to the Secretariat of the ATF before the excess expenditure was incurred.

The ECF

3.5 According to the conditions of grant, grantees of the ECF are not allowed to incur expenditure exceeding the total budget, or 20% of the approved budget for individual items without prior approval. However, Audit noted that:

- (a) in one of the ten selected projects, the total expenditure exceeded the total budget by \$73,000 (or 25%) and the budget for individual items. The excess expenditure was met by the grantee (the Environmental Campaign Committee (ECC) — Note 4) from the unspent balance of grant of another project financed by the ECF; and
- (b) in four of the ten selected projects, the grantees (the ECC) did not submit itemised breakdown of the expenditure for individual budget items to the Secretariat of the ECF. Therefore, the Secretariat of the ECF could not know whether its requirement of limiting the expenditure to not more than 20% of the approved individual budget items had been complied with.

3.6 In response to Audit's enquiry, the administrator of the ECF has informed Audit that:

- (a) since the establishment of the ECF in 1994, it has been a standing practice for the ECF Committee to approve a lump sum allocation for the ECC to carry out large-scale territory-wide environmental campaigns each year; and
- (b) although the allocation is based on the itemised budgets submitted by the ECC, it has been the understanding that the ECC may make the necessary changes to the budget details to cater for unforeseen changes (see also para. 3.16 below).

The ITF

3.7 According to the conditions of grant, grantees of the ITF are not allowed to incur expenditure exceeding the total budget, or 10% of the approved budget for individual items without prior approval. However, Audit noted that:

Note 4: *The ECC was set up to promote public awareness of environmental issues and encourage the public to contribute actively towards a better environment. Committee members, including representatives of government departments such as the Environmental Protection Department, are appointed by the Chief Executive of the Hong Kong Special Administrative Region. With funding support from the ECF, the ECC and its working groups implement the proposed campaigns, work out the details of the activities and monitor the use of the grants.*

- (a) in three of the ten selected projects, the total expenditure exceeded the total budget. The total excess expenditure of \$1.04 million was partly financed by the interest earned when the grants were placed in bank deposits (see also para. 3.25 below) and partly financed by the grantees from their other sources of income;
- (b) in three of the ten selected projects, the expenditure for some individual items exceeded the approved budget for those items by 15% to 238%. The excess expenditure was for equipment expenses (\$0.993 million) and miscellaneous expenses (\$0.189 million); and
- (c) at the time of completion of the field audit work in December 2001, there was no documentary evidence in the project files indicating that additional justifications had been provided to the Secretariat of the ITF before the excess expenditure was incurred.

The LanF

3.8 According to the conditions of grant, grantees of the LanF are not allowed to incur expenditure exceeding the total budget, or 5% of the approved budget for individual items without prior approval. However, Audit noted that:

- (a) in five of the ten selected projects, the total expenditure exceeded the total budget. The total excess expenditure of \$0.58 million was financed by the interest earned when the grants were placed in bank deposits (see also para. 3.24(b) below);
- (b) in five of the ten selected projects, the expenditure for some individual items exceeded the approved budget for those items by 16% to 320%. The excess expenditure was for staffing expenses (\$0.899 million), equipment expenses (\$0.187 million) and miscellaneous expenses (\$0.233 million); and
- (c) at the time of completion of field audit work in December 2001, there was no documentary evidence in the project files indicating that additional justifications had been provided to the Secretariat of the LanF before the excess expenditure was incurred.

The SDTF (ASDF)

3.9 According to the conditions of grant, grantees of the SDTF (ASDF) are not allowed to incur expenditure exceeding the total budget. However, there are no specific requirements that they should not incur expenditure exceeding the approved budget for individual items. Audit noted that:

- (a) in one of the ten selected projects, the expenditure for individual items exceeded the approved budget for those items by \$748,000; and

- (b) in two of the ten selected projects, when the grantees notified the secretariat of the changes in activities of the projects, they did not provide the secretariat with an itemised breakdown of the revised budget. Therefore, there was inadequate assurance that the expenditure incurred for those activities of the projects which had been changed was a fair and proper charge to the grants.

Deficiencies in the existing budgetary control

3.10 Based on the audit findings mentioned in paragraphs 3.3 to 3.9 above, Audit considers that the existing expenditure monitoring procedures have the following deficiencies:

- (a) in some of the selected projects funded by the ATF, the ECF, the ITF and the LanF, the total expenditure exceeded the total budget. However, the secretariats of these funds had not taken follow-up action to ascertain why the grantees had incurred expenditure in excess of the approved budget;
- (b) for the ECF, the ITF and the LanF, grantees were not allowed to incur expenditure exceeding 20%, 10% and 5% respectively of the approved budgets for individual items without prior approval. Audit noted that for some of the selected projects funded by the ECF, the ITF and the LanF, the expenditure had exceeded the specified limits of the approved budgets for individual items without prior approval. However, the secretariats of these funds had not taken follow-up action to ascertain the reason for the non-compliance with the requirement; and
- (c) for the ATF, the DRF, the QEFMH and the SDTF, there were no specific requirements that the grantees should not incur expenditure exceeding the approved budget for individual items. Audit noted that for some of the projects funded by the ATF and the SDTF (ASDF), the expenditure had exceeded the approved budget for individual items. In the absence of justifications for the excess expenditure, there was inadequate assurance that the excess expenditure incurred by the grantees of the ATF and the SDTF (ASDF) was a fair and proper charge to the grants.

3.11 **In Audit's view, there is a need for the administrators of the funds to set out budgetary control requirements and to ensure that grantees comply with them.**

Audit recommendations on budgetary control exercised by secretariats of the funds

3.12 **Audit has recommended that the administrators of the ATF, the DRF, the QEFMH and the SDTF should consider specifying budgetary control requirements in the conditions of grant so as to ensure that the grantees incur expenditure in accordance with the purposes of the grants, and within the approved budgets for both the grants and the individual items.**

3.13 **Audit has recommended that the administrators of the ECF, the ITF and the LanF should take action to ensure that grantees comply with the budgetary control requirements stipulated in the conditions of grant.**

Response from the Administration

3.14 The **Secretary for Health and Welfare (the administrator of the ATF)** agrees with the audit recommendations mentioned in paragraph 3.12 above. He has said that the Council for the ATF is conducting a review to improve the funding mechanism to ensure that the performance of the applicant and the effectiveness of funded programmes are monitored closely.

3.15 The **Director of Administration (the administrator of the DRF)** has said that grants from the DRF are approved for designated purposes to cover the budget of the approved items of a relief project. Relief organisations are required to seek prior approval from the DRF Advisory Committee for any major change of the use of grant. The Advisory Committee, however, allows minor adjustments to individual relief items to enable relief organisations receiving grants from the DRF to respond quickly to the changing needs of victims of major disasters overseas.

3.16 The **Secretary for the Environment and Food (the administrator of the ECF)** agrees with the audit recommendation mentioned in paragraph 3.13 above. She has said that it would be desirable to formally set out the budgetary control and accounting requirements in detail. She will consider how best to take this forward.

3.17 The **Commissioner for Innovation and Technology (the administrator of the ITF)** agrees with the audit recommendation mentioned in paragraph 3.13 above. He has said that he has reviewed the project monitoring process and will introduce a new progress report format to enable the Secretariat of the ITF to better monitor the expenditure pattern of individual budget items, thereby facilitating early detection of any non-compliance with budgetary control requirements.

3.18 The **Secretary for Education and Manpower (the administrator of the LanF)** has said that she welcomes the audit recommendation mentioned in paragraph 3.13 above and that she intends to implement the audit recommendation as soon as possible.

3.19 The **Secretary for Health and Welfare (the administrator of the QEFMH)** has said that under the existing arrangement, he exercises strict budgetary control over the total expenditure of the approved project to ensure that it does not exceed the sum granted. Applicants are also required to seek his prior agreement for variations in expenditure for individual items. However, for some cases where the Council of the QEFMH has only approved a reduced amount for projects in anticipation that the applicants will have to top up the fund if required, he does not readjust the estimated cost of individual items. This is to allow some flexibility for the applicants in implementing their projects.

3.20 The **Secretary for Home Affairs (the administrator of the SDTF)** has said that he will impose a condition to limit the spending of individual items within the approved budget, unless the approval of the Secretariat has been obtained. He will advise grantees to exercise strict budgetary

control on the expenditure as far as possible. If there are changes to the projects or budgets, the grantees should inform him in writing. He has the authority to delay or withdraw the grants due to project changes.

Control over the disbursement of grants

Payment of grants by individual funds

3.21 Taking into consideration the funding requirements of the grantees, the secretariats of the nine government funds (other than the ERF) use the following measures to control the disbursement of grants:

- (a) ***Submission of audited accounts and invoices/receipts.*** Grantees of the BDF (for projects with grants in excess of \$500,000) and the SDTF (Main Fund — for capital projects with grants of \$360,000 or more) are paid by reimbursements. They are required to submit both audited accounts and invoices/receipts to account for the use of the grants;
- (b) ***Submission of audited accounts only.*** Grantees of the DRF, the ECF (for projects with grants of \$1 million or more), the ITF, the LF (for experimental projects and maintenance/refurbishment projects) and the SDTF (ASDF — for arts projects with grants of \$100,000 or more) are paid in advance after the projects have been approved. They are required to submit audited accounts to account for the use of the grants;
- (c) ***Submission of statements of accounts and invoices/receipts.*** Grantees of the ATF, the ECF (for projects with grants of less than \$1 million), the LanF, the QEFMH and the SDTF (ASDF — for arts projects with grants less than \$100,000) are paid in advance after the projects have been approved. Grantees of the LF (for capital projects with grants in excess of \$400,000) are paid by reimbursements. They are required to submit statements of accounts (instead of audited accounts) and invoices/receipts upon completion of the projects to account for the use of the grants;
- (d) ***Submission of statements of accounts only.*** Grantees of the SDTF (ASDF — sports projects) are paid in advance after the projects have been approved. They are required to submit statements of accounts (instead of audited accounts) to account for the use of the grants. They are also required to keep the invoices/receipts of the projects for inspection by the Secretariat of the SDTF (ASDF); and
- (e) ***Submission of invoices/receipts only.*** Grantees of the BDF (for projects with grants of \$500,000 or below), the LF (for capital projects with grants of \$400,000 or below and projects for purchasing furniture and equipment) and the SDTF (Main Fund — except for capital projects with grants of \$360,000 or more mentioned in (b) above) are paid by reimbursements. They are required to submit invoices/receipts to account for the expenditure incurred.

A summary of the above submission requirements is at Appendix C.

Audit observations on control over the disbursement of grants

Need to strengthen payment control

3.22 Audit notes that there are different disbursement and expenditure control procedures for different funds. Audit appreciates that the secretariats of individual funds may have different control procedures to suit their own circumstances. However, based on the review of the existing procedures, Audit considers that there is room for improvement in the following areas:

Inadequacies in payment control requirements

- (a) ***Inadequate assurance provided by the grantees' audited accounts.*** For those projects which require the grantees to submit audited accounts (see Appendix C):
 - (i) the auditors of the funded projects of the DRF, the ITF and the LF are required to express an audit opinion indicating whether the expenditure incurred by the grantees is in accordance with the conditions of grant;
 - (ii) the auditors of the funded projects of the BDF, the ECF, the SDTF (Main Fund) and the SDTF (ASDF) are only required to state that the audited accounts properly present the financial position. They are not required to give an additional audit assurance that the conditions of grant have been met; and
 - (iii) before July 2000, the auditors of the funded projects of the ITF were only required to state that the audited accounts properly presented the financial position. In early 2000, the field inspection team of the ITF carried out a review of the expenditure incurred by the grantees and found that, in 90 (out of 91) projects, the conditions of grant were breached in different ways. As a result, the Secretariat of the ITF found that \$16.9 million should be recovered from the grantees (Note 5). With effect from July 2000, the Secretariat of the ITF has requested the auditors to express an audit opinion as to whether the grantees have complied with the ITF requirements and to make full disclosure of any non-compliance in the auditors' reports. This illustrates the need for proper audits on the grants;
- (b) ***Inadequate information to verify payments.*** For those projects which require the grantees to submit either statements of accounts only, or invoices/receipts only (see Appendix C), it is difficult for the secretariats of the BDF, the LF, the SDTF (Main Fund) and the SDTF (ASDF) to determine whether the expenditure, based upon such documents alone, has been incurred in accordance with the approved budgets. A better

Note 5: Up to October 2001, \$9.1 million had been recovered from the grantees and the remaining \$7.8 million would be recovered after the completion of the relevant projects.

arrangement would be for the grantees to submit statements of accounts and invoices/receipts to account for the use of the grants;

Non-compliance with payment control requirements

- (c) ***Lax control over the receipt of audited accounts.*** For those BDF projects with grants in excess of \$500,000, the grantees are required to submit audited accounts (see Appendix C). Audit conducted a check on ten BDF projects completed in 2000-01 and found that there were three projects for which there were no audited accounts in the project files;
- (d) ***Lax control over the receipt of statements of accounts and invoices/receipts.*** For those ECF projects with grants of less than \$1 million, the grantees are required to submit statements of accounts and invoices/receipts (see Appendix C). Audit conducted a check on ten ECF projects completed in 2000-01 and found that one major grantee (i.e. the ECC) had not prepared and submitted statement of accounts for the projects undertaken by it in 2000-01; and
- (e) ***Lax control over the receipt of statements of accounts.*** For all those SDTF (ASDF) sports projects, the grantees are required to submit statements of accounts (see Appendix C). Audit noted that a major grantee submitted invoices/receipts instead of statements of accounts to account for the use of the grants. Audit also noted that there was no documentary evidence to indicate that the Secretariat of the SDTF (ASDF) had carried out inspections of invoices/receipts required to be kept by the grantees (see para. 3.21(d) above).

3.23 In Audit's view, the administrators of the funds should consider ways of improving the payment control system (e.g. submission of audited accounts, and statements of accounts and invoices/receipts on time) so as to ensure that grantees comply with the conditions of grant.

Need to control the use of interest income generated from unspent portions of grants

3.24 The grantees of the ITF, the LanF and the LF are required to place the unspent portions of grants in interest-bearing bank accounts. However, grantees of the ATF, the DRF, the ECF, the QEFMH and the SDTF (ASDF) are not required to do so. Audit notes that:

- (a) only the ITF requires the interest income to be returned to the fund. During the period 1 April 2001 to 31 October 2001, the total amount of interest returned to the ITF was \$5.8 million; and
- (b) the LanF and the LF allow the interest income to be used by the grantees on the projects.

In Audit's view, there is a need for the administrators of the other funds (i.e. the ATF, the DRF, the ECF, the QEFMH and the SDTF) to consider laying down similar requirements to tighten up the control over the use of interest income.

3.25 As mentioned in paragraph 3.3 above, Audit examined, for each fund, a sample of ten projects completed in 2000-01 with the largest amounts of approved budgets. Audit observed that six of the ten selected projects for the ITF had used part or all of the interest income (ranging from \$0.1 million to \$0.2 million) to cover the expenditure in excess of the total approved budget. In five of the six projects, approval for the use of interest income was obtained from the administrator of the ITF. However, there was no such approval for the use of the interest income of \$0.2 million in the remaining one project. In Audit's view, there is a need for the administrator of the ITF to tighten up the control over the use of interest income.

Audit recommendations on control over the disbursement of grants

Control measures

3.26 **Audit has recommended that the administrators of the funds should consider introducing appropriate control measures to ensure that the grants are used in accordance with the conditions of grant. In particular:**

- (a) **similar to the ITF, the administrators of the BDF, the ECF and the SDTF should consider requesting the auditors of the grantees, who are required to submit audited accounts of the funded projects, to provide an assurance that the conditions of grant have been met; and**
- (b) **the administrators of the BDF, the LF and the SDTF should consider requiring the grantees, who presently only submit either statements of accounts or invoices/receipts, to submit both the statements of accounts and invoices/receipts to the secretariats of the funds for checking.**

Submission of accounts

3.27 **Audit has recommended that, in the light of the cases of non-compliance with the requirement for the submission of audited accounts mentioned in paragraph 3.22(c) above, the administrator of the BDF should:**

- (a) **review the cases of non-compliance and request the grantees concerned to submit the audited accounts as soon as possible;**
- (b) **ascertain whether there are other cases of non-compliance and take action to request the grantees to submit the audited accounts as soon as possible; and**
- (c) **require all grantees to submit the audited accounts on time in future.**

3.28 **Audit has recommended that, in the light of the cases of non-compliance with the requirement for the submission of statements of accounts mentioned in paragraph 3.22(d) and (e) above, the administrators of the ECF and the SDTF (ASDF) should:**

- (a) **review the cases of non-compliance identified by Audit;**
- (b) **ascertain whether there are other cases of non-compliance; and**
- (c) **take expeditious action to request those grantees who have received significant amounts of grants in advance after the approval of the projects to submit the required statements of accounts as soon as possible.**

Interest income

3.29 **Audit has recommended that:**

- (a) **the administrator of the ITF should ensure that his staff strictly follow the control requirements regarding the use of interest income generated by the unspent portion of the grants; and**
- (b) **the administrators of the ATF, the DRF, the ECF, the QEFMH and the SDTF (ASDF) should, similar to the ITF, consider issuing guidelines to control the use of interest income generated by the unspent portion of the grants, particularly for those projects for which significant amounts of grants have been paid to the grantees after the projects have been approved.**

Response from the Administration

Control measures

3.30 The **Secretary for Security (the administrator of the BDF)** accepts the audit recommendations mentioned in paragraph 3.26 above. She has said that:

- (a) the audit recommendations provide useful pointers for the BDF to tighten control over the disbursement of grants and monitor grantees' compliance with set payment guidelines;
- (b) having regard to the costs and practicality of such measure, she will consider imposing a requirement for the auditors of BDF projects costing more than \$500,000 to provide assurance in the audited accounts that the conditions of grant are met in the 2002 review exercise; and

- (c) she will consider imposing the requirement to submit statements of accounts together with invoices/receipts on grantees with grants of \$500,000 or below.

3.31 The **Secretary for the Environment and Food** (*the administrator of the ECF*) agrees with the audit recommendation mentioned in paragraph 3.26(a) above and will consider how best to implement it.

3.32 The **Director of Social Welfare** (*the administrator of the LF*) has said that the approval for grants for minor capital projects and projects for purchasing furniture and equipment is now on a lump-sum basis with built-in flexibility (see para. 2.16(c) above). The submission of statements of accounts is not necessary.

3.33 The **Secretary for Home Affairs** (*the administrator of the SDTF*) has said that:

SDTF (Main Fund)

- (a) it is practicable to include in the guidelines that auditors of the grantees, who are required to submit audited accounts of the funded projects, should provide assurance that the conditions of grant have been met;
- (b) for the grantees who are not required to submit audited accounts, they are requested to complete and submit a claim form which includes details of the reimbursement including the number of units claimed, total amount per invoice and amount claimed. This claim form is similar in nature to a statement of accounts; and

SDTF (ASDF)

- (c) he agrees with the audit recommendations mentioned in paragraph 3.26 above.

Submission of accounts

3.34 The **Secretary for Security** (*the administrator of the BDF*) accepts the audit recommendations mentioned in paragraph 3.27 above.

3.35 The **Secretary for the Environment and Food** (*the administrator of the ECF*) agrees with the audit recommendations mentioned in paragraph 3.28 above and will consider how best to implement them.

3.36 The **Secretary for Home Affairs** (*the administrator of the SDTF*) has said that he will request the grantees of the SDTF (ASDF) projects to submit both the statements of accounts and invoices/receipts.

Interest income

3.37 The **Secretary for Health and Welfare (*the administrator of the ATF*)** agrees with the audit recommendation mentioned in paragraph 3.29(b) above. He will convey the audit recommendation to the Council for the ATF for its consideration of issuing guidelines on the use of interest income generated by the unspent portion of grants.

3.38 The **Director of Administration (*the administrator of the DRF*)** has said that grant from the DRF is usually remitted by a grantee to its overseas relief agent and put to immediate use to provide relief to the victims. There will not be much interest income generated by the unspent portion of the grant.

3.39 The **Secretary for the Environment and Food (*the administrator of the ECF*)** agrees with the audit recommendation mentioned in paragraph 3.29(b) above and will consider how best to implement it.

3.40 The **Commissioner for Innovation and Technology (*the administrator of the ITF*)** agrees with the audit recommendation mentioned in paragraph 3.29(a) above. He has said that he has reviewed the arrangement and will further tighten the control over the use of interest income generated by the unspent portion of grants. He will also ensure that his staff will strictly follow the requirements.

3.41 The **Secretary for Health and Welfare (*the administrator of the QEFMH*)** has said that he will issue guidelines requiring applicants to place the grants in interest-bearing bank accounts and refund the unspent balance together with interest, if any, to the QEFMH upon completion of the project.

3.42 The **Secretary for Home Affairs (*the administrator of the SDTF*)** has said that:

- (a) for arts projects, he may consider imposing the requirement for the interest income generated by the unspent portion of the grants to be returned to the fund; and
- (b) for sports projects, the question of imposing requirement on the use of interest income generated by the unspent portion of the grants may not be applicable because each grantee is required to provide a cash flow projection and funds are disbursed by instalments according to the projection.

Monitoring of progress of funded projects

3.43 An important part of the control measures exercised by the secretariats of the funds is to ensure the timely completion of projects. Organisations or individuals receiving grants from the funds are required to complete the projects within a time-frame agreed with the secretariats of the funds and to submit evaluation reports on the projects to the secretariats of the funds shortly after the completion of the projects. A summary of the current arrangements is as follows:

- (a) grantees of the ATF, the DRF, the LF (experimental projects) and the QEFMH are required to submit final reports for evaluation of the effectiveness of projects;
- (b) grantees of the BDF, the ECF, the ITF, the LanF, the SDTF (Main Fund — capital projects) and the SDTF (ASDF — arts projects) are required to submit periodic progress reports, in addition to the final reports for evaluation of the effectiveness of projects; and
- (c) in the case of the LF, its grantees (usually non-government organisations — NGOs), are required to submit only the final accounts and payment claims upon completion of the projects. Evaluation of the effectiveness of the grants (capital projects) made under the LF is carried out in conjunction with the evaluation of the whole government subvention system on social welfare services. Service evaluation is also conducted by the SWD under a set of evaluation procedures which includes quarterly service assessment on the service units and monitoring of service performance through regular visits by the staff of the SWD.

3.44 In addition, the secretariats of the following funds have laid down additional requirements in connection with the submission of the progress reports, as follows:

- (a) the Secretariat of the ITF has advised its grantees that it will only pay the agreed instalments of grants due if the project meets the prescribed milestones. Moreover, further payments to the grantees will be withheld if a large portion of the grants remains unspent;
- (b) the secretariats of the ATF, the LanF, the QEFMH and the SDTF (ASDF — arts projects) require the grantees to submit progress reports before effecting interim payments for projects with an estimated duration over one year; and
- (c) the secretariats and the Councils/Committees of the ATF, the BDF, the ITF, the LanF, the LF and the SDTF (Main Fund) may conduct site inspection of projects to review the progress of the project from time to time with a view to ensuring timely delivery of services and project deliverables within the approved ambit of the funds.

Audit observations on monitoring of progress of funded projects

3.45 In response to Audit's request, except for the Secretariat of the ERF which made one-off ex-gratia payments, the secretariats of seven funds (i.e. the BDF, the DRF, the ECF, the ITF, the LanF, the QEFMH and the SDTF) provided Audit with a list of all ongoing projects as at 31 October 2001. Audit noted that the progress of some projects was slow. **Up to 31 October 2001, out of 884 ongoing projects, 468 projects with total approved grants of \$297 million had remained uncompleted after the scheduled completion dates (see Appendix D). With regard to the ATF and the LF, their secretariats were unable to produce a list of ongoing projects. However, an audit examination of the computer records of the LF indicated that out of 1,637 ongoing projects, 123 projects with total approved grants of \$1,861 million had been in progress for more than five years. Details are at Appendix E.**

3.46 Audit has examined the arrangements whereby the secretariats of the funds monitored the progress of the projects which had a fixed time-frame for completion. Audit has noted the following deficiencies:

- (a) **Reporting requirements not complied with.** Audit noted that many grantees did not comply with the reporting requirements. The secretariats of the funds which had a large number of overdue projects (e.g. the ITF and the SDTF) informed Audit that many projects might have been completed, but the grantees had not submitted the required final evaluation reports upon the completion of these projects;
- (b) **Inadequate management information for monitoring progress.** The secretariats of the funds do not have readily available information on the progress of all the projects financed by them. As a result, the secretariats cannot take timely action to follow up projects which have taken an unduly long time for completion. For example, the Secretariat of the ATF maintained a database to record all the projects financed by the ATF. However, it could not provide Audit with readily available information on the number and details of all ongoing projects as at 31 October 2001 because the database only contained limited information on the status of individual projects; and
- (c) **No site inspections in some projects.** Audit conducted a sample check of ten projects completed in 2000-01 with the largest amounts of approved budgets for each of the ATF, the BDF, the ITF, the LanF, the LF and the SDTF (Main Fund) mentioned in paragraph 3.44(c) above. Audit noted that the secretariat staff of the BDF, the ITF, the LF and the SDTF (Main Fund) had carried out site inspections of projects to examine the progress in accordance with the conditions of grant. The committee members of the BDF also took part in the inspections. The committee members of the LanF took part in some special events (e.g. opening ceremony of some project activities). However, no site inspections had been conducted by the secretariat staff of the LanF. Audit also noted that no site inspections had been conducted by the secretariat staff and committee members of the ATF.

3.47 **In Audit's view, insufficient monitoring of the progress of projects and delays in the completion of projects are undesirable, and could affect the achievement of the objectives of the projects.** For example, in the case of the projects financed by the LF, the delays in the completion of these projects may cause delays in the provision of social welfare services and rehabilitation services to those who need them. **Audit considers that there is a need for the administrators of the funds to closely monitor the progress of the projects financed by the funds.**

Audit recommendations on monitoring of progress of funded projects

3.48 **Audit has recommended that the administrators of the funds should take necessary action to closely monitor the progress of funded projects. In the light of the large number of projects which remained uncompleted after the scheduled completion dates, the administrators of the funds concerned should:**

- (a) **compile accurate and timely management information on the progress of all projects financed by the funds. Where appropriate, an ageing analysis of projects should be prepared to help all parties concerned focus on those projects which have been seriously delayed so that early action can be taken to follow up with the grantees;**
- (b) **strictly implement the requirement that the grantees should submit progress reports and final evaluation reports on time; and**
- (c) **request the members of the committees or councils of the funds concerned to conduct more frequent site inspections of the projects, and document the results of such inspections for necessary follow-up action by the secretariats of the funds concerned.**

Response from the Administration

3.49 The **Secretary for Health and Welfare** (*the administrator of the ATF*) agrees with the audit recommendations mentioned in paragraph 3.48 above. He has also said that members of the Council for the ATF and the secretariat staff visited a number of activities funded by the ATF in the past year. The Secretariat of the ATF will visit more funded activities in future subject to availability of resources.

3.50 The **Director of Administration** (*the administrator of the DRF*) has said that:

- (a) out of the seven overdue projects as at 31 October 2001, one project has been completed. He will continue to work closely with the relief organisations to complete these cases as early as possible;
- (b) he will continue to keep track of the progress of all relief projects and where appropriate bring to the attention of the DRF Advisory Committee cases which have been outstanding for a long time for advice and guidance. He will also continue to monitor the projects closely and ensure compliance of the requirement for the grantees to submit audited accounts and evaluation reports to the Secretariat of the DRF upon completion of the relief projects; and
- (c) the objective of the DRF is to provide speedy emergency relief to victims of major disasters which occurred in places outside Hong Kong. Site inspections of the projects by the DRF Advisory Committee are not advisable as they will incur significant administrative costs and may hinder the normal program of the relief actions coordinated by the relief agents.

3.51 The **Secretary for the Environment and Food** (*the administrator of the ECF*) agrees with the audit recommendations mentioned in paragraph 3.48 above and will consider how best to implement them.

3.52 The **Commissioner for Innovation and Technology** (*the administrator of the ITF*) agrees with the audit recommendations mentioned in paragraph 3.48 above. He has said that he has put in place a chasing system for monitoring the submission of progress reports and final reports of ITF projects.

3.53 The **Secretary for Education and Manpower** (*the administrator of the LanF*) has said that she welcomes the audit recommendations mentioned in paragraph 3.48 above and that she intends to implement all of them as soon as possible.

3.54 The **Director of Social Welfare** (*the administrator of the LF*) has said that Audit has rightly pointed out that delays in the completion of capital projects or fitting-out works would cause delays in the provision of services to the public. She fully agrees with Audit that she should compile more accurate and timely management information on the status of projects financed by the LF. She is actively pursuing the development of a computerised management information system. She is also taking active steps to monitor more closely the progress of the projects by:

- (a) specifying clear milestones and time schedules and conducting site inspections to monitor the progress of the works to ensure their timely completion; and
- (b) impressing upon the relevant works agents such as the Housing Department and the Architectural Services Department on the need for early completion and settlement of outstanding accounts.

3.55 The **Secretary for Health and Welfare** (*the administrator of the QEFMH*) has said that he has already issued clear guidelines to the successful applicants on the need to submit regular progress reports and final reports. He will also conduct site inspections on a random basis.

3.56 The **Secretary for Home Affairs** (*the administrator of the SDTF*) has said that:

SDTF (Main Fund)

- (a) similar to the current practice for non-capital projects, monthly progress reports on capital projects and special projects will be prepared for close monitoring. In addition to the annual visit paid by the Committee, he will explore the possibility of conducting quarterly inspections on capital projects by the Secretariat;

SDTF (ASDF)

- (b) he has checked all the approved projects and has taken appropriate follow-up action with the grantees in the submission of progress reports or evaluation reports. He will strictly enforce the requirement of the submission of progress reports and evaluation reports by the grantees; and

- (c) he considers that it is ideal to conduct frequent site inspections of the projects. However, he needs to strike a balance between manpower requirements and effectiveness of site inspections.

Performance evaluation of funded projects

3.57 Except for the grantees of the ERF (who are victims of disasters and receive fixed-rate ex-gratia payments) and grantees of certain projects of the LF (who are subject to separate monitoring procedures of the SWD mentioned in para. 3.43(c) above), all the other grantees are required to report the impact of the projects, attainment of their original objectives and effectiveness in the evaluation reports. The information in these reports enables:

- (a) the secretariats of the funds:
 - (i) to know whether the projects have been completed in accordance with the funded organisations' original proposals and have achieved the intended objectives;
 - (ii) to compare the relative performance of the grantees in the use of the grants; and
 - (iii) to draw up plans for the future use of grants; and
- (b) the administrators of the funds to evaluate the effectiveness of the secretariats of the funds.

Audit observations on performance evaluation of funded projects

3.58 Audit notes that there are deficiencies in the existing performance evaluation procedures adopted by the secretariats of the funds. Audit's findings concerning individual funds are at Appendix F. A summary of the deficiencies is as follows:

- (a) ***Comprehensive review on the overall effectiveness of the funds.*** For most of the funds reviewed by Audit, the secretariats of the funds carried out evaluations of the effectiveness of funded projects on a project-by-project basis. Audit considers that the secretariats of the funds should, on a regular basis, conduct comprehensive reviews on the overall effectiveness of the funds;
- (b) ***Introduction of performance indicators.*** For most of the funds reviewed by Audit, the secretariats of the funds have not set any formal performance indicators or targets to measure the effectiveness, efficiency and quality of the projects financed by the funds. Audit notes that the Secretariat of the ITF is now designing a set of impact assessment methodology to evaluate the projects financed by the fund. However, as at 31 December 2001, the secretariats of the other funds had not yet started to develop formal procedures to evaluate the projects; and

- (c) ***Disclosure of performance information.*** The secretariats of most of the funds covered in this audit review have not established formal reporting channels to disclose information about the achievement of the objectives of the funds and the projects funded by them.

3.59 In Audit's view, to enhance public accountability, it is necessary for the administrators of the funds to establish performance evaluation procedures to analyse and report the performance of the funds and the projects financed by them.

Audit recommendations on performance evaluation of funded projects

3.60 Audit has recommended that the administrators of the funds should:

- (a) review the information to be provided in the project evaluation reports submitted by grantees with a view to ensuring that the information provided therein is meaningful and useful for assessing the performance of projects;
- (b) establish procedures to evaluate the performance of projects financed by the funds. These may include the setting of performance indicators on effectiveness and efficiency, and performing impact assessment studies to determine the extent to which the projects have achieved the objectives of the funds; and
- (c) consider establishing formal reporting channels to provide information to the various stakeholders (e.g. the Legislative Council and the general public) on the performance of the funds and the projects funded by them.

Response from the Administration

3.61 The **Secretary for Health and Welfare** (*the administrator of the ATF*) agrees with the audit recommendations mentioned in paragraph 3.60 above. He has said that he is devising procedures for project evaluation in the context of his current review (see para. 3.14 above).

3.62 The **Secretary for Security** (*the administrator of the BDF*) accepts the audit recommendations mentioned in paragraph 3.60 above. She has said that:

- (a) the BDF conducted an overall evaluation of the effectiveness of the fund in 1999. She agrees that there are clear advantages of conducting such review at regular intervals in order to gauge the effectiveness of the fund in furthering the anti-drug cause in Hong Kong. She will consider the frequency and scope of such review in the review exercise in 2002;

- (b) she considers that having regard to the diversity of the projects supported in terms of format and content, the development of a common set of performance indicators or targets to measure effectiveness, efficiency, economy and quality will be difficult if not impossible. Nevertheless, she will examine how and to what extent she can strengthen the evaluation methodology of the BDF projects;
- (c) at present, the grantees of the BDF are required to provide a full report after the completion of the projects. The report includes information such as activities held under the project, number of participants and results achieved through launching various activities. The grantees are also required to assess whether and how the declared objectives of their projects are achieved. In line with her pledge for continuous improvement, she will examine, in the review exercise in 2002, whether and how the existing evaluation reports submitted by the grantees can be further improved; and
- (d) at present, high transparency of the BDF is maintained through the publication of an annual report. However, she will further explore other possible ways of enhancing that transparency.

3.63 The **Director of Administration (*the administrator of the DRF*)** accepts the audit recommendations mentioned in paragraph 3.60 above. He has said that:

- (a) he will consider issuing a note to the grantees to remind them to include, as far as practicable and applicable, information such as statement of needs, project goal, relief items, evaluation in terms of impact, efficiency, timeliness, coordination with other relief organisations, monitoring effort and project finance in their project evaluation reports in future approval cases;
- (b) relief agencies receiving grants from the DRF are required to provide evaluation reports and external audited accounts on the use of the grants. Performance of the relief project can be evaluated in terms of the number of beneficiaries and the time used for providing emergency relief to victims; and
- (c) press statements are issued for each approval of grant from the DRF which will also be posted to the government website to enhance transparency. To bring about further improvement, year end review of the projects approved will be conducted and press statement will also be issued on the performance of the DRF.

3.64 The **Secretary for the Environment and Food** (*the administrator of the ECF*) agrees with the audit recommendations mentioned in paragraph 3.60 above and will consider how best to implement them.

3.65 The **Secretary for Education and Manpower** (*the administrator of the LanF*) has said that she welcomes the audit recommendations mentioned in paragraph 3.60 above and that she intends to implement all of them as soon as possible.

3.66 The **Director of Social Welfare** (*the administrator of the LF*) agrees that the utilisation of grants from the LF should be evaluated and reported since the LF is mainly funded from community resources. She has said that since the revamping of procedures of the LF in September 2001 (see para. 2.16(c) above), the LF Advisory Committee has taken a more active role in the evaluation and monitoring of the LF funded projects. Apart from receiving regular progress reports, members of the LF Advisory Committee made visits to the funded projects from time to time.

3.67 The **Secretary for Health and Welfare** (*the administrator of the QEFMH*) has said that at present, there are procedures for evaluation of the performance of the funded project. He will look into the existing format of the project evaluation report with a view to ensuring that the information contained therein is meaningful and useful for assessment of the performance of the projects. The findings will be incorporated into the report of the QEFMH which is submitted to the Legislative Council annually.

3.68 The **Secretary for Home Affairs** (*the administrator of the SDTF*) has said that the idea of establishing formal reporting channels to disclose information regarding the achievement of the fund and the funded projects is good. He will consider:

- (a) designing methodology to evaluate the performance of projects, including the setting of performance indicators on effectiveness, efficiency and quality of the completed projects;
- (b) performing impact assessment studies to determine the extent to which the projects have achieved the objectives of the fund; and
- (c) reviewing the information provided in the project evaluation reports submitted by grantees in order to ensure that it is sufficient for assessing the performance of projects.

PART 4: ADMINISTRATION CHARGES

Charging of administrative overheads

4.1 Administrative expenses are incurred by the grantees in the disbursement of the grants to the beneficiaries. At present, grantees are not allowed to charge administrative expenses in the disbursement of grants except for the DRF and the LanF. The practices of the DRF and the LanF are as follows:

- (a) **The DRF.** Since its establishment in 1993, the DRF has allowed relief organisations to charge administrative overheads for services rendered by them in administering the disbursement of the grants to the beneficiaries. The DRF Advisory Committee considered that it would be unreasonable to expect the administrative costs to be borne wholly by the relief organisations. Following the practices of other governments, the rate of the administrative overheads was set at 5% of the grants. During the period 1997-98 to 1999-2000, the DRF had paid some \$2.3 million of administrative overheads to the relief organisations; and
- (b) **The LanF.** Since the end of 1997, the LanF has allowed tertiary institutions funded by the University Grants Committee (UGC) to charge administrative overheads at a flat rate for services rendered by the bursars or administrative offices of the institutions in administering the payment of grants to their staff who are the recipients of the grants. All tertiary institutions charge administrative overheads at 15%, except one which charges at 10%.

4.2 During the period 1997-98 to 1998-99, the LanF had paid administrative overheads of \$2.8 million to the tertiary institutions. The LanF had suspended further calls for application during the period 1998-99 to 2000-01 and there was no payment of administrative overheads. However, it is expected that payment of administrative overheads, based on the past rates, will continue with the resumption of calls for application in 2001-02.

Request from other organisations to charge administrative overheads

4.3 In early 1999, the UGC-funded tertiary institutions raised the issue of charging administrative overheads for administering payment of grants from the ECF and the ITF to their staff. Based on the rates charged by overseas universities, they proposed to charge administrative overheads at 15% for all non-UGC-funded projects undertaken by them.

4.4 According to the tertiary institutions, the administrative overheads, by definition, should cover the indirect costs associated with the projects funded by the grants. They represent a share of

the costs incurred by the institutions in providing the following facilities, support and administrative services to implement the projects:

- (a) **Facilities.** These include library, computing services, offices, research laboratories, general equipment, environmental protection and occupational safety and health care;
- (b) **Support services.** These include technical, workshop, maintenance, security, clerical and secretarial services;
- (c) **Administrative services.** These include research administration, financial, purchasing and personnel services;
- (d) **Utilities.** These include air-conditioning, light and water; and
- (e) **Others.** These include depreciation on capital assets.

4.5 The UGC supported the institutions' proposal. The UGC's view was that recurrent grants were provided by the Government to the UGC-funded institutions to support their academic and related activities, based on approved policy objectives. The recurrent grants were approved by the Government and the Legislature based on the UGC's specific recommendations which took into account the institutions' approved academic development plans. Therefore, it was entirely appropriate and proper for the institutions to levy administrative overheads on non-UGC-funded projects, because these projects did not form part of the institutions' approved academic development plans. Otherwise, there would be cross-subsidy from the funds of UGC approved activities.

4.6 In response, the secretariats of the funds passed on the proposal of the tertiary institutions to the Finance Bureau (FB) for policy advice. In 1999, the FB expressed the following views:

- (a) the Administration could not contemplate, let alone impose, a policy of requiring funding agencies to recognise administrative overheads charged by the UGC-funded institutions in their disbursement of grants; and
- (b) the FB agreed the general principle that, where a subvented organisation such as a UGC-funded institution provided services (which were not within the remit of the funds provided by the Government), the subvented organisation should seek to recover the full

costs incurred, including administrative overheads in order to avoid hidden subsidy. However, the Administration recognised that there could be variation in practice and it was up to the funding agencies to stipulate the conditions of grant. Funding agencies could disallow publicly-funded organisations to charge overheads to the cost of projects.

4.7 In the light of the response of the FB, the secretariats of the funds, notably the ITF, did not agree to the charging of administrative overheads for grants made to staff of the tertiary institutions.

Audit observations on charging of administrative overheads

4.8 Audit noted that the UGC-funded tertiary institutions were discussing with the ITF for the charging of administrative overheads. Up to December 2001, a decision had not yet been made on the issue.

4.9 Audit notes that while both the DRF and the LanF pay administration charge to organisations for their services in the disbursement of grants, the basis of calculating the administration charge has not been clearly stated. In the case of:

- (a) the DRF, the administration charge is fixed at 5% of the total amount of grants paid to the relief organisations. The relief organisations are not required to produce a detailed cost breakdown for the administration charge or costing data for arriving at the 5% administration charge; and
- (b) the LanF, the administration charge is fixed at 10% for one tertiary institution and 15% for the others. The tertiary institutions concerned do not provide costing data or the basis of charging to support the rate of administration charge to be levied.

In Audit's view, under the existing arrangements, the secretariats of these two funds do not have sufficient information to ascertain whether the administration charges so levied are fair and reasonable, and should be borne by the funds.

4.10 In the light of the above observations, Audit considers that there is a need for the Administration to reach an early decision on whether administration charges should be paid to the organisations for the services rendered in the disbursement of the grants. There is also a need for the Administration to determine the basis for computing the administration charge. In this connection, Audit notes that the tertiary institutions are currently discussing the matter with the ITF. **Audit estimated that the total amount of administration charge, based on the tertiary institutions' proposal to charge the ITF 15% administrative overheads, was \$26 million in**

2000-01. In the light of the significant amount involved, the Administration should reach an early decision on the matter.

Audit recommendations on charging of administrative overheads

4.11 **Audit has recommended that the Secretary for the Treasury should:**

- (a) **decide whether and under what circumstances an administration charge is payable for services rendered by the organisations concerned in handling the grants;**
- (b) **if it is decided that an administration charge is payable, in consultation with the Director of Accounting Services, critically review the costing data of the organisations concerned so as to ensure that the charge is reasonable; and**
- (c) **issue guidelines on the basis for computing the administration charge to the administrators of the funds.**

Response from the Administration

4.12 The **Secretary for the Treasury** has said that she will further study the matter of charging of administrative overheads, and consider whether and how the FB should provide suitable guidelines for reference by the administrators of the funds.

4.13 The **Director of Accounting Services** has said that if an administration charge is payable, it is highly desirable for it to be set as a fixed percentage of the amount of grant given in order to minimise administrative work. The determination of the rate of administration charge on the basis of costing data submitted by the recipient entities will be a complex exercise given the differences in the nature, organisation and operation of these entities. It is also practically difficult to verify the accuracy of the data submitted. It is necessary to strike a balance between the cost and benefit of such exercises.

PART 5: ACQUISITION AND DISPOSAL OF ASSETS AND STORES

Acquisition and disposal of assets and stores by grantees

5.1 In implementing projects funded by the government funds, grantees are allowed to purchase assets and stores such as machinery, computers and office equipment. However, the following requirements, which government departments are required to comply with in the acquisition and disposal of government supplies, are not included in the conditions of grant:

- (a) ***Need to call for tenders for purchase exceeding a certain financial limit.*** Audit notes that the secretariats of the BDF, the ITF, the LF and the SDTF (Main Fund) have laid down rules, including tender procedures, for the grantees to follow in the acquisition of assets and stores. However, the secretariats of the ATF, the ECF, the LanF, the QEFMH and the SDTF (ASDF) have not laid down similar rules for the grantees to follow. In this connection, Audit notes that some major grantees have set their own rules for the acquisition of assets and stores;
- (b) ***Need to maintain stores records and perform stock verification.*** Audit notes that the Secretariat of the LF requires grantees to keep asset registers and conduct stock verification. It also maintains a register of vehicles purchased by the grantees with the grants. The Secretariat of the ITF maintains asset registers for assets purchased by the grantees with the grants. However, the secretariats of all other funds have not imposed similar requirements; and
- (c) ***Need to properly dispose of assets and stores purchased.*** For the ECF and the LanF, the grantees have to return the assets and stores to the secretariats of the funds when they are no longer required, and upon demand by the secretariats of the funds. For the ITF, the grantees are required to return the assets and stores costing over \$500,000 when they are no longer required, and upon demand by the Secretariat of the ITF. The Secretariat of the LF has laid down procedures for the disposal of assets and stores. However, the secretariats of the ATF, the BDF, the QEFMH, the SDTF (Main Fund) and the SDTF (ASDF) have not issued guidelines on the disposal of assets and stores purchased, and the grantees are not required to return the assets and stores upon completion of the projects.

Audit observations on acquisition and disposal of assets and stores by grantees

The need for more controls for major grants

5.2 At present, apart from the ERF (the grantees are not required to account for the use of grants) and the DRF (the grantees are mainly relief organisations which have to meet the needs of victims of disasters overseas as soon as possible), the secretariats of the ATF, the BDF, the ECF, the LanF, the QEFMH and the SDTF have not laid down adequate control requirements for the acquisition and disposal of assets and stores as mentioned in paragraph 5.1(a) to (c) above.

5.3 As grantees are not required to maintain asset records and their related expenditure on purchase of assets in a systematic manner, the secretariats of all the funds covered in this audit review, except for the secretariats of the ITF and the LF, do not have a complete record of the assets and stores purchased with the grants.

5.4 Based on an analysis of the expenditure on purchase of assets of the ten selected projects completed in 2000-01 for each of the nine funds (see para. 3.3 above), Audit notes that the value of assets and stores purchased with the grants from the funds is significant. Out of the total expenditure of \$312 million, the expenditure on purchase of assets was \$51 million (or 16%). Details are given in Table 5 below. A list of examples of the assets acquired is shown at Appendix G.

Table 5
Expenditure on purchase of assets in ten selected projects of each fund

Fund	Total expenditure	Expenditure on purchase of assets	Percentage of expenditure on purchase of assets to total expenditure
	(a)	(b)	(c) = $\frac{(b)}{(a)} \times 100\%$
	(\$ million)	(\$ million)	(%)
ATF	47.1	0.8	2 %
BDF	7.9	0.1	1 %
ITF	117.4	27.7	24 %
LanF	33.0	1.2	4 %
LF	92.0	20.6	22 %
QEFMH	2.1	0.7	33 %
SDTF	13.0	0.1	1 %
Total	312.5	51.2	16 %

Source: Records of the secretariats of the funds

5.5 Audit appreciates that, having regard to the nature of the grants and the need to reduce administrative burden on the part of the grantees and the secretariat staff, it is necessary to have a certain degree of flexibility in order to avoid unnecessary administrative procedures. **However,**

Audit considers that, in view of the significant funding from the public purse, the administrators of the funds need to satisfy themselves that there is adequate control to ensure that the assets purchased by the grantees are acquired economically, properly accounted for and put into productive use. The administrators also need to take action to review the store acquisition procedures of major grantees and conduct periodic physical inspections of the assets and stores.

Disposal of assets upon completion of projects

5.6 Although the ECF, the ITF (for assets costing over \$500,000) and the LanF have stipulated requirements for the return of assets to the funds, Audit noted that no action had been taken by the secretariats of the ECF and the ITF to ensure the return of assets which were purchased with the grants upon the completion of projects. In late 2000, the LanF started to demand the return of assets from the grantees. However, as the Secretariat of the LanF does not have a laid-down policy on the method of disposal of the equipment received, so far the assets returned have not been put to beneficial use. **In Audit's view, there is a need for the administrators of the funds, including the ITF (which requires the return of assets costing over \$500,000 only), to establish procedures for the proper disposal of those assets (e.g. computers, office equipment and furniture) which are no longer required by the grantees but which may still have some residual value. These assets may be disposed of by public auction or by giving them to grantees of other funds, or voluntary/charitable organisations.**

Audit recommendations on acquisition and disposal of assets and stores by grantees

5.7 **Audit has recommended that, for grantees receiving a significant amount of grants from the funds, the administrators of the funds should:**

- (a) **review the asset acquisition and disposal procedures of the grantees with a view to ensuring that sufficient control measures are in place for the acquisition, proper accounting and disposal of assets and stores;**
- (b) **consider taking action to periodically review the operation of the asset acquisition and disposal procedures of grantees and verify the existence of all major assets, including the returned assets; and**
- (c) **based on the store records kept by grantees, review and take appropriate action to properly dispose of dormant or obsolete assets.**

Response from the Administration

5.8 The **Secretary for Health and Welfare** (*the administrator of the ATF*) has said that at present, the Council of the ATF decides on a case-by-case basis whether fund recipients should be required to return major assets to the Council upon completion of the project. He will ask the Council to take into account the audit recommendations in drawing up more detailed guidelines in the acquisition and disposal of assets and stores.

5.9 The **Secretary for Security** (*the administrator of the BDF*) has said that the idea of imposing a requirement on grantees to return assets of great value to the BDF was considered in the annual review exercise in 2000. The idea was not adopted since it would generate additional workload for the Secretariat of the BDF in monitoring the return, storage and reallocation of assets supported by the BDF. However, as improvement measures, she has made the vetting of applications for costly capital assets more stringent with effect from 2000-01.

5.10 The **Director of Administration** (*the administrator of the DRF*) has said that relief organisations receiving grants from the DRF have to respond and launch their relief programmes to meet the imminent needs of victims of major disasters overseas as soon as possible. The procurement or acquisition of relief items is often done overseas with the relief items delivered to the victims on the spot at the earliest possible time, and the distribution of these items is properly recorded.

5.11 The **Secretary for the Environment and Food** (*the administrator of the ECF*) agrees with the audit recommendations mentioned in paragraph 5.7 above. She has said that the ECF does not normally support acquisition of capital items, except in very special circumstances. Hence, among the some 600 projects approved in the past seven years, only eight capital items have been approved for research projects. As the recipient organisations, most of which are universities, already have in place detailed procurement rules (such as the requirement for quotations or tenders), the ECF has not set out additional procurement rules in those cases. Nevertheless, she agrees that it would be desirable to set out such rules more clearly in future, and will take appropriate measures in this regard.

5.12 The **Commissioner for Innovation and Technology** (*the administrator of the ITF*) has said that under the current arrangement, he reserves the right to remove equipment over \$500,000 from fund recipients within three years after project completion in order to enable equipment sharing. However, project equipment funded by the ITF is, in most cases, specialised research equipment for very specific purpose. Such equipment may not be of any useful value to the Government and other parties. He therefore considers that it may not be cost-effective to extend the above arrangement to other minor equipment given the administrative costs involved and their fast rate of turning obsolete.

5.13 The **Secretary for Education and Manpower** (*the administrator of the LanF*) has said that she welcomes the audit recommendations mentioned in paragraph 5.7 above and that she intends to implement all of them as soon as possible.

5.14 The **Director of Social Welfare** (*the administrator of the LF*) totally agrees with Audit the importance of procurement and stores management. She has said that she has specified procedures for the procurement, recording, stock verification and disposal of assets modelled on government practice in the LF Manual. As good corporate governance, the NGOs should be responsible for their procurement, stores management and disposal procedures in accordance with the parameters laid down in the LF Manual.

5.15 The **Secretary for Health and Welfare** (*the administrator of the QEFMH*) has said that he has put in place a control mechanism whereby members and staff of the Secretariat of the QEFMH conduct site inspections of the projects to ascertain that the equipment/stores are acquired economically, properly accounted for and put into productive use.

5.16 The **Secretary for Home Affairs** (*the administrator of the SDTF*) has said that:

SDTF (Main Fund)

- (a) he will make reference to the government stores regulations and incorporate relevant rules and procedures in the guidelines to the successful applicants who receive a significant amount of grants;
- (b) he will explore the possibility of classifying items purchased with the grants into consumables and inventory items and consider whether restricted tender is required for items costing over a certain amount, either on an item basis or on a project basis;
- (c) he will consider incorporating write-off procedures in the guidelines; and

SDTF (ASDF)

- (d) he will consider reviewing the acquisition and disposal procedures of the grantees with a view to ensuring that sufficient control measures are built into the system for acquisition, accounting and disposal of assets and stores.

Appendix A
(para. 1.1 refers)

**Objectives of the eleven government funds from which payments
of grants are administered by government bureaux and departments**

Fund	Year established	Objectives of the fund
Emergency Relief Fund	1962	Providing aid to victims of natural and other disasters
Lotteries Fund (LF — Note 1)	1965	Financing the support and development of social welfare services in Hong Kong
Sir David Trench Fund for Recreation (SDTF — Note 2)	1970	Promoting recreational and related activities and providing funding for the development of arts and sport in Hong Kong
Queen Elizabeth Foundation for the Mentally Handicapped	1988	Promoting the welfare, education and training of the mentally handicapped and their employment prospects
AIDS Trust Fund	1993	Strengthening medical and support services for persons infected with Human Immunodeficiency Virus and increasing and sustaining public education on AIDS
Disaster Relief Fund	1993	Providing humanitarian aid in relief of disasters that occur outside Hong Kong
Environment and Conservation Fund	1994	Providing funding support to research and education projects and activities in relation to environmental and conservation matters
Language Fund	1994	Promoting proficiency in the use of Chinese (including Putonghua) and English languages
Beat Drugs Fund	1996	Promoting anti-drug activities
Quality Education Fund	1998	Promoting quality education in schools
Innovation and Technology Fund (ITF — Note 3)	1999	Contributing to innovation and technology upgrading

Source: Records of the secretariats of the funds

Note 1: The LF makes grants to four types of projects (i.e. experimental projects, projects for fitting-out or provision of furniture and equipment, maintenance/refurbishment projects and capital projects).

Note 2: Under the SDTF, there are six funds (i.e. the Main Fund, Arts and Sport Development Fund (ASDF), Arts Development Fund (ADF), Sports Aid for the Disabled Fund, Sports Aid Foundation Fund and Hong Kong Athletes Fund). Since 1996-97, no payment of grants has been made under the ADF. The Sports Aid for the Disabled Fund, Sports Aid Foundation Fund and Hong Kong Athletes Fund are administered by the Sports Development Board. The scope of this audit review only covers the Main Fund and the ASDF.

Note 3: Upon the establishment of the ITF, both the Industrial Support Fund and the Services Support Fund previously operated by the Industry Department were merged into the ITF. The results of the audit review of the Industrial Support Fund were included in Report No. 29 of the Director of Audit of October 1997.

Appendix B
(para. 3.1 refers)

Grants approved by individual funds in 2000-01

Fund	Number of approved cases	Approved grant	Average approved grant per case
	(a)	(b)	(c) = (b) ÷ (a)
		(\$ million)	(\$ million)
ATF	68	19.7	0.29
BDF	36	19.0	0.53
DRF	26	43.5	1.67
ECF	88	23.6	0.27
ERF	1,611	6.7	0.004
ITF	141	353.5	2.51
LanF	1	0.4	0.40
LF	1,404	1,598.0	1.14
QEFMH	93	12.4	0.13
SDTF:			
Main Fund	317	8.0	0.03
ASDF — Arts projects	46	30.4	0.66
ASDF — Sports projects	11	24.8	2.25
Total	3,842	2,140.0	

Source: Audit's analysis of the records of the secretariats of the funds

Appendix C
(paras. 3.21 and 3.22 refer)

Summary of submission requirements to account for the disbursement of grants

Fund	Submission requirement				
	Audited accounts and invoices/receipts	Audited accounts only	Statements of accounts and invoices/receipts	Statements of accounts only	Invoices/receipts only
ATF	–	–	All projects	–	–
BDF	Projects with grants in excess of \$500,000	–	–	–	Projects with grants of \$500,000 or below
DRF	–	All projects	–	–	–
ECF	–	Projects with grants of \$1 million or more	Projects with grants of less than \$1 million	–	–
ITF	–	All projects	–	–	–
LanF	–	–	All projects	–	–
LF	–	Experimental projects and maintenance/refurbishment projects	Capital projects with grants in excess of \$400,000	–	Capital projects with grants of \$400,000 or below and projects for purchasing furniture and equipment
QEFMH	–	–	All projects	–	–
SDTF:					
Main Fund	Capital projects with grants of \$360,000 or more	–	–	–	All projects other than capital projects with grants of \$360,000 or more
ASDF:					
Arts projects	–	Projects with grants of \$100,000 or more	Projects with grants less than \$100,000	–	–
Sports projects	–	–	–	All projects	–

Source: Records of the secretariats of the funds

Appendix D
(para. 3.45 refers)

Ageing analysis of overdue projects as at 31 October 2001

Fund	Ongoing projects		Projects overdue for 6 months or less		Projects overdue for over 6 months to 1 year		Projects overdue for over 1 year		Overdue projects	
	Total number	Approved grants	Total number	Approved grants	Total number	Approved grants	Total number	Approved grants	Total number	Approved grants
	(\$ million)		(\$ million)		(\$ million)		(\$ million)		(\$ million)	
BDF	45	34.4	–	–	–	–	1	1.6	1	1.6
DRF	21	32.6	5	9.3	1	0.8	1	0.5	7	10.6
ECF	76	13.8	12	0.6	4	0.8	7	1.7	23	3.1
ITF	287	972.3	57	196.8	9	17.9	–	–	66	214.7
LanF	29	41.8	7	15.9	4	5.8	11	8.6	22	30.3
QEFMH	97	21.3	–	–	–	–	40	9.8	40	9.8
SDTF	329	54.7	78	12.8	84	5.1	147	9.4	309	27.3
Total	884	1,170.9	159	235.4	102	30.4	207	31.6	468	297.4

Source: Audit's analysis of the records of the secretariats of the funds

Appendix E
(para. 3.45 refers)

Ageing analysis of ongoing LF projects as at 31 October 2001

Duration	Major grants			Minor grants		
	Number	Approved grants (\$ million)	Expenditure up to 31 October 2001 (\$ million)	Number	Approved grants (\$ million)	Expenditure up to 31 October 2001 (\$ million)
1 year or less	<u>201</u>	<u>1,429.2</u>	<u>114.8</u>	<u>835</u>	<u>76.0</u>	<u>11.2</u>
Over 1 year to 2 years	111	381.1	86.6	90	11.9	6.9
Over 2 years to 3 years	135	801.3	188.1	32	3.3	2.6
Over 3 years to 4 years	58	524.5	233.4	10	1.6	1.1
Over 4 years to 5 years	37	489.3	331.0	5	0.5	0.4
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Sub-total for over 1 year to 5 years	<u>341</u>	<u>2,196.2</u>	<u>839.1</u>	<u>137</u>	<u>17.3</u>	<u>11.0</u>
Over 5 years to 6 years	41	441.4	304.2	1	0.1	0.1
Over 6 years to 7 years	40	724.4	606.0	–	–	–
Over 7 years to 8 years	20	142.1	121.4	–	–	–
Over 8 years to 9 years	6	113.2	104.1	–	–	–
Over 9 years to 10 years	4	117.7	108.5	–	–	–
Over 10 years	11	322.1	277.5	–	–	–
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Sub-total for over 5 years	<u>122</u>	<u>1,860.9</u>	<u>1,521.7</u>	<u>1</u>	<u>0.1</u>	<u>0.1</u>
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total	<u>664</u>	<u>5,486.3</u>	<u>2,475.6</u>	<u>973</u>	<u>93.4</u>	<u>22.3</u>

Source: Audit's analysis of records of the Secretariat of the LF

Note: The Secretariat of the LF could not provide Audit with a list of ongoing projects as at 31 October 2001. The projects with unspent balances of grants not yet reverted to the LF as at 31 October 2001 were treated as projects not yet completed for analysis purpose.

Summary of audit findings on performance evaluation of funded projects

Fund	Evaluation of projects	Performance indicators	Reporting channel
ATF	Evaluation is conducted on a project-by-project basis. However, there is no overall review on the effectiveness of the ATF in meeting its objectives.	There are no performance indicators or targets to measure the cost-effectiveness, efficiency, economy and quality of funded projects.	There are no formal reporting channels to disclose information and performance indicators regarding the achievement of the ATF objectives.
BDF	In addition to the evaluation of the effectiveness of individual projects, an overall review on the effectiveness of the BDF was conducted in mid-1999. However, no similar overall review is conducted after 1999.	There are no performance indicators or targets to measure the cost-effectiveness, efficiency, economy and quality of funded projects.	The annual report (first published in 2000 since its inception in 1996) contains information about the statistics and vetting results of applications received. However, it does not contain information and performance indicators regarding the achievement of the BDF objectives.
DRF	Evaluation is conducted on a project-by-project basis. However, there is no overall review on the effectiveness of the DRF in meeting its objectives.	There are no performance indicators or targets to measure the cost-effectiveness, efficiency, economy and quality of funded projects.	There are no formal reporting channels to disclose information and performance indicators regarding the achievement of the DRF objectives.
ECF	Evaluation is conducted on a project-by-project basis. However, there is no overall review on the effectiveness of the ECF in meeting its objectives.	There are no performance indicators or targets to measure the cost-effectiveness, efficiency, economy and quality of funded projects.	The trustee report is laid before the Legislative Council annually. It contains information about the statistics and vetting results of applications received. However, it does not contain information and performance indicators regarding the achievement of the ECF objectives.

Appendix F

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(para. 3.58 refers)

Fund	Evaluation of projects	Performance indicators	Reporting channel
ERF	Evaluation is not necessary as grants are one-off ex-gratia payments to victims of disasters.	There are no performance indicators or targets as grants are one-off ex-gratia payments to victims of disasters.	The trustee report is laid before the Legislative Council annually. It contains information on the amount of payment made on different categories of relief grants. However, it does not contain information and performance indicators regarding the achievement of the ERF objectives.
ITF	Evaluation of the effectiveness of funded projects is conducted on a project-by-project basis. The Secretariat of the ITF intends to conduct an overall review on the effectiveness of the ITF three years after the establishment of the ITF in 1999 when there is sufficient operational experience.	The Secretariat of the ITF is now designing a set of impact assessment methodology and performance indicators to evaluate the effectiveness of projects financed by the ITF.	There are no formal reporting channels to disclose information and performance indicators regarding the achievement of the ITF objectives.
LanF	In addition to the evaluation of the effectiveness of individual projects, the overall review on the effectiveness of the LanF is also conducted on a regular basis.	Performance indicators such as list of project products are disclosed in the biennial report. (The latest biennial report for 1997-99 was published in January 2000 as the last call for applications was made in 1998.)	The biennial report of the LanF provides information and performance indicators regarding the achievement of the LanF in meeting its objectives. Details of the results of selected projects are also described in the biennial report.

Appendix F

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(para. 3.58 refers)

Fund	Evaluation of projects	Performance indicators	Reporting channel
LF	Evaluation of the effectiveness of the grants made under the LF is done in connection with the whole government subvention system on social welfare services. Service evaluation is conducted by the SWD under a set of evaluation mechanism which includes quarterly service assessment on the service units of the NGOs and monitoring of service performance through regular visits by the staff of the SWD.	Performance indicators concerning the subvented services are included in the Controlling Officer's Report in the Estimates.	Performance indicators concerning the subvented services are included in the Controlling Officer's Report in the Estimates.
QEFMH	Evaluation is conducted on a project-by-project basis but there is no overall review on the effectiveness of the QEFMH in meeting its objectives.	There are no performance indicators or targets to measure the cost-effectiveness, efficiency, economy and quality of funded projects.	The Chairman's report contains information about the details of grants approved. However, it does not contain information and performance indicators regarding the achievement of the QEFMH objectives.
SDTF	Evaluation is conducted on a project-by-project basis but there is no overall review on the effectiveness of the SDTF in meeting its objectives.	There are no performance indicators or targets to measure the cost-effectiveness, efficiency, economy and quality of funded projects.	The trustee report is laid before the Legislative Council annually. It contains information about the statistics and vetting results of applications received. However, it does not contain information and performance indicators regarding the achievement of the SDTF objectives.

Source: Audit's analysis of the records of the secretariats of the funds

Appendix G
(para. 5.4 refers)

**Assets purchased
with the grants of individual funds**

Fund	Examples of assets acquired
ATF	Desk-top computers Photocopiers Television sets
BDF	Television projectors Notebook computers Digital cameras
ITF	Digital cameras Desk-top computers Audio-visual equipment Notebook computers
LanF	Photocopiers Overhead projectors Notebook computers Printers
LF	Overhead projectors Television sets Dehumidifiers
QEFMH	Office cabinets
SDTF (ASDF)	Cameras Briefcases

Source: Records of the secretariats of the funds

Appendix H

Acronyms and abbreviations

AFCD	Agriculture, Fisheries and Conservation Department
ASDF	Arts and Sport Development Fund
ATF	AIDS Trust Fund
BDF	Beat Drugs Fund
DRF	Disaster Relief Fund
ECC	Environmental Campaign Committee
ECF	Environment and Conservation Fund
EE&CA	Environmental Education and Community Action
ERF	Emergency Relief Fund
FB	Finance Bureau
GSP	General Support Programme
ICAC	Independent Commission Against Corruption
ITF	Innovation and Technology Fund
ITSP	Innovation and Technology Support Programme
LanF	Language Fund
LF	Lotteries Fund
NGOs	Non-government organisations
QEFMH	Queen Elizabeth Foundation for the Mentally Handicapped
SDTF	Sir David Trench Fund for Recreation
SERAP	Small Entrepreneur Research Assistance Programme
SWD	Social Welfare Department
UGC	University Grants Committee
UICP	University-Industry Collaboration Programme