

CHAPTER 10

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

GENERAL REVENUE ACCOUNT

GOVERNMENT SECRETARIAT

Education and Manpower Bureau

GOVERNMENT DEPARTMENT

Education Department

**Primary education —
The administration of primary schools**

PRIMARY EDUCATION — THE ADMINISTRATION OF PRIMARY SCHOOLS

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PRIMARY EDUCATION — THE ADMINISTRATION OF PRIMARY SCHOOLS

Summary and key findings

A. **Introduction.** It is a government policy to provide nine-year free and universal basic education for every child aged between six and 15. Primary education covers the first six years of free and universal basic education for the young generation to build up knowledge, values and skills for further studies and personal development. As at the beginning of the 2001-02 school year, there were about 478,000 primary students studying in 690 aided schools, 41 government schools and 63 private schools. The average cost of providing free primary education to a primary student is about \$26,000 a year. In the financial year 2002-03, the recurrent financial provision for primary education amounts to \$11,700 million (paras. 1.2 and 1.3).

B. **Audit review.** Audit has recently conducted a value for money audit on primary education. The audit is divided into three broad topics, namely planning and provision of primary school places, the administration of primary schools and the delivery of effective primary education. This report deals with the administration of primary schools (para. 1.7).

C. The objective of the audit review is to ascertain whether the major areas of administration in aided and government primary schools function properly to support the provision of quality primary education. In conducting the review, Audit selected on a random basis 18 primary schools for examination, covering one school in each of the 18 districts in Hong Kong (paras. 1.10 to 1.12). The areas for improvement identified by Audit are summarised in paragraphs D to H below.

D. **Strategic planning and financial management.** Audit noted that there is room for improvement in the following areas:

- (a) **Strategic planning.** To ensure that schools are held accountable for ensuring value for money in the use of resources and the quality of education services, the Education Department (ED) requires schools to prepare annual school plans and produce longer-term strategic plans. Audit examined the school plans of the 18 schools visited and noted that 16 schools did not prepare longer-term strategic plans. Four schools had not made any assessment of demographic changes which could affect the schools' future development. Nine schools had not carried out any evaluation of the school programmes in accordance with the plans (paras. 2.2 to 2.8);
- (b) **Capacity Enhancement Grant.** In November 2000, the Finance Committee of the Legislative Council approved the Capacity Enhancement Grant (CEG) which aimed at enabling schools to hire additional personnel and/or services to reduce teachers' workload. For a school with less than 19 operational classes, the rate of CEG was fixed at \$450,000 per school per annum. Audit considers that it is not necessary for schools with a small number of classes (e.g. a school operating only two classes) to be given the full amount of

\$450,000. Audit estimates that, by introducing one more level of provision for the CEG, \$26 million could be saved annually (paras. 2.11 to 2.18);

- (c) ***Surplus funds retained by schools.*** To give schools greater flexibility in the use of resources to support the development of school-based management, the ED allows schools to retain the unspent balance up to 12 months' provision of the annual recurrent grants which cover virtually all recurrent expenses. Audit noted that many schools did not have specific plans on how to use the unspent surplus funds and some schools retained very high proportions of surplus funds. If schools were allowed to retain grants at a level up to three months' cover, some \$88 million could be clawed back by the ED (paras. 2.21 to 2.27);
- (d) ***Provision of electricity charges.*** The ED had substantially over-provided a school with funds for paying electricity charges. The school did not take the initiative to pay back the surplus funds to the ED. Instead, it transferred some of the surplus funds to meet the costs of other expenditure items (paras. 2.30 to 2.35); and
- (e) ***External audit arrangements.*** According to the Code of Aid for Primary Schools (CAPS), the accounts of aided schools are required to be audited by qualified external auditors. Audit examined the external audit arrangements of the 16 aided schools visited (the other two schools visited by Audit are government schools). Audit observed that most of the schools had appointed their existing external auditors for many years and their appointment had not been subject to a competitive selection process, and that they had not agreed with their external auditors on the terms of engagement. Furthermore, some external auditors had not fulfilled the ED's requirements on external audit arrangements (paras. 2.44 to 2.51).

E. **Human resource management.** Audit reviewed the practice and procedures of human resource management in the 18 schools visited, and noted that improvements could be made in the following areas:

- (a) ***Recruitment of teaching staff.*** The ED has set guidelines on the recruitment of teaching staff by schools. However, Audit noted that a school had appointed teachers without a proper recruitment system such as advertising vacancies in the press and forming a selection panel. In some schools, contrary to the ED's guidelines, members of the School Management Committee (SMC) were not involved in the interviews. Ten schools had offered appointment directly to applicants without the prior approval of the SMC, which was in contravention of the Education Regulations (Cap. 279A) (paras. 3.2 to 3.9);
- (b) ***Scheduling of school holidays.*** The ED allows schools to have 90 days of school holidays in a school year. It is a common practice for schools to reserve most of the school holidays during the summer months. Some school principals informed Audit that it would be desirable to shorten the summer holidays and lengthen the duration of other school term breaks, so that teachers could make use of the longer term breaks to evaluate and plan ahead their teaching. They would have shorter idle time in the summer. However, the school principals felt that the ED would normally not allow significant rescheduling of

school holidays. Audit considers that there are merits in rescheduling the school holidays to suit schools' teaching needs (paras. 3.12 to 3.15);

- (c) ***Arrangements for stepping down of senior teachers.*** According to the CAPS, if a school reduces its number of classes, senior teachers in excess of the school's entitlement have to step down to the junior post of class teacher and perform the duties of a class teacher. However, subject to the ED's approval, a stepped-down senior teacher could retain the senior teacher salary. In a school visited by Audit, despite the fact that a senior teacher had performed only a class teacher's duties after stepping down to a junior post, he was still given salary increments of the senior teacher salary scale. Audit considers that this arrangement is unsatisfactory as the senior teacher did not perform the duties commensurate with his salary (paras. 3.17 to 3.20); and
- (d) ***Management of janitor staff.*** The establishment of schools' janitor staff is determined according to the number of classes/classrooms and special-purpose rooms that are in operation at the school premises. Schools have the option of outsourcing the janitor services. Of the 18 schools visited, Audit noted that only one school had outsourced the janitor services. In this school, a major portion of the original workload of ten janitors was handled by only five contract workers. If all schools outsource part of their janitor services, Audit estimates that annual savings of some \$100 million could be achieved in the longer term (paras. 3.23 to 3.30).

F. **Procurement procedures and asset management.** Aided and government primary schools incurred a non-recurrent expenditure of around \$252 million a year on procurement of goods and services. Audit noted that there is scope for improvement in the following areas:

- (a) ***Procurement of goods and services.*** Schools have to observe the ED's guidelines on the procurement of goods and services. Audit reviewed the procurement arrangements of the 18 schools visited and observed that several schools often procured goods and services without obtaining quotations. Some schools had set their own financial limits for obtaining quotations, instead of complying with the limits set by the ED. Some schools had failed to document the details of quotations obtained and the recommendations made for the procurement (paras. 4.2 to 4.8);
- (b) ***Procurement services for students and parents.*** During school visits, Audit noted that schools provided procurement services for students and parents (such as supply of school bus service). However, 15 schools did not adopt the process of competitive tendering to safeguard the interests of students/parents. For the delivery of some goods and services, the schools only identified one supplier and recommended it to students/parents (paras. 4.11 to 4.13); and
- (c) ***Letting out of school premises.*** The ED allows schools to let out their school premises as a community service to foster better cooperation between schools and the community. The income generated could be used for educational activities of students of the schools. Audit noted that many schools had not let out their school premises. Two schools, without proper

justifications, did not let out their premises upon receipt of applications from charitable and community service organisations. On the other hand, a school had let out, without charge, its premises to a private organisation whose activities were considered to be hindering the students' normal activities (paras. 4.16 to 4.21).

G. Management of student matters. Audit noted that improvement could be made in the following areas:

- (a) ***Sale of school items by schools' sponsoring and associated bodies.*** To safeguard the interests of students, the ED requires schools, in selling school items to students, to observe that the profit from the sale should be limited to 15% of the cost price, and that no profit should normally be generated from the sale of textbooks. However, Audit noted that a school's associated body made considerable profits from the sale of school items (paras. 5.2 to 5.8);
- (b) ***Donations received by schools.*** To avoid schools placing themselves in an obligatory position to suppliers, the ED imposes controls on acceptance of donations by schools from suppliers. During the visits to the 18 schools, Audit noted cases where some schools had accepted donations from their suppliers of goods or services. These schools did not invite tenders or obtain quotations from other suppliers. Audit observed that the reason of "sponsoring students' activities" had often been quoted by schools in accepting donations from suppliers and textbook publishers (paras. 5.11 to 5.17);
- (c) ***Tuckshop operations.*** The ED encourages schools to run tuckshops to provide a service to students, and requires that schools should ensure that tuckshops are operated in the interests of the students. Audit noted that a school had charged its tuckshop operator a high tuckshop rental. As a result, students had to pay more for the items sold by the tuckshop operator. The tuckshop operator has been operating in the school for more than ten years. However, the school has not attempted to re-tender the tuckshop operations (paras. 5.20 to 5.29); and
- (d) ***Weight of school bags.*** According to the ED's guidelines, overweight school bags may have adverse effects on the health of students. Audit noted that the health organisations of some advanced countries and some local experts of the medical profession had recommended that children should not be allowed to carry school bags of over 10% of their body weights. During visits to the 18 schools, Audit checked the weights of school bags of 490 students and observed that about one third of the students carried school bags exceeding 15% of their body weights. There were four students whose school bags weighed between 31% to 35% of their body weights. Audit considers that schools should do more to reduce the weight of school bags (paras. 5.32 to 5.40).

H. Support from ED to schools. The ED provides various types of support to schools to assist them to enhance the quality of teaching and learning. The school inspection teams of the ED

conduct financial audit inspections and provide advice on improvements of accounting and internal control procedures. Audit invited the attention of the ED to the following matters:

- (a) ***Views of school principals on ED's support.*** During visits to the 18 schools, some principals advised Audit that there were areas for improvement in providing support to schools by the ED. For example, the ED should render more support to help smaller-size schools implement the School Administration Guide, and should consolidate various circulars/guidelines in a more concise and comprehensive manner (paras. 6.2 and 6.3); and
- (b) ***Work of ED's school inspection teams.*** In view of the weaknesses in the control systems identified by Audit, the ED's school inspection teams need to focus their inspection more on the financial management and procurement of goods and services by schools (paras. 6.6 to 6.9).

I. **Audit recommendations.** Audit has made the following major recommendations that the Director of Education should:

Strategic planning

- (a) disseminate good practice guides to schools to help them draw up their strategic plans (para. 2.9(b));

Capacity Enhancement Grant

- (b) consider introducing more levels of provision for the CEG for different numbers of operating classes in schools (para. 2.19(b));

Surplus funds retained by schools

- (c) conduct a review to ascertain whether the level of surplus funds that schools are allowed to retain is excessive, having regard to their operating needs (para. 2.28(a));

Provision of electricity charges

- (d) identify schools that have been substantially over-provided with funds for paying electricity charges, and take action to claw back such funds (para. 2.36(b));

External audit arrangements

- (e) require aided schools to invite periodically audit firms to submit tenders or quotations for appointment as external auditors (para. 2.52(a));

- (f) request aided schools to agree the terms of audit engagement with their external auditors in an audit engagement letter (para. 2.52(b));

Recruitment of teaching staff

- (g) ensure that schools set up a proper recruitment system which includes open selection procedures, the establishment of a selection panel, and the documentation of the recruitment criteria and assessment of candidates (para. 3.10(a));

Scheduling of school holidays

- (h) urge schools to review the need for distributing the school holidays more evenly throughout the year to suit the schools' teaching needs (para. 3.15);

Arrangements for stepping down of senior teachers

- (i) take action to facilitate the transfer of senior teachers who are required to step down to other schools that have suitable vacancies (para. 3.21(a));
- (j) consider allowing a teacher who is required to step down to retain the senior teacher salary on the condition that his salary increments are suspended until he fully performs the duties of a senior teacher (para. 3.21(b));

Management of janitor staff

- (k) ask schools to assess the costs and benefits of outsourcing their janitor services (para. 3.31(a));

Procurement of goods and services

- (l) remind schools to obtain the best available price when making procurement, document properly the quotations obtained, and comply with the financial limits set by the ED (para. 4.9);

Procurement services for students and parents

- (m) require all schools to follow the practice of obtaining competitive tenders and quotations, so as to safeguard the interests of students and parents (para. 4.14);

Letting out of school premises

- (n) remind schools that profit-making organisations are not entitled to using school premises free of charge (para. 4.22(c));

Sale of school items by schools' sponsoring and associated bodies

- (o) take action to ensure that no excessive profits are made from the sale of school items by schools' sponsoring and associated bodies (para. 5.9(b));

Donations received by schools

- (p) require schools which accept donations from textbook publishers to document clearly the compelling reasons for doing so (para. 5.18(b));
- (q) extend the ED's requirement, that schools should not accept donations from textbook publishers unless there are compelling reasons to do so, to all other suppliers (para. 5.18(c));

Tuckshop operations

- (r) require schools to invite open tenders for tuckshop operations (para. 5.30(b));

Weight of school bags

- (s) in consultation with the Director of Health, consider including in the ED's guidelines a benchmark on the weight of school bags (para. 5.41(a));
- (t) urge schools and parents to take more actions (such as using more double periods) to reduce the weight of school bags (para. 5.41(c));

Views of school principals on ED's support

- (u) note the views of the school principals and take appropriate follow-up action (para. 6.4(a) and (b)); and

School inspection teams of ED

- (v) ensure that the ED's school inspection teams focus more on the financial management and procurement of goods and services by schools (para. 6.10).

J. **Response from the Administration.** The Administration generally agrees with Audit's recommendations.

PART 1: INTRODUCTION

1.1 This PART describes the background and the objectives of the audit report.

Background

1.2 It is a government policy to provide nine-year free and universal basic education for every child aged between six and 15 (or completion of Secondary Three, whichever is earlier). Primary education covers the first six years of free and universal basic education for the young generation to build up knowledge, values and skills for further studies and personal development.

1.3 As at the beginning of the 2001-02 school year (September 2001), there were about 478,000 primary students in primary schools in Hong Kong. Primary school places are provided by aided schools managed by voluntary bodies under the Code of Aid for Primary Schools (CAPS), by government schools managed directly by the Education Department (ED), and by private schools. As at the beginning of the 2001-02 school year, the composition of primary schools was as follows:

	Number of schools (Note 1)		Number of students	
Aided schools (Note 2)	690	87%	412,000	86%
Government schools	41	5%	32,000	7%
Private schools	63	8%	34,000	7%
Total	794	100%	478,000	100%

Source: ED's records

Note 1: If a school has a.m. and p.m. sessions, it is counted as two schools.

Note 2: These include 97 rural primary schools.

The average cost of providing free primary education to a primary student is about \$26,000 a year. In the financial year 2002-03, the recurrent financial provision for primary education amounts to \$11,700 million.

Role of Education Department

1.4 The Director of Education, who heads the ED, helps formulate and implements educational policies at kindergarten, primary and secondary levels. The ED's main responsibilities include execution of the Education Ordinance (Cap. 279); planning, provision and allocation of

school places; provision of education opportunities for children with special educational needs; development of school curricula; registration of schools and assurance of school education quality; monitoring of teaching standards; and support to schools with public funding and other facilities.

Education reform measures

1.5 To meet the needs of society in the 21st century, in 1998 the Education Commission (EC) embarked on a two-year comprehensive review of the overall education system in Hong Kong. In September 2000, the EC issued a report on the “Reform Proposals for the Education System in Hong Kong”. The Government accepted the EC report, which is regarded as a blueprint for education reform.

1.6 Over the past two years, the Government has put in place a number of reform measures, including the reform of the Primary One Admission system and Secondary School Places Allocation system. Moreover, measures have been introduced to strengthen support for schools and teachers. Improvement will be made in implementation arrangements and support measures.

Audit review on primary education

1.7 Audit has recently conducted a value for money audit on primary education. Since primary education is a broad subject, the scope of the audit review is divided into three broad topics. The audit findings are contained in three separate reports as follows:

- the administration of primary schools (the subject matter of this report);
- planning and provision of primary school places (Chapter 9 of Director of Audit’s Report No. 39); and
- the delivery of effective primary education (Chapter 11 of Director of Audit’s Report No. 39).

Regulatory framework

1.8 Since 1991, the Government has been promoting school-based management (SBM). Under the SBM, schools are given more flexibility and autonomy in managing their own operations and resources. At the same time, schools are required to increase their transparency and accountability in their decision-making process and the use of public funds. In recent years, the ED has been actively increasing the autonomy and flexibility for schools to grow and excel. Procedures have been streamlined and responsibilities devolved to school level. However, self-managing schools are not independent. Under the SBM initiative, schools are still part of the education system and operate within the centrally determined framework of authorities and

responsibilities. Schools must satisfy the Government's regulatory requirements which include the following:

- (a) schools in Hong Kong must comply with the provisions of the **Education Ordinance**, covering areas such as registration of schools, health and safety requirements, fees and charges and teacher qualifications;
- (b) schools are required to follow the **circulars and guidelines** (e.g. guidelines on tendering and purchasing procedures and guidelines on appointment of school staff) issued from time to time by the ED;
- (c) aided primary schools have to observe the **CAPS** issued by the ED which prescribes the rules and conditions in accordance with which the Government promotes education by means of grants to these schools; and
- (d) for government primary schools, they are required to observe the **Government's rules and regulations** as in the case of government departments.

1.9 To facilitate schools to continue to practise SBM, in 2001 the ED provided a School Administration Guide (SAG) to schools. The SAG elucidates key educational policies, legislative requirements and regulatory requirements as detailed in the CAPS as well as the ED's circulars and guidelines. It also recommends good school management practices.

Audit review on administration of primary schools

1.10 Audit has conducted a value for money audit to ascertain whether the major areas of administration in aided and government primary schools are functioning properly to support the provision of quality primary education. Audit notes that there is scope for improvement in the following areas:

- (a) strategic planning and financial management (PART 2);
- (b) human resource management (PART 3);
- (c) procurement procedures and asset management (PART 4);
- (d) management of student matters (PART 5); and
- (e) support from ED to schools (PART 6).

1.11 In carrying out the audit review, Audit selected on a random basis 18 primary schools for examination, covering one school in each of the 18 districts in Hong Kong. Audit would like to acknowledge with gratitude the full cooperation of the principals and staff of the 16 aided and two government primary schools visited by Audit as well as the staff of the ED. This review does not cover private primary schools.

1.12 In this audit report, the 18 schools visited by Audit are referred to as School A to School R.

General response from the Administration

1.13 The **Director of Education** has said that he appreciates Audit's efforts in conducting this value for money audit and making recommendations to improve the operation of primary schools. He will consider these recommendations seriously and take follow-up actions with schools. He has also said that:

- (a) the ED emphasises proper and effective deployment of resources by schools to enhance teaching and learning. To enable schools to deliver quality education to students that can meet the challenges of the 21st century, the ED has introduced and promulgated the concept of SBM;
- (b) to facilitate effective administration and proper use of resources, the ED provides schools with relevant guidelines, which are under constant review for updating/consolidating purposes. The ED has also undertaken to incorporate these guidelines into the SAG for easier reference by schools. Schools, on the other hand, have to ensure that they are managed and run to the satisfaction of the Director of Education. The Education Ordinance empowers the Director of Education to cancel the registration of a school or a school manager, appoint additional managers to sit on the School Management Committee (SMC) or direct remedial measures to be taken within a specified period if a school is found not to be managed satisfactorily;
- (c) in the light of Audit's findings, the ED will take steps to disseminate good practices and remind schools of the common irregularities. Due advice will be given to schools with irregularities, and follow-up actions will be taken. In case of repeated occurrence of irregularities, the ED will draw the attention of the respective SMCs/sponsoring bodies, which are required under the Education Ordinance to ensure that their schools are managed to the satisfaction of the Director of Education;
- (d) the ED will continue to provide professional advice and support to schools to facilitate their smooth operation and to strengthen their internal quality assurance mechanism; and

- (e) to ensure more effective use of resources by schools on priority areas, to further enhance their flexibility in deployment of resources to cater for the diverse needs of students and to further streamline the procedures for allocation of funds, the ED is conducting a fundamental review of existing grants in consultation with key stakeholders.

1.14 **The Secretary for Education and Manpower** has said that:

- (a) he welcomes the Director of Audit's study on the delivery of primary education and commends the study team for the breadth and depth of its recommendations;
- (b) education is one of the top priorities of the Government of the Hong Kong Special Administrative Region. The Government has invested heavily in education with a 62% increase in overall expenditure for the education sector since 1996-97. The corresponding increase for primary education is 67%;
- (c) Hong Kong is unique in that it has a highly decentralised system of school administration. The vast majority of schools are managed by non-government organisations with annual subvention by the Government. Today, there are 690 aided primary schools involving some 170 school sponsoring bodies. They are governed by the CAPS which was drawn up in the 1970s. The ED issues circulars from time to time to supplement the CAPS;
- (d) as the number of schools increased over the years, enforcement of the CAPS and the ED's circulars has become more onerous. It also becomes apparent, with the introduction of comprehensive education for all, that schools need more flexibility in the deployment of resources in order to cope with the wide range of abilities and needs of students with different social and economic backgrounds;
- (e) against this background, SBM was introduced in 1991 and more actively promoted in recent years. Nonetheless, short of statutory backing, it is difficult to ensure compliance with the ED's guidelines. The irregularities identified by the Director of Audit testify to the need for tighter legislation, stronger enforcement action and more accountability on the part of schools, as devolution of responsibilities and funding flexibility to schools were increased; and
- (f) it is the responsibility of every education practitioner to ensure that public funds are well spent to achieve the maximum benefit for students. Staff of publicly-funded schools are expected to observe the same integrity and probity standards required of public servants, and be subject to periodic external audits. At a time of financial stringency, they are also expected to enhance efficiency and productivity through re-prioritisation, re-engineering and reorganisation.

PART 2: STRATEGIC PLANNING AND FINANCIAL MANAGEMENT

2.1 This PART examines the adequacy of strategic planning and financial management of schools.

Strategic planning

2.2 The ED spends about \$12 billion a year on the provision of free primary education. To ensure that schools are held accountable for ensuring value for money in the use of resources and also the quality of education services, the ED requires schools to prepare annual school plans, setting out their short-term/long-term goals, priority development areas, financial budgets, performance indicators and means of evaluating progress. The ED also requests schools to produce longer-term strategic plans for three to five years and use them as a basis for formulating the annual school plan and annual budget.

2.3 According to the SAG issued by the ED, in formulating their school plans, schools should take into account the following factors:

- (a) school planning should cover all aspects of school activities so that the necessity for all existing activities can be reviewed and new proposals for improvement can be considered. To ensure that resources are focused on priority areas, schools should review all activities within a certain span of time and focus on selective development areas every year;
- (b) schools should take stock of the present state before planning ahead. Besides considering internal factors, they should also consider external factors affecting their performance such as the needs and aspirations of students, parents and the community, and also the Government's educational policies and initiatives; and
- (c) schools should set challenging but realistic objectives and targets to ensure manageability and continuous improvement.

Audit observations on strategic planning

2.4 Audit reviewed the school plans for the 2001-02 school year of the 18 schools visited and noted that they were prepared in accordance with the format proposed by the ED and normally contained the following key elements:

- (a) the aims and values of the school;
- (b) the school's objectives;
- (c) the programmes of activities through which the objectives would be achieved;
- (d) resources and budget allocation;
- (e) procedures and criteria for assessing performance; and
- (f) persons responsible for implementation, monitoring progress and evaluation of the programmes.

Audit however noted that there were inadequacies in some of the school plans. Details are given in paragraphs 2.5 to 2.8 below.

2.5 ***Failure to produce longer-term plans.*** A school is able to react more effectively to externally imposed changes by reference to a plan which shows the full implications of the changes. Longer-term planning helps schools anticipate potential problems and identify solutions. Preparing a longer-term plan would enable schools to consider the challenges facing them and the strategies to be adopted to meet the challenges in a rapidly changing environment.

2.6 Of the 18 schools visited, only two schools (11%) had prepared longer-term strategic plans for three to five years as requested by the ED. The other 16 schools (89%) did not have plans covering more than one year.

2.7 ***External factors not fully taken into account in school planning.*** As stated in paragraph 2.3(b) above, schools should take into account both internal and external factors when formulating their school plans. Of the 18 schools visited, all of them had adequately assessed their internal situation, such as their development needs, their existing strengths and weaknesses, as well as the resources available. However, as far as external factors were concerned, Audit found that four schools had not taken them into full consideration when developing their school plans. These four schools were operating in old public housing estates or old rural areas where most of the residents had moved out. Their intake of students had been declining in recent years. However, in spite of the demographic changes which had a significant impact on their future development, the schools had not assessed this external factor or formulated a strategy to cope with the change (e.g. identifying options to increase the intake of students, merging with other schools under the same school sponsoring body).

2.8 ***No evaluation of school programmes.*** Of the 18 schools visited, all of them included in their school plans procedures and criteria for assessing the performance of school programmes, as well as the persons responsible for implementing, monitoring and evaluation of the programmes. Audit however noted that nine schools had not carried out any evaluation of the programmes in accordance with their plans. An evaluation will help the stakeholders (e.g. the school sponsoring body, members of the SMC and parents) assess how well the schools have been performing and what further measures are needed to raise the standards achieved.

Audit recommendations on strategic planning

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

- (a) **require all schools to produce longer-term strategic plans for three to five years;**
- (b) **disseminate good practice guides to schools to help them ensure that, when drawing up their strategic plans, all significant external factors are taken into account; and**
- (c) **urge schools to conduct evaluation of school programmes with reference to the strategic plans and incorporate the results of evaluation in their annual reports.**

Response from the Administration

2.10 The **Director of Education** generally agrees with Audit's recommendations. He has said that:

- (a) the ED rendered appropriate assistance to schools to assist them to draw up good school plans through Quality Assurance Inspection. The ED's assistance also included regular visits/contacts of School Development Officers, and sharing sessions/seminars to disseminate schools' successful experiences and good practices. Guidelines have also been issued to highlight the purpose and significance of planning in relation to school development and the main features of a good school plan;
- (b) the ED will suggest to schools that they formulate a three-to-five-year School Development Plan to facilitate school development and improvement upon the issue of the revised Guideline on Annual School Plan and Annual Report by the ED in the early 2002-03 school year; and
- (c) the ED has developed a set of resource materials on school self-evaluation (SSE) which was issued to all schools in December 2000. Guidelines have also been issued to help

schools prepare the annual school report. School Development Officers from the ED provide assistance and support to schools through their regular visits/contacts with schools. Seminars and workshops have been conducted to acquaint teachers with the theoretical underpinnings and practical considerations on SSE. Schools with good practices in SSE are asked to disseminate their successful experiences so as to help cultivate among schools a culture of striving for continuous progress. Enhanced support will be provided to schools in future to promote rigorous SSE in schools, including the development of more user-friendly tools and resource materials.

Capacity Enhancement Grant

2.11 In November 2000, the Finance Committee (FC) of the Legislative Council approved the disbursement of a new recurrent grant, namely the Capacity Enhancement Grant (CEG), to all aided and government schools with effect from the 2000-01 school year. Depending on the number of classes operated by the school, the rates of the CEG were fixed at two levels as follows:

Number of classes	Rate of CEG (per primary school per annum)
	(\$)
Less than 19	450,000
19 or more	550,000

In each of the school years 2000-01 and 2001-02, some \$350 million of CEG was issued to schools.

2.12 The CEG was aimed at enabling schools to hire additional personnel (teaching or non-teaching staff) and/or services with a view to reducing teachers' workload, so that they would have enhanced capacity to concentrate on the following three tasks which had been identified as critical to the education reform:

- (a) curriculum development, including the integration of information technology in teaching;
- (b) enhancing students' language proficiency; and
- (c) coping with the diverse and special learning needs of students with varied abilities, ranging from the gifted ones to those with learning difficulties.

2.13 As regards how schools may use the CEG, the following are examples suggested by the ED:

- (a) to hire outside services to assist in curriculum development, students guidance and discipline, etc.;
- (b) to employ additional teachers to relieve regular teachers from their heavy teaching load so that the regular teachers will have more time for curriculum development, student guidance and discipline, etc.;
- (c) to employ clerical staff to take up non-teaching duties currently performed by teachers; and
- (d) to employ teaching assistants to assist teachers in preparing teaching materials and other teaching related tasks.

If a school considered that no further resources were necessary to undertake the three tasks, it could still use the CEG to relieve teachers' workload and enable them to enhance the effectiveness of teaching and learning in other areas.

2.14 Under the SBM framework, schools were required to incorporate the proposed usage of the CEG in their annual school plan to be endorsed by their SMC. The Government will conduct a review in the 2002-03 school year to evaluate whether the CEG has been effectively used to relieve teachers' workload, and to enable them to concentrate better on effective teaching and learning. The Government will also review the funding arrangement to enhance the cost-effectiveness of the CEG.

Audit observations on Capacity Enhancement Grant

2.15 According to the FC paper of November 2000 on the CEG, the grant of \$550,000 is to enable a primary school with 19 classes or more to recruit, for example, one general clerk/teaching assistant and two teachers. However, the FC paper did not state the basis of the grant of \$450,000. Upon Audit's enquiry, the ED informed Audit that the grant of \$450,000 is to enable a school with less than 19 classes to recruit, for example, one general clerk/teaching assistant and 1.5 teachers.

2.16 Of the 18 schools visited by Audit, in eleven schools the number of operating classes ranged from 15 to 26. However, there were seven schools which had less than nine operating classes. Table 1 below shows the number of classes operated by these seven schools.

Table 1

**Seven schools which had less than nine operating classes
in the 2001-02 school year**

School	Number of classes in operation
D	8
F	8
J	7
L	6
R	6
M	3
Q	2

Source: Schools' records

2.17 The basis of the grant of \$450,000 is for a school with less than 19 classes to engage one general clerk/teaching assistant and 1.5 teachers. Schools are also allowed to hire outside services to reduce the workload of teachers. However, given the fact that there were very few classes in some schools (e.g. Schools M and Q in Table 1 above), Audit considers that it is not necessary for these schools to employ as many as one general clerk/teaching assistant and 1.5 teachers, or to spend an equivalent sum to hire outside services for reducing the teachers' workload. Indeed, Audit observed that in one school, the principal had only asked for some \$180,000 for employing two temporary teachers, but the school was still granted the full amount of \$450,000.

2.18 Audit estimates that, for example, if one more level of provision for the CEG was set for schools with smaller numbers of operating classes, about \$26 million per annum (see Appendix A) could be saved and diverted to other areas of educational need. Audit considers that it would be desirable to introduce more levels of provision for the CEG for different numbers of operating classes in schools.

Audit recommendations on Capacity Enhancement Grant

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

- (a) **conduct the review of the funding arrangement of the CEG as soon as possible; and**
- (b) **in the review, consider introducing more levels of provision for the CEG for different numbers of operating classes in schools.**

Response from the Administration

2.20 The **Director of Education** agrees with Audit's recommendations. He has said that the ED is conducting a review of the CEG, which is scheduled to be completed by December 2003. The ED will evaluate whether the CEG has been effectively used to relieve teachers' workload, thus enabling them to concentrate better on effective teaching and learning, and will also look into the funding arrangement with a view to enhancing cost-effectiveness of the grant. In reviewing the funding arrangement, the funding need of small-size schools will be assessed. The ED will take steps to introduce more levels of provision for schools of smaller size.

Surplus funds retained by schools

2.21 Since the 2000-01 school year, aided schools have been provided with an Operating Expenses Block Grant (OEBG) for meeting their operating expenses. The OEBG covers virtually all the recurrent grants, except the Salaries Grants or those items of expenditure disbursed on a reimbursement basis (e.g. grants for rents and rates). The OEBG is made up of the following two domains:

- (a) **General Domain.** This covers most of the recurrent grants (e.g. the School & Class Grant, Administration Grant and Noise Abatement Grant). Schools are free to decide the amount to be spent on individual constituent grants and use the surplus funds for other purposes; and
- (b) **Special Domain.** This covers grants which are allocated for specific purposes (e.g. School-based Support Scheme for Newly Arrived Children). Each grant within this domain is separate and no transfer to other grants is allowed.

Similarly, government schools have been provided with a Subject and Curriculum Block Grant (SCBG) for meeting school expenses. The SCBG is also made up of a General Domain and a Special Domain.

2.22 The OEBG and SCBG were introduced to aided schools and government schools respectively to support the development of SBM whereby schools need greater funding flexibility to operate as self-managing institutions and to put in place longer-term development strategies. To give schools greater flexibility in the use of resources, the ED allows both aided and government schools to retain the unspent balance (i.e. total amount of surplus funds under the General Domain and Special Domain) up to 12 months' provision of the OEBG/SCBG (Note 1). Table 2 below shows the surplus funds retained by the 18 schools visited by Audit for the school year 2000-01.

Note 1: *Prior to the introduction of the OEBG and SCBG, aided schools could keep an amount varying between three months' to 12 months' provision, depending on the nature of the individual grants and for government schools, the unused provision would lapse after the close of a financial year.*

Table 2

Surplus funds retained by 18 schools for the 2000-01 school year

School	General domain	Special domain	Total surplus retained	Total provision of OEBG/SCBG	Total surplus as a percentage of total provision
	(a)	(b)	(c) = (a) + (b)	(d)	(e) = $\frac{(c)}{(d)} \times 100\%$
	(\$)	(\$)	(\$)	(\$)	(%)
Q	311,963	919,398	1,231,361	1,339,536	92%
F	596,945	716,688	1,313,633	1,716,475	77%
P	557,381	230,205	787,586	1,760,031	45%
I (Note)	96,705	477,392	574,097	1,274,575	45%
C (Note)	119,868	345,624	465,492	1,042,308	45%
O	681,361	428,746	1,110,107	2,782,040	40%
D	187,871	231,255	419,126	1,101,441	38%
G	1,238,721	545,731	1,784,452	4,694,315	38%
A	399,667	311,945	711,612	1,976,928	36%
B	85,210	319,866	405,076	1,438,364	28%
E	284,525	264,651	549,176	2,097,890	26%
L	140,103	24,279	164,382	705,083	23%
K	458,841	213,571	672,412	3,023,517	22%
R	9,476	192,558	202,034	1,105,793	18%
N	446,779	254,284	701,063	4,385,703	16%
J	76,313	120,692	197,005	1,327,347	15%
H	269,099	165,345	434,444	3,101,752	14%
M	23,210	38,473	61,683	655,241	9%
Total	<u>5,984,038</u>	<u>5,800,703</u>	<u>11,784,741</u>	<u>35,528,339</u>	33%

Source: Schools' audited accounts/ledgers

Note: Schools I and C are government schools. Their accounts are for the financial year ending 31.3.2001.

Audit observations on surplus funds retained by schools

2.23 As shown in Table 2 above, the amount and percentage of surplus funds retained by schools varied considerably. The 18 schools altogether retained surpluses totalling about \$12 million. On average, they retained 33% of the annual provision of the OEBG/SCBG. Some schools retained very high proportions of their surplus funds (e.g. 92% for School Q and 77% for School F). It is doubtful whether schools need to retain as much as 12 months' provision of the OEBG/SCBG, as discussed in paragraphs 2.24 to 2.27 below.

2.24 *The OEBG/SCBG is recurrent in nature.* The OEBG/SCBG is a recurrent annual grant provided to schools as long as they are operating. It covers virtually all the recurrent expenses, and is revised annually by the ED in accordance with the movement in prices and having regard to the need of individual schools (e.g. changes in class number/size). There is little uncertainty in the level of the OEBG/SCBG.

2.25 *Schools have no plan to use the surpluses.* Audit observed that the 18 schools did not have specific plans on how to use the unspent surplus funds. They placed the funds in banks' non-interest bearing current accounts or low-interest fixed deposit accounts. The idle cash does not represent efficient use of resources.

2.26 *Overseas practice of retaining surpluses.* Audit noted that in the UK, schools receiving government grants may carry from one financial year to the next any unspent balance of the total grant up to a limit of 2% of the grant relating to direct administrative costs, and 10% of the grant relating to the balance of the total grant. Any unspent balance in excess of the above limits shall be taken into account in the payment of the following year's total grant. The current level of surplus (i.e. equivalent to 12 months' cover) that Hong Kong primary schools are allowed to retain appears to exceed the actual needs of the schools.

2.27 Audit estimated that, if all aided and government primary schools were allowed to retain surplus funds equivalent to only three months' provision (or 25% of the annual provision) of the OEBG/SCBG, some \$88 million could be clawed back by the ED (see Appendix B). The clawed-back funds could be put into other beneficial educational uses by the ED.

Audit recommendations on surplus funds retained by schools

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

- (a) **conduct a review to ascertain whether the level of surplus funds of the OEBG/SCBG that schools are allowed to retain is excessive, having regard to their operating needs;**
- (b) **request schools to plan the optimum use of the surplus funds retained by them, as part of their annual school planning process; and**
- (c) **consider clawing back part of the surplus funds retained by schools and use them for other educational purposes.**

Response from the Administration

2.29 The **Director of Education** generally agrees with Audit's recommendations. He has said that:

- (a) while there were schools with significant surplus, there were also schools with overall deficit or a rather low surplus;
- (b) apart from meeting daily operational costs, as the OEBG/SCBG permit virement of funds within the General Domain, a larger reserve facilitates schools in their decision-making and planning for improvement. The ED will step up measures to help schools make longer-term plans so that pupils can benefit from this OEBG/SCBG feature; and
- (c) as the OEBG/SCBG have been implemented since 2000, the spending pattern of schools may not have been truly reflected (for example, it was likely that the CEG was not used up during the school year 2000-01). Schools need to learn through practices to reap the benefit of the OEBG/SCBG. The ED will review the need for allowing schools to keep a reserve of 12 months' provision at a later stage.

Provision of electricity charges

2.30 In reviewing the accounts and ledgers of schools, Audit noted that there were irregularities in the electricity charges of a government school (i.e. School C). Details are shown in paragraphs 2.31 to 2.35 below.

2.31 Audit’s examination of the school’s records revealed that in September 2000, the government school sought the approval of the ED to provide funding to meet the recurrent electricity cost. The school estimated the annual electricity cost to be \$650,000. In April 2001, the ED approved an allocation of \$648,800 to the school to meet the electricity cost for the financial year 2001-02. In its approval, the ED reminded the school that it would be responsible for the proper management and effective utilisation of funds under its purview. The ED also allowed the school to transfer any surplus funds provided for the electricity charges to meet the costs of other expenditure items within the same expenditure subhead, such as expenses on stationery, stores and equipment, repair and maintenance, and other incidental office expenses.

2.32 In the financial year 2001-02, the school only incurred electricity charges of about \$288,000 which accounted for 44% of the approved allocation of \$648,800. To make full use of the approved allocation, the school transferred some of the surplus funds to meet the costs of the following expenditure items within the same subhead:

	(\$)
Stores and equipment	170,000
Office stationery	32,000
Repair and maintenance	20,000
Other incidental office expenses	30,000
	252,000
	252,000

Audit noted that, of the \$170,000 transferred to cover the expenses on stores and equipment, an amount of \$67,000 had been spent for meeting the costs of wall pictures (Photograph 1 on the centre pages shows some of the wall pictures).

2.33 For the 2002-03 financial year, the school obtained from the ED an allocation of \$609,900 for paying electricity charges.

Audit observations on provision of electricity charges

2.34 In September 2000, the school sought funding from the ED to meet the electricity cost for the financial year 2001-02. The ED approved an allocation of \$648,800 which later turned out to be much greater than the actual cost of \$288,000. Although the school was aware that it had substantial savings in the funds provided for electricity charges, it did not take the initiative to pay

back the surplus funds to the ED. Instead, it transferred some of the surplus funds to meet the costs of other expenditure items.

2.35 For the financial year 2002-03, the ED approved an allocation of \$609,900 for electricity charges to the school, despite the fact that the actual cost for the school was only \$288,000 for 2001-02.

Audit recommendations on provision of electricity charges

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

- (a) **take action to claw back from School C the surplus funds provided for electricity charges;**
- (b) **identify whether there are other schools that have been substantially over-provided with funds for paying electricity charges, and take action to claw back such funds; and**
- (c) **critically examine the basis on which electricity charges of schools are assessed and ensure appropriate levels of funding are allocated to schools.**

Response from the Administration

2.37 The **Director of Education** generally agrees with Audit's recommendations. He has said that:

- (a) the school in question is the first of its kind of government primary schools which was built by using the Year 2000 Design. No reference could therefore be drawn from other government primary schools on the consumption of electricity when preparing the school's estimates;
- (b) the ED has taken action to withdraw the surplus funds from the school and adjusted the relevant estimates accordingly; and
- (c) the principal and the SMC have the responsibility to oversee the virement of funds in a government school and to ensure that the virement is properly exercised for meeting the

school's need under the spirit of SBM. The ED will remind all SMCs of government schools of the need to exercise tight control on resource deployment/expenditure items.

Provision of IT equipment to schools

2.38 In 2000, to support the implementation of IT in schools, the ED provided schools with projectors to meet the basic IT needs in education. Three projectors were provided to each school. Each projector cost \$18,980.

2.39 Of the 18 schools visited, Audit noted that one school (School Q) had a very low enrolment record in the past decade. In 2000, the school had an enrolment of only ten students, but the ED still gave it three projectors. When Audit visited the school in February 2002 (i.e. almost two years later), Audit observed that only one projector was installed in the computer room for teaching purposes. The other two projectors were still left unpacked. Photograph 2 on the centre pages shows such a situation.

2.40 On the other hand, Audit noted that another school (School K) had an enrolment of over 1,000 students when the three projectors were provided. The three projectors were inadequate for meeting the school's need. School K had to acquire four more projectors from its own funds. The school installed one projector each in the library, activity room and computer room. The other four projectors were placed on trolleys and moved to different classrooms when they were required.

Audit observations and recommendations on provision of IT equipment to schools

2.41 The ED's practice of providing three projectors to each school regardless of its actual needs could result in some schools being over-provided with projectors. On the other hand, some schools which had a high enrolment might need more than three projectors.

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

- (a) **review the extent of IT equipment being left idle in schools;**
- (b) **request schools to return surplus IT equipment to the ED for reissue to other schools in need of more of such equipment; and**

- (c) ensure that the quantity of IT equipment issued to schools in future is based on each school's actual need, instead of using the "one size fits all" approach.

Response from the Administration

2.43 The **Director of Education** agrees with Audit's recommendations. He has said that:

- (a) to provide flexibility to schools in promoting IT in education at their own pace, the ED disbursed to all public-sector schools a cash grant in 1999 for purchase of IT equipment (except for projectors). Schools could decide on the number of computers and types of equipment they want to procure in accordance with their needs. The ED later provided to all primary schools three projectors to ensure a more effective delivery of teaching and learning activities through IT. The number of projectors provided was determined after collecting views from schools that three would be the minimum number of projectors required. Schools may make use of the IT grant disbursed earlier to buy additional projectors that they require;
- (b) the ED understands that it is important to ensure IT equipment in schools is put to right use. In the course of conducting site visits on IT in education, the ED officers will examine whether the schools have made the best use of IT facilities and advise them how the facilities can be better used for teaching and learning purpose. Schools may also seek advice from the ED anytime on usage of IT equipment;
- (c) the ED will ask all schools to report in summer 2003 what IT facilities have been purchased and the usage of these facilities. Any unexpended balance of the IT grant will be clawed back from schools. For the schools mentioned in the audit review, the ED is following up with them to see how the IT equipment could be put to better use. For similar small-size schools, the ED will follow up with them accordingly. If the ED notes that the schools have no plans to fully utilise the projectors provided, the ED will ask them to return the equipment to the ED; and
- (d) the ED fully agrees that the quantity of IT equipment issued to schools in future should be based on each school's actual need, instead of using the "one size fits all" approach.

External audit arrangements

2.44 Under the CAPS, the accounts of aided primary schools are required to be audited by qualified external auditors. The ED relies on these external auditors to provide assurance on aided

schools' accounting systems and internal controls. The ED has provided guidelines for the external auditors to follow when auditing the school accounts. The following are some of these guidelines:

- (a) the external auditors have to satisfy themselves that the schools have complied with the requirements specified in the provisions of the CAPS and the relevant letters, circulars and guidelines issued to aided primary schools by the ED;
- (b) in respect of all grant accounts, the external auditors are required to ascertain the correct surplus balances;
- (c) in their reports, the external auditors should state whether in their opinion:
 - (i) the accounts comply with the accounting requirements of the CAPS, as amplified by instructions and notes for the guidance of auditors issued by the Director of Education from time to time;
 - (ii) the schools have used the government subventions in accordance with the rules and ambit as promulgated in the CAPS, circulars and guidelines issued by the ED from time to time; and
 - (iii) the accounts give a true and fair view of the state of the school's affairs at the year end and of its results for the year; and
- (d) should the external auditors discover weaknesses in the internal control system of schools during the course of their audit, they are required to draw the attention of the school supervisors to these weaknesses and report items which are considered material in a letter with recommendations for improvement. A copy of such letter should be sent to the ED for reference and action as appropriate.

Audit observations on external audit arrangements

2.45 Of the 18 schools visited by Audit, there are 16 aided schools. Audit examined the external audit arrangements of these 16 schools in the school year 2000-01. The audit observations are detailed in paragraphs 2.46 to 2.51 below.

2.46 ***Appointment of external auditors.*** Audit enquired how the 16 aided schools selected their external auditors. Most of the schools told Audit that the existing external auditors had been appointed for many years and their appointment had not been subject to any selection process, though some of them would negotiate the audit fees with the auditors. Audit considers that there is room for the aided schools to obtain better value from their external audit services by adopting the competitive process of tendering or obtaining quotations, i.e. by inviting audit firms to submit tenders or quotations and selecting them according to pre-determined criteria. The criteria may include the following:

- (a) relevant experience, particularly that of the staff who would undertake the audit;
- (b) other services the auditors can provide;
- (c) cost for the audit services; and
- (d) potential conflict of interest such as business relations with the SMC members and staff of the school.

2.47 ***Letters of engagement.*** According to the Statement of Auditing Standards No. 140 on Engagement Letters issued by the Hong Kong Society of Accountants, the auditor and the client should agree on the terms of the engagement, which should be recorded in an audit engagement letter or other form of written contract. It is in the interest of both the client and auditor that the auditor sends an audit engagement letter, preferably before the commencement of the engagement. The engagement letter documents and confirms the auditor's acceptance of the appointment, the objective and scope of the audit, the extent of the auditor's responsibilities to the client and the form of any reports.

2.48 Audit asked the 16 aided schools whether they had agreed with their external auditors on the terms of engagement by means of audit engagement letters. The principals of most of the schools informed Audit that there was no such arrangement. To protect the interests of both parties and in line with the best auditing practice, the schools and their auditors should agree on the terms of engagement and record them in an engagement letter.

2.49 ***Fulfilment of ED's requirements.*** As stated in paragraph 2.44(b) above, the schools' external auditors have to ensure that the surplus balances were correct in respect of all grant accounts. However, Audit noted that there were errors in respect of the surplus balances in the audited accounts. Examples of these errors are illustrated below.

**Errors in grant accounts
certified by schools' external auditors**

Capacity Enhancement Grant. In School L's audited accounts, the CEG of \$450,000 and the related expenditure were erroneously shown under the Salaries Grant Account as "Teaching Supporting Staff", instead of under the CEG Account. As a result, the surplus balance of the Salaries Grant Account was overstated, while that of the CEG Account was understated.

Noise Abatement Grant. In another school (School N) which received a noise abatement measures recurrent subsidy of \$265,380, Audit noted that no expenditure items were shown under this account in the audited accounts. The school's ledger indicated that there were in fact expenditure items related to the account, but they were wrongly charged to other grant accounts.

Source: Schools' records

2.50 The above two examples indicated that the external auditors had not fulfilled the ED's requirement that they should ascertain the correct surplus fund balances in respect of all grant accounts (see para. 2.44(b) above).

2.51 Furthermore, although the ED has laid down the reporting requirements (see para. 2.44(c) above) for the external auditors of aided schools to follow, not all the 16 aided schools visited by Audit fully met the requirements. For example, the external auditors were required to state in their reports whether, in their opinion, the schools had used the government subventions in accordance with the rules and ambits as promulgated in the CAPS, circulars and guidelines issued by the ED from time to time. However, the external auditors of six aided schools had not complied with this requirement.

Audit recommendations on external audit arrangements

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

- (a) **require aided schools to invite audit firms to submit tenders or quotations for appointment as external auditors and to select them according to pre-determined criteria. The competitive selection process should be conducted periodically (say every three years) so as to provide an assurance that value for money is obtained;**

- (b) **request aided schools to agree with their external auditors on the terms of audit engagement, which should be recorded in an audit engagement letter; and**
- (c) **conduct test checks of the certified accounts of schools to ensure that the external auditors have complied with all the ED's requirements.**

Response from the Administration

2.53 The **Director of Education** generally agrees with Audit's recommendations. He has said that:

- (a) the ED will require aided schools to invite audit firms to submit tenders or quotations for appointment as external auditors and to select them according to pre-determined criteria;
- (b) the ED has already brought out the concept of engagement letter during its inspection of aided schools. In particular, in the ED's Internal Control Questionnaires to be completed by schools, the ED has included a question as to whether the school's external auditor has issued an audit engagement letter to the school upon appointment. As part of the ongoing financial management training for the school sector, the ED will enhance the awareness of aided schools of the importance of obtaining an audit engagement letter from external auditors and of the matters to be included in the audit engagement letter. The ED will continue to promulgate the reporting requirements for the external auditors to follow when auditing the school accounts. Schools are required to incorporate the ED's reporting requirements as an integral part of their engagement letters with the external auditors. The external auditors will then provide their certifications with reference to these requirements; and
- (c) the ED will conduct independent test checks to satisfy itself that its requirements have been complied with.

PART 3: HUMAN RESOURCE MANAGEMENT

3.1 This PART examines the practice of human resource management in primary schools.

Recruitment of teaching staff

Open selection and selection panel

3.2 According to the various ED's documents on recruitment, schools should advertise vacancies of teaching posts in the press to ensure fairness and transparency in conducting recruitment exercises. Furthermore, to ensure that recruitment decisions are made objectively, interviewing of applicants should be conducted by a panel comprising the following members:

- (a) an SMC member other than the principal;
- (b) the principal; and
- (c) a senior teacher of the respective subject.

To facilitate a decision by votes, there should be an odd number of members on the panel.

3.3 Audit reviewed the recruitment procedures for teaching staff of the 18 schools (visited by audit staff) in the 2000-01 and 2001-02 school years. Audit noted that in one school (School Q), the requirements in paragraph 3.2 above had not been completely followed. An example of the recruitment process of this school is given below.

Recruitment process of a school (School Q)

In the school year 2000-01, the school needed to recruit two part-time teachers, one of them was needed to enhance the Chinese and English language proficiency of Primary One to Primary Six students. The other teacher was to be responsible for coordinating IT matters and teaching IT. Without placing an advertisement in the press and forming a selection panel, the school, based on the personal knowledge of the principal, recruited two teachers. Each of the two teachers was required to work two days per week with a monthly salary of \$9,000.

Source: School's records

3.4 Audit also noted that in another seven schools, while they had advertised their vacancies of teaching staff in the press, interviewing of applicants was either conducted by the principal together with senior teachers, or by senior teachers followed by the principal. Members of the SMC were not involved in the interviews. This was not in compliance with the SAG that interviews should be conducted by a selection panel including an SMC member to ensure transparency and fairness of the recruitment process. In the case mentioned in paragraph 3.3 above, there is no assurance that the two part-time teachers were the most suitable candidates.

Documentation of assessment of applicants

3.5 According to the SAG, selection exercises should be properly documented. Schools should record clearly on an assessment form the deliberations of the selection panel and reasons for recommending or not recommending applicants. The assessment records of the selection panel should be retained by schools for future reference.

3.6 Audit noted that nine schools did not prepare proper assessment records of the selection interviews. These nine schools did not document the selection criteria and/or the assessment of applicants. The following is an example.

Failure of a school to document the assessment of applicants (School R)

The school needed to recruit four teachers for the 2001-02 school year. The interviews were conducted by a member of the SMC, the school supervisor, the principal and two senior teachers. However, the school did not have any record of the selection criteria, or any records of the interviews conducted and the assessment of the applicants.

Source: School's records

3.7 Audit considers that it is essential for schools to prepare proper assessment records, including selection criteria and the relative merits of individual applicants. The records will ensure that the selection of candidates has been conducted on a fair and open basis and that the most suitable candidates have been appointed.

Approval of appointment of teaching staff

3.8 The SAG requires schools to observe Regulation 76 of the Education Regulations (Cap. 279A), which stipulates that the appointment and dismissal of any member of the teaching staff of any school shall be determined by a majority of vote of all the members of that school's SMC.

3.9 Audit noted that ten schools did not seek approval from their SMCs regarding the appointment of applicants. The selection panels or the principals decided on the appointment of applicants. Sometimes, the selection panels or the principals informed the members of the SMC at a meeting that new teachers had been appointed, but formal approval from the SMC regarding the appointment of new teachers was not sought in the recruitment process. The practice of offering appointment directly to applicants without the prior approval of the SMC was in contravention of Regulation 76 of the Education Regulations.

Audit recommendations on recruitment of teaching staff

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

- (a) **ensure that schools set up a proper recruitment system which includes open selection procedures, the establishment of a selection panel (which should include an SMC member other than the principal, the principal and a senior subject teacher), and the documentation of the recruitment criteria and assessment of candidates;**
- (b) **ask schools to follow the requirement that the appointment of teaching staff should be determined by a majority vote of all members of the SMC as required by the SAG and the Education Regulations; and**
- (c) **conduct test checks to ensure that the recruitment procedures of schools are conducted properly.**

Response from the Administration

3.11 The **Director of Education** generally agrees with Audit's recommendations. He has said that:

- (a) under the SBM, schools are under a more open, accountable and participatory school management structure, involving key stakeholders such as parents, teachers and community members. They are accountable for their decisions/actions if they fail to observe the relevant guidelines and are subject to public query. Apart from public pressure, schools will be subject to the ED's query in response to recruitment complaints received by the ED. Furthermore, the ED provides advice and requires rectification by schools if the ED detects recruitment irregularities in its contacts with schools; and
- (b) supervisors of aided schools are required to confirm to the ED appointments of teachers and non-teaching staff paid out of the Salaries Grant by completing and returning specific appointment forms to the ED. The ED will revise the relevant appointment forms to

require supervisors to declare that the schools have followed the ED's guidelines of adopting an open, fair and competitive appointment system.

Scheduling of school holidays

3.12 According to the SAG and the Civil Service Regulations (applicable to the staff of government schools), teachers are entitled to school holidays subject to there being no operational needs. They are not entitled to any other vacation leave. The ED allows schools to have 90 days of school holidays in a school year. Subject to the approval of the ED, schools could determine how the 90 days of school holidays are to be allocated throughout the school year. However, it is a common practice for schools to reserve a majority of the school holidays during the summer months. Table 3 below shows, as an example, the distribution of school holidays in a school (School A) visited by Audit.

Table 3
Distribution of school holidays in a school for the 2001-02 school year
(School A)

Month	Number of days of school holidays	
September 2001	-	} 37 days of holidays during school terms
October	4	
November	1	
December	8	
January 2002	2	
February	10	
March	3	
April	5	
May	3	
June	1	
July	22	} 53 days of summer holidays
August	31	
Total	90	

Source: School's records

As can be seen from Table 3 above, the school allocated 53 days (59%) of school holidays to the summer months of July and August, leaving only 37 (41%) school holidays for the rest of the school year. Other schools have adopted a similar distribution of school holidays.

3.13 Audit reviewed the attendance records for teachers in the 18 schools visited. The attendance records indicated that teachers generally did not have much workload during the summer holidays.

Audit observations and recommendation on scheduling of school holidays

3.14 Some of the 18 school principals informed Audit that it would be desirable to distribute school holidays more evenly throughout the school year by shortening the summer holidays and lengthening the duration of other school term breaks. Teaching was an interactive process that needed continuous fine-tuning and adjustments having regard to students' response and progress. Teachers had to evaluate the teaching work carried out in a previous school term and to plan ahead the teaching work for the next school term. However, as many teachers had heavy workload, they did not have enough time to make such fine-tuning and adjustments. The principals opined that, by shortening the summer holidays and lengthening other school term breaks, teachers could make use of the longer term breaks to evaluate and plan ahead their teaching, while they would have shorter idle time in the summer. However, the school principals felt that the ED would normally not allow significant rescheduling of school holidays.

3.15 Audit considers that there are merits in the proposed arrangement of rescheduling the school holidays. **Audit has recommended that the Director of Education should urge schools to review the need for distributing the school holidays more evenly throughout the year (by lengthening the school term breaks and shortening the summer holidays) to suit their teaching needs.**

Response from the Administration

3.16 The **Director of Education** accepts Audit's recommendation and has said that he will review the distribution of school holidays throughout the school year.

Arrangements for stepping down of senior teachers

3.17 According to the CAPS, a bi-sessional school is entitled to one senior teacher for every four classes run by the school, and a whole-day school is entitled to one senior teacher for every three classes run. If a school reduces its number of operating classes, it also needs to bring down the number of senior teachers to maintain the senior teacher-to-class ratio. Senior teachers in excess of the school's entitlement have to step down to the junior post of class teacher and to perform the duties of a class teacher.

3.18 Stepping down to a junior post does not necessarily mean that the teacher will receive a reduced salary. Subject to the ED's approval, a stepped-down senior teacher retains the senior teacher salary, but the situation will have to be rectified whenever an opportunity arises. In cases where the school's sponsoring body operates more than one school, the sponsoring body should transfer such a stepped-down senior teacher to another school to fill an available senior teacher vacancy.

3.19 According to the ED's records, in the 1999-2000 school year (the ED's latest records were up to 1999-2000 only), a total of 24 teachers had stepped down from their senior teacher posts to class teachers and were receiving the senior teacher salary. One of these 24 teachers was teaching in a school visited by Audit, as shown in the case below.

**Stepping down of a senior teacher to class teacher in a school
(School Q)**

In 1989, the school suffered a reduction in the number of operating classes. In order to maintain the senior teacher-to-class ratio pursuant to the CAPS, a senior teacher (Teacher A) was required to step down to class teacher, and to perform the duties of a class teacher. Upon receiving the ED's approval, Teacher A continued to receive the senior teacher salary and was also given salary increments of the senior teacher salary scale. Three years later, in 1992, there was a vacancy of senior teacher in the school. Teacher A was reinstated to the senior teacher post. In the school year 1999-2000, the school experienced a further reduction in the number of operating classes. Teacher A was again required to step down to class teacher. As before, he was remunerated as a senior teacher while performing the duties of a class teacher. In the 2001-02 school year, Teacher A was receiving the maximum salary of a senior teacher of about \$475,000 a year.

Source: School's records

**Audit observations and recommendations on
arrangements for stepping down of senior teachers**

3.20 As can be seen from the case above, despite the fact that the senior teacher had been performing a class teacher's duties after stepping down to a junior post, he was still given the salary increments of the senior teacher salary scale. Audit considers that this arrangement is unsatisfactory as the senior teacher did not perform the duties commensurate with his salary. The ED needs to take action to help stepped-down senior teachers transfer to other schools that have suitable vacancies. The ED could also consider allowing such a teacher to retain the senior teacher

salary on the condition that the salary increments are suspended until the time he performs the duties of a senior teacher.

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

- (a) **take action to facilitate the transfer of senior teachers who are required to step down to other schools that have suitable vacancies; and**
- (b) **consider allowing a teacher who is required to step down to retain the senior teacher salary on the condition that his salary increments are suspended until he fully performs the duties of a senior teacher.**

Response from the Administration

3.22 The **Director of Education** generally agrees with Audit's recommendations. He has said that excess senior teachers in an aided primary school are transferred to another aided primary school with senior teacher vacancies under the same sponsoring body which operates more than one aided primary schools. The ED welcomes Audit's recommendation of suspending the salary increment of stepped-down senior teachers. The ED will withhold the annual increment of these teachers starting from the 2003-04 school year.

Management of janitor staff

Outsourcing of work undertaken by janitor staff

3.23 According to the CAPS (for aided schools) and the ED's circulars (for government schools), the establishment of janitor staff in a school is calculated according to the number of classes/classrooms and the number of special-purpose rooms that are in operation at the school premises. Examples of special-purpose rooms are art/craft room, music room, school library, computer-assisted learning room and language room.

3.24 In calculating the approved establishment, the ED will provide a school (bi-sessional or whole-day) one janitor for every four classes/classrooms/special-purpose rooms in operation. For a **bi-sessional government** school, the ED will allow one more janitor. For a **bi-sessional aided** school that also operates in the afternoon, the ED will allow one more janitor for every eight classes/special-purpose rooms in operation.

3.25 Instead of employing janitor staff, schools have the option of outsourcing the janitor services. The aim is to allow greater flexibility for schools in managing their own resources, as any money saved from outsourcing can be used by schools for other purposes.

Photograph 1

**Wall pictures in School C
(para. 2.32 refers)**



Source: Photograph taken by Audit in May 2002

Photograph 2

**Projectors left unpacked for two years in a school
(School Q)
(para. 2.39 refers)**



Source: Photograph taken by Audit in February 2002

Photograph 3

**Wooden racks made by a janitor of School N
(Example 1 in para. 3.29 refers)**



Source: Photograph taken by Audit in February 2002

Photograph 4

**Tuckshop in School N
(para. 5.24 refers)**



Source: Photograph taken by Audit in February 2002

3.26 Of the 18 schools visited, Audit noted that only one school had outsourced the janitor services, as shown below.

**Outsourcing of janitor services in a school
(School C)**

The school is a whole-day school with 30 classrooms and eight special-purpose rooms. According to the approved establishment, the school had ten janitors. In the 2001-02 school year, the school outsourced the janitor services by inviting tenders from service providers. The school awarded the janitor services to a service company at \$384,000 a year.

The service company stationed five workers in the school to perform daily cleaning work for the entire school premises (including the 30 classrooms and eight special-purpose rooms) with the exception of the principal's room, staff room and school office. The cleaning work in these three places was the responsibility of the school's janitor staff. Apart from performing cleaning duties, the five workers were also responsible for other routine work such as:

- (a) locking doors and windows after school;*
- (b) watering flowers and plants and simple gardening;*
- (c) assisting in school activities such as decorating;*
- (d) transporting furniture within the school; and*
- (e) replacing distilled water containers.*

Subsequent to outsourcing part of the janitor services, the school reduced the number of janitor staff from ten to six. The school required the remaining six janitors to share the following duties which had not been outsourced:

- (a) cleaning the principal's room, staff room and school office;*
- (b) serving tea to teachers;*
- (c) delivering student exercise books and documents;*
- (d) manning the school entrance; and*
- (e) controlling traffic.*

The principal of the school reported to the ED that the outsourcing exercise saved the school some \$104,000 in the 2001-02 school year. The principal also informed Audit that he was very satisfied with the work of the service company.

Source: School's records

3.27 As indicated in the above case, School C achieved a saving of some \$104,000 (i.e. the difference between the costs of in-house staff and outsourcing) in 2001-02 by outsourcing part of the janitor services in the school. Audit considers that schools should consider the costs and benefits of outsourcing their janitor services. Audit estimates that if all aided and government primary schools outsourced part of their janitor services, annual savings of some \$100 million (see Appendix C) could be achieved to be used for other educational purposes. These savings would be realisable in the longer term because the existing staffing structure for janitors cannot be changed completely in the short term.

Value-added services

3.28 The ED has not specified the duties of janitor staff. Schools therefore are free to deploy janitor staff to perform duties according to the school's specific needs. In the 18 schools visited by Audit, janitor staff were usually required to conduct cleaning work and other caretaker duties.

3.29 Of the 18 schools visited, Audit noted that there were two schools which took the initiative to enhance the value of their janitor staff. The practices in these two schools are good examples for other schools to follow.

Schools' initiatives to enhance the value of their janitor staff

Example 1

Carpentry and maintenance work performed by a janitor (School N)

While the ED does not require schools to appoint janitor staff with technical skills, the school took the initiative of recruiting a craftsman as janitor at a salary of \$8,500 a month. The principal informed Audit that the janitor is a qualified electrician and possesses carpentry skills. As such, apart from carrying out the normal duties of janitor staff, he also helped perform minor repair and maintenance work. The janitor also made some wooden racks for holding students' exercise books in classrooms. Photograph 3 on the centre pages shows the wooden racks made by him.

Source: School's records

Example 2

Refurbishment performed by a janitor (School F)

The school planned to refurbish the commemorative plaques mounted on the walls inside the school. The school obtained a quotation of some \$20,000 for the job. In order to economise on school expenditure, with the agreement of two janitors, the school took the initiative of assigning the job to them. In appreciation of their effort, the school gave each janitor a small cash award. The school therefore saved some \$19,000.

Source: School's records

3.30 Audit considers that more schools should consider appointing janitor staff who have additional job skills (e.g. carrying out minor repairs and simple painting jobs). Schools should also provide appropriate training to their janitor staff to enrich their job skills so as to enhance their value to schools.

Audit recommendations on management of janitor staff

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

- (a) **ask schools to assess the costs and benefits of outsourcing their janitor services; and**
- (b) **encourage schools to take the initiative of recruiting janitor staff who possess additional job skills (such as carrying out minor repairs and simple painting jobs), and to provide appropriate training to janitors to enrich their job skills.**

Response from the Administration

3.32 The **Director of Education** generally agrees with Audit's recommendations. He has said that:

- (a) the ED sees the benefits of outsourcing and will encourage schools to assess the costs and benefits of outsourcing their janitor services. Schools are well aware of the funding flexibility granted to them under the Funding Flexibility Scheme (for government schools) and the Administration Grant/Revised Administration Grant (for aided schools), which allow outsourcing of janitor service;
- (b) the estimated annual saving of \$100 million is calculated on the assumption that all schools would outsource part of their janitor service despite the fact that outsourcing by all schools would only be possible in the longer term; and
- (c) the ED has been encouraging schools to recruit janitor staff with additional job skills and to provide appropriate training to janitors to enrich their job skills. Moreover, the ED will suggest to schools that they review the duties of janitors to identify areas where the janitors can be of further assistance so as to achieve a better utilisation of resources.

PART 4: PROCUREMENT PROCEDURES AND ASSET MANAGEMENT

4.1 This PART examines the procurement procedures and asset management of schools to see whether they have achieved value for money.

Procurement of goods and services

4.2 Aided and government primary schools incurred a non-recurrent expenditure of around \$252 million a year on procurement of goods and services (Note 2). According to the ED's guidelines, schools are required to observe the following principles in the procurement of goods and services:

- (a) all procurement must be conducted on a fair and competitive basis;
- (b) the lowest offer which meets specifications should be accepted as a general rule, except where there are good reasons to the contrary; and
- (c) proper records of the quotations and tenders must be available for inspection, including the reasons for cases where the lowest offer is rejected.

4.3 The ED has also set guidelines on tendering and procurement for schools. These guidelines include the following:

- (a) single purchase above \$50,000 has to be arranged by tender. Tenders from \$50,001 up to \$120,000 have to be approved by a committee comprising at least two staff members and headed by the principal. Tenders over \$120,000 have to be approved by a committee comprising the school supervisor/manager, the school principal, a teacher and a representative of the Parent-Teacher Association (PTA) if appropriate; and
- (b) purchases in the range of \$30,000 to \$50,000 should be arranged through written quotations and those below \$30,000 through oral quotations. In either case, a minimum of two quotations have to be obtained. A Purchase-by-Quotation Form (which details the quotations obtained and the recommendations made) should be submitted to the school

Note 2: *The ED did not have a breakdown of schools' recurrent expenditure on procurement of goods and services.*

principal for approval. If the lowest quotation is not selected, the staff responsible for the procurement should record in the Form why it is not chosen.

4.4 Audit examined the procurement arrangements of the 18 schools visited. Audit noted that ten schools had established procurement procedures for goods and services and had generally followed such procedures. In the remaining eight schools, there is scope for improvement in the procurement procedures. Details of audit findings are shown in paragraphs 4.5 to 4.7 below.

Procurement without obtaining quotations

4.5 Three of the 18 schools often procured goods and services without obtaining quotations. They purchased goods and acquired services based on the personal knowledge of the principal or the staff concerned, or when they found that the prices of the supplier's goods were reasonable. Procurement which was not supported by quotations included purchases of school furniture, teaching materials and computer software, and repairs and maintenance of school premises. An example of procurement by a school (School D) without obtaining quotations is shown in Appendix D.

4.6 As mentioned in paragraph 4.3(b) above, at least two oral quotations should be obtained for single purchase below \$30,000. However, six schools had set their own financial limits. For example, a school (School N) required oral quotations only when the purchase was over \$10,000.

Quotations not properly recorded

4.7 According to the ED's guidelines in paragraph 4.3(b) above, in obtaining procurement quotations, schools should complete a Purchase-by-Quotation Form to record the quotations obtained and the recommendations made. In examining schools' procurement quotations, three schools informed Audit that they had obtained quotations. However, when Audit requested to see the relevant Purchase-by-Quotation Forms or other documentation, none could be produced. Failure to document the quotations meant that the SAG had not been followed. A case of non-compliance (School Q) is shown in Appendix D.

Audit observations and recommendations on procurement of goods and services

4.8 Some of the schools might not have secured the best available price for the procurement of goods and services using public funds. Without obtaining quotations, there is a risk that the procurement may not be conducted on a fair and competitive basis. Audit considers that schools should obtain adequate quotations so as to ensure that the goods and services procured represent

good value for money. The quotations obtained and the reasons for not accepting the lowest quotation should be properly documented, so as to ensure that public money is used with due regard to economy.

4.9 **Audit has recommended that the Director of Education should remind schools to:**

- (a) **obtain the best available price when making procurement of goods and services;**
- (b) **follow the guidelines of the ED that quotations should be obtained from different suppliers, unless it is impracticable to do so. In such circumstances, the reasons for not doing so should be recorded;**
- (c) **properly document the quotations obtained so as to demonstrate that the procurement has been made on a fair and competitive basis; and**
- (d) **comply with the financial limits set by the ED in procuring goods and services.**

Response from the Administration

4.10 The **Director of Education** accepts Audit's recommendations. He has said that the ED will conduct briefing sessions for schools on the procurement of goods and services.

Procurement services for students and parents

4.11 During school visits, Audit noted that schools sometimes provided procurement services for students and parents. For instance, schools identified suppliers of school uniforms and recommended them to students and parents, who could make purchases directly from them. In some cases, such as supply of school bus service, lunch boxes and exercise books, some schools directly made the procurement on behalf of students and parents, who paid for the goods and services.

4.12 According to the ED's guidelines, schools should call for quotations/tenders at regular intervals, at least once every three years, for the supply of uniforms, exercise books, etc., and, as a general principle, in respect of purchasing of items and paid services, schools should negotiate prices with suppliers annually.

Audit observations and recommendation on procurement services for students and parents

4.13 Audit noted that, of the 18 schools visited by Audit, three schools acquired goods and services for students and parents through competitive tendering and quotations to secure value for money and safeguard the interests of students/parents. However, 15 schools did not adopt the process of competitive tendering or quotations. For the delivery of some goods and services, the schools only identified one supplier and recommended it to students/parents. In some cases, the single suppliers selected by the schools had been providing the goods or services for many years, without any competitive bidding or open tendering exercises. There is a risk that the goods and services procured in such a way might not have provided the best value for money.

4.14 **Audit has recommended that the Director of Education should require all schools, in providing procurement services for students and parents, to follow the practice of obtaining competitive tenders and quotations, so as to obtain the best available prices and safeguard the interests of students and parents.**

Response from the Administration

4.15 The **Director of Education** agrees with Audit's recommendation. He has said that the requirement that schools should obtain competitive tenders and quotations in providing procurement services for students and parents will be emphasised in the ED's revised circular on the subject to be issued shortly.

Letting out of school premises

4.16 The ED allows aided and government schools to let out their school premises. According to the SAG and the ED's circulars, as these schools are maintained by public funds, the hiring of school accommodation should be taken as a service to the community to foster better cooperation between schools and the community. However, the nature and purpose of the activities organised by the hirers should be carefully examined by schools. It is not desirable to let out school premises for activities not connected with education, recreation or community services. The activities of the hirers should also not hinder normal school activities. Furthermore, no organisation should make use of the school premises without being charged. According to the ED's schedule of charges for hiring accommodation, the recommended charges for hiring accommodation to profit-making organisations ranged from \$117 per hour for a classroom to \$300 per hour for the school hall. In the case of hiring by non-profit-making organisations, depending on the nature of the organisation and their activities, the hiring charges may be waived or reduced by half.

4.17 Audit noted that of the 18 schools visited, ten schools had not let out their premises in the past three years. Of these ten schools, two schools did not let out their premises despite the fact that applications were received from charitable and community service organisations. An examination of the schools' records indicated that these two schools did not have proper justifications for not letting out their premises. Paragraph 4.18 below gives such an example.

4.18 *A school did not let out its premises to a community service organisation.* In 2001, the Auxiliary Medical Service made an application to School D to use its playground and two classrooms for training purposes on every alternate Sunday for a period of nine months. The school's reasons for rejecting the application included the following:

- (a) the school did not have any idea how the hiring should be charged (despite the ED's suggested schedule of charges — see para. 4.16 above);
- (b) the school feared that once the premises were let out, it would be difficult to terminate the letting; and
- (c) the school had to arrange staff to do cleansing work.

4.19 *A school let out its premises free of charge.* On the other hand, Audit noted that a school (School R) allowed a private organisation to use its school premises free of charge. In the past few years, the organisation had applied to the school to set up a performing stage for three to four days at the school's playground to celebrate the festival of Tin Hau. The organisation also wished to hire the school's music room for storage purposes. The organisation's activities included dragon dance, Chinese opera, singing and dancing performance, worshipping and banquets. Every year, some members of the school's SMC and the principal objected to letting out the playground to the organisation. They considered that the organisation's activities would hinder normal school activities because the playground and music room could not be used by students during the letting out period. They also considered that the activities would bring nuisances to the public and that based on past experience, some of the performances were considered not entirely decent. Nevertheless, the SMC approved the letting out every year. Consequently, the school playground had been let to the organisation in the past few years. However, the organisation was never asked to pay any charges notwithstanding that it was not a non-profit-making organisation.

Audit observations and recommendations on letting out of school premises

4.20 Of the 18 schools visited by Audit, many schools did not let out their school premises. In some cases, the applications for hiring of accommodation from charitable and community service

organisations were rejected without proper justifications. This is not in line with the ED's guidelines which state that the hiring of school accommodation should be taken as a community service to foster better cooperation between schools and the community. Furthermore, the income generated could be used for educational activities of the schools.

4.21 On the other hand, Audit noted a school had allowed a private organisation to use its premises free of charge even though the organisation's activities were considered to hinder normal school activities. This is not in compliance with the ED's guidelines in paragraph 4.16 above.

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

- (a) **encourage schools to make good use of the school premises by letting them out to organisations for educational, recreational or community services, provided that normal school activities are not affected;**
- (b) **promote the availability of the school premises for hiring to acceptable community organisations so as to make the best use of the school premises; and**
- (c) **remind schools that profit-making organisations are not entitled to using school premises free of charge.**

Response from the Administration

4.23 The **Director of Education** accepts Audit's recommendations. He has said that indeed, government schools take the lead in letting out school accommodation as a service to the community. The ED will request aided schools to take similar action in its next revision of the relevant school circular.

PART 5: MANAGEMENT OF STUDENT MATTERS

5.1 This PART reports matters concerning students at schools and suggests areas where improvements can be made.

Sale of school items

5.2 To safeguard the interests of students, the ED has issued and continually updated a Code of Practice and the ED's circulars relating to the sale of school items (e.g. exercise books, textbooks, uniforms, stationery and equipment). According to these ED documents, where schools are involved directly or indirectly in the sale of school items, they should observe, among other things, the following guidelines:

- (a) each item should be provided at the minimum feasible price;
- (b) the profit from the sale of school items (other than textbooks) should be limited to 15% of the cost price at which they are purchased from suppliers; and
- (c) no profit should normally be generated from the sale of textbooks.

Sale of school items by schools' sponsoring and associated bodies

5.3 During Audit's school visits, Audit noted that of the 18 schools, the sponsoring bodies of nine aided schools and the associated bodies of two aided schools had been selling school items (e.g. art and craft materials) to students. (An associated body is an organisation established by the sponsoring body of a school.) The schools arranged the dispatch of these items to students and reported the sales to the sponsoring or associated bodies.

5.4 Audit reviewed the statement of receipts and payments of the associated body of an aided school for the school year 2000-01 relating to the sale of school items. (Audit was able to examine the statement of receipts and payments of only one associated body because either such statements of accounts were not kept by the schools, or the statements available for audit review did not contain sufficient details.) Based on the information available in the statement, Audit estimated the profitability of some of the school items sold by the associated body of this aided school (School K), as shown in Table 4.

Table 4

**Profitability of school items sold by the associated body of a school
(School K)**

	Textbooks	Art and craft materials	Library cards
	(\$)	(\$)	(\$)
Sales	674,311	125,129	1,820
<i>Less:</i> Cost of sales	611,579	81,073	359
Profit	<u>62,732</u>	<u>44,056</u>	<u>1,461</u>
Percentage of profit on cost of sales	10%	54%	407%

Source: School's records

5.5 Audit also noted from the statement of receipts and payments that the total profit on the sale of school items made by the school's associated body amounted to some \$158,000 in the school year 2000-01. Of this amount, \$43,000 (27%) was retained by the school to be spent on activities for students and staff. The remaining \$115,000 (73%) was given to the associated body.

**Audit observations on sale of school items
by schools' sponsoring and associated bodies**

5.6 In selling school items to students, the ED requires schools to observe the guideline that the profit from the sale of school items should be limited to 15% of the cost price, and that no profit should normally be generated from the sale of textbooks (see para. 5.2 above). However, it can be seen from Table 4 above that School K's associated body has made considerable profits from the sale of school items. It also appears that the prices of these items are higher than those sold in other schools. For example, library cards are provided free of charge to students in some schools. It can also be seen from Table 4 that the associated body of School K has made a profit on the sale of textbooks.

5.7 Audit also observes that School K's sponsoring body, which has established the associated body to sell school items, is operating a group of 55 primary aided schools. The ED needs to find out whether the students in these schools were also paying higher prices for buying school items from this associated body.

5.8 Audit considers that the practice of making profits from selling school items by a school's sponsoring or associated body needs to be critically reviewed. The sale of school items by the school's associated body should be subject to the same conditions as those for the sale of school items by schools in the Code of Practice and circulars issued by the ED.

Audit recommendations on sale of school items by schools' sponsoring and associated bodies

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

- (a) **critically examine the practice of selling school items by schools' sponsoring bodies and associated bodies; and**
- (b) **take action to ensure that no excessive profits are made from the sale of school items by schools' sponsoring and associated bodies.**

Response from the Administration

5.10 The **Director of Education** generally agrees with Audit's recommendations. He has said that aided schools are subject to Regulation 99A of the Education Regulations which stipulates that no supervisor, manager or management committee of a school in receipt of public funds shall, without the prior permission in writing of the Director of Education:

- (a) operate or permit to operate on school premises any business or trading undertaking; or
- (b) enter into any business or trading arrangement, directly or indirectly, with any person for the supply of food, drinks, books, stationery, uniforms or any other thing that is required by such school to be possessed or used by pupils of the school.

So long as activities are subject to Regulation 99A, irrespective of how the activities are conducted (by sponsoring bodies or associated bodies or PTAs, etc.), the requirements as stated in paragraph 5.2 above apply. The ED does not condone any practice that a service provider should derive excessive profits from students. The committee (including parent members), set up by schools to monitor trading activities, takes up this monitoring role. The ED will remind schools of Regulation 99A in a revised circular.

Donations received by schools

5.11 To avoid schools placing themselves in an obligatory position to the textbook publishers, the ED has issued guidelines on accepting donations by schools from textbook publishers. According to the ED's guidelines, schools should not accept any donations or other advantages from textbook publishers, including:

- (a) free teaching aids (e.g. overhead projector, television set and computer hardware);
- (b) cash grants for purchase of equipment or teaching aids; and
- (c) other forms of donations (e.g. scholarships, advertisements for school publications, prizes and funding for school functions).

Where there are compelling reasons to accept donations from textbook publishers, they should be fully justified, documented and approved by the SMC.

5.12 As regards donations from sources other than textbook publishers, the ED also requires that the donations be subject to the SMC's approval. In addition, the ED has provided schools with guidelines on donations from other suppliers. The salient features of these guidelines are that:

- (a) donations are not in any sense a reward for a favour bestowed on an individual student such as admitting him to the school;
- (b) donations should imply no standing commitment to continue to use a supplier or in any way to restrict the freedom of the school or the students to obtain the most effective services at the best possible price; and
- (c) in no circumstances may the supervisor or principal suggest to a supplier of uniforms or other items used by the pupils that, in return for a donation or other favour, a particular supplier will be chosen by the school in preference to others.

Schools are not required to show that there are compelling reasons for accepting donations from sources other than textbook publishers.

5.13 Audit reviewed the acceptance of donations by the 18 schools (visited by Audit) in the past three school years from 1998-99 to 2000-01. The audit observations are detailed in paragraphs 5.14 to 5.17 below.

Audit observations on donations received by schools

5.14 *The donor was also the school's supplier.* Of the 18 schools visited by Audit, 16 schools received donations during the three school years from 1998-99 to 2000-01. Audit's examination of the schools' records revealed that there were cases where some schools had accepted donations from the suppliers of goods or services to these schools. Table 5 below gives examples of donations received by schools from suppliers in the past three school years from 1998-99 to 2000-01.

Table 5

**Examples of donations received by schools
and relationships between the schools and suppliers
(School years 1998-99 to 2000-01)**

School	Nature of donation received by the school	Supplier and donor	Relationship between the school and supplier/donor
D	\$67,000 in cash	A transport company	School bus operator
	\$20,630 in cash	A book seller	School's textbook supplier
	\$7,881 in cash	A stationery supplier	School's exercise books and stationery supplier
K	\$15,000 in cash and a metallic insignia of the school worth \$35,000 for display on its external wall	A textbook publisher	School's textbook supplier
	\$6,000 in cash	A textbook publisher	School's textbook supplier
	An air-conditioner and a religious statue worth \$6,000	A school uniform company	School's student uniforms supplier
	\$12,907 in cash	A book seller	School's library books supplier
L	\$9,000 in cash	A textbook publisher	School's textbook supplier
	\$3,000 in cash	A textbook publisher	School's textbook supplier
	\$7,000 in cash	A textbook publisher	School's textbook supplier

Source: Schools' records

5.15 In all the cases quoted in Table 5, Audit could not find documented evidence to show that the schools had invited tenders or obtained quotations from other suppliers when procuring the goods or services from the suppliers who had made the donations.

5.16 ***Compelling reasons for accepting donations.*** As mentioned in paragraphs 5.11 and 5.12 above, to avoid schools placing themselves in an obligatory position to the textbook publishers, the ED requires schools not to accept any donations from textbook publishers unless there are compelling reasons to do so. In accepting donations from other sources, the ED has not specifically required schools to follow the same principle. Audit observed that in the 16 schools that had received donations during the school years from 1998-99 to 2000-01, the reason “sponsoring students’ activities” was often quoted by the schools in accepting donations from textbook publishers and other suppliers. As an example, of the 40 donations received by School D in the past three years, 38 donations (95%) were accepted for the reason of “sponsoring students’ activities”.

5.17 Based on the audit observations stated in paragraphs 5.14 to 5.16 above, Audit considers that the control on allowing schools to accept donations from suppliers should be tightened.

Audit recommendations on donations received by schools

5.18 **To avoid conflict of interest, the control on acceptance of donations by suppliers to schools should be tightened. Audit has recommended that the Director of Education should:**

- (a) **remind schools that they should not receive donations from textbook publishers unless there are compelling reasons for doing so and the approval of the SMC has been obtained;**
- (b) **require schools which accept donations from textbook publishers to document clearly the compelling reasons for doing so;**
- (c) **extend the ED’s requirement, that schools should not accept donations from textbook publishers unless there are compelling reasons to do so, to all other suppliers; and**
- (d) **test check schools’ records to ensure that the ED’s guidelines on acceptance of donations have been followed by schools.**

Response from the Administration

5.19 The **Director of Education** generally agrees with Audit's recommendations. He has said that:

- (a) audit recommendations as stated in paragraph 5.18(a) and (b) above have already been implemented. Furthermore, the ED will continue to remind schools not to receive donations from textbook publishers, unless there are compelling reasons for doing so and the approval of the SMC has been obtained, through its annual Schools Curriculum Circular (SCC) "Notes on Selection of Textbooks and Learning Materials for Use in Schools". In addition, extracts from the SCC, which include tightening control over donation from publishers, will be distributed to teachers during the seminars for school panel-chairpersons and curriculum leaders;
- (b) for transparency and accountability purposes, schools will be further reminded in the above-referred SCC to maintain a public register of all donations and advantages received showing the donor, item, quantity, reason(s), SMC approval reference and date received. A copy of the register should be made available upon request from parents and the public, or put on the Internet. In the up-coming ED's joint meeting with the two publishers' associations, publishers will be urged not to make any donation to schools to avoid any possible influence on schools' choice of textbooks; and
- (c) the ED accepts the recommendations as mentioned in paragraph 5.18(c) and (d) above and will incorporate them into its revised version of the circular on acceptance of advantages and related matters to be issued shortly.

Tuckshop operations

5.20 The ED encourages schools to run tuckshops to provide a service to students. According to the ED's guidelines, schools should ensure that tuckshops are operated in the interests of the students, and that the prices of items sold in the tuckshops do not exceed the market prices. The ED also requires tuckshop operators to be responsible for the tuckshops' electricity and water charges. Of the 18 schools visited by Audit, nine aided schools had tuckshops. Audit reviewed the tuckshop operations in these nine aided schools. Details of the audit observations are stated in paragraphs 5.21 to 5.29 below.

Tuckshop rentals

5.21 The ED has not laid down any guidelines on rental chargeable to the tuckshop operators. Nevertheless, it is a common practice that schools charge tuckshop operators for operating tuckshops. Audit analysed the rental paid by tuckshop operators in the school year 2000-01 to the nine schools that had tuckshops. Table 6 below shows the results of Audit's analysis.

Table 6

**Rental paid by tuckshop operators to nine schools
in the school year 2000-01**

School	Annual rental paid by tuckshop operator	Number of students served by the tuckshop	Annual rental per student served
	(a)	(b)	(c) = (a) ÷ (b)
	(\$)		(\$)
N	195,195	1,523	128.2
G	42,273	903	46.8
O	28,000	876	32.0
B	15,000	864	17.4
P	9,680	451	21.5
D	9,000	261	34.5
K	8,800	764	11.5
F	3,600	296	12.2
R	3,000	112	26.8

Source: Schools' records

5.22 It can be seen from Table 6 that, of the nine tuckshop operators, eight of them paid a rental of less than \$43,000 per annum. However, the rental in School N was as much as \$195,195 a year, which was much higher than that in other schools. Based on the number of students served by the tuckshop operators, School N had the highest annual rental per student served (i.e. \$128.2). Audit conducted an analysis of the rental (for the school years 2001-02 and 2002-03) charged by School N.

5.23 In early 2001, School N negotiated the rental for the school years from 2001-02 to 2002-03 with the tuckshop operator, based on the number of students in the school. In the negotiations, School N asked for a monthly rental of \$13 per student, on the condition that the tuckshop operator would lower the prices of textbooks. The tuckshop operator counter-proposed to increase the tuckshop rental, but not to reduce the prices of textbooks. As a result, the monthly rental was set at \$13.5 per student (or \$135 per student in a school year). Audit has estimated that the rental for the school year 2001-02 would amount to \$205,605 ($\$135 \times 1,523$ students).

5.24 The tuckshop operator in School N sold school items such as textbooks, exercise books, stationary and snacks. (Photograph 4 on the centre pages shows the tuckshop in School N.)

5.25 Audit compared the prices of textbooks for Primary 1 students for the school year 2001-02 sold by the tuckshop operator in School N with those sold in other schools. These textbooks were of the same edition and from the same publisher. Table 7 below shows the results of Audit's comparison.

Table 7

Prices of textbooks for Primary 1 students for the school year 2001-02 charged by the tuckshop operator in School N and other schools

Name of textbook	Price charged by tuckshop operator of School N	Price in other schools	Difference	
	(a)	(b)	(c) = (a) - (b)	(d) = $\frac{(c)}{(b)} \times 100\%$
	(\$)	(\$)	(\$)	(%)
今日中國語文 (目標為本課程) 第 1、2 冊	178.6	169.2	9.4	5%
小學常識	153.9	146.0	7.9	5%
常識作業	85.5	81.0	4.5	5%
來說普通話	108.3	102.6	5.7	5%
來說普通話作業	49.4	46.8	2.6	5%
New Welcome to English	119.7	113.4	6.3	5%
Pre-task Language Practice	95.0	90.0	5.0	5%
Reading and Writing Skills	95.0	90.0	5.0	5%
Listening Skills	66.5	63.0	3.5	5%
Grammar Practice	95.0	90.0	5.0	5%

Source: Schools' records

Audit observations on tuckshop operations

5.26 It can be seen from Table 7 that the prices of the textbooks for Primary 1 students for the school year 2001-02 sold by School N's tuckshop operator were 5% more expensive than those sold in other schools. Audit has estimated that this 5% price difference would give School N's tuckshop operator an additional profit of some \$113,000 in 2001-02.

5.27 Audit further observed that other items such as exercise books sold by the tuckshop operator in School N were also more expensive. For example, the lined and checked exercise books were sold at \$2 per item. This price was higher than the usual prices of \$0.60 and \$1.25 in other schools.

5.28 Audit considers that the high tuckshop rental charged by School N on the tuckshop operator had resulted in students paying more for the school items. This is because the tuckshop operator had to pay a higher rent. To safeguard the interests of students and parents, Audit considers that there is a need for the ED to establish guidelines on charging rental for operating tuckshops.

5.29 Audit also observed that the tuckshop operator in School N has been operating there for more than ten years. However, the school has not attempted to re-tender the tuckshop operations. To ensure that students get the best value for money, Audit considers that there is a case for the school to make arrangements for re-tendering the tuckshop operations upon completion of the present contract with the tuckshop operator in 2002-03. In the re-tendering exercise, apart from assessing the amount of rental payable by the operator, the school should pay due regard to the prices to be charged on the items for sale by the operator.

Audit recommendations on tuckshop operations

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

- (a) **issue guidelines on the operations of tuckshops;**
- (b) **require schools to invite open tenders for tuckshop operations; and**
- (c) **inform schools that, in determining the award of the tender for the tuckshop operations, they should pay due regard to the prices of items sold to students, while assessing the amount of rental payable by the operator.**

Response from the Administration

5.31 The **Director of Education** generally agrees with Audit's recommendations. He has said that:

- (a) the ED does not consider it appropriate for a school to allow a tuckshop operator to sell textbooks under the terms and conditions of tuckshop operations;
- (b) in a forthcoming revised version of an Administration Circular which provides guidelines for tuckshop operations, schools will also be required to conduct quotation/tender exercise for tuckshop operations at appropriate intervals of at least once every three years, or before renewal of a contract as appropriate. Schools will be advised to pay due regard to the prices of items sold to students, while assessing the amount of rental payable in determining the award of the tender for the tuckshop operations; and
- (c) the ED has had in place a system to ensure that no excessive profit is generated through trading operations. For example, a School Tuckshop Committee, including a representative from the PTA, should be set up to supervise tuckshop operations and to ensure that items sold do not exceed the market price. The ED will require a parent to sit on the Committee even if there is no PTA in the ED's revised version of the circular on trading operations.

Weight of school bags

5.32 According to the ED's guidelines, overweight school bags may have adverse effects on the health of students. Schools are encouraged to implement measures to reduce the weight of school bags. The following are the ED's relevant guidelines:

- (a) give advice to students to foster the habit of packing school bags everyday;
- (b) urge parents to select school bags and items which are made of light weight materials and help their children pack school bags everyday;
- (c) design the school timetable in such a way that lessons requiring heavy materials are evenly spread over the week;
- (d) take weight and size into account in selecting textbooks;

- (e) use loose-leaf files for homework assignments; and
- (f) provide storage facilities to avoid the need for students to carry some items to and from school everyday.

5.33 During Audit’s school visits, Audit checked the weights of school bags of students to ascertain whether the weight was a cause for concern. Audit selected on a random basis the school bags of 490 students from 17 schools (Note 3) for weighing. Table 8 below shows the weights of school bags as percentages of the body weights of students in the 17 schools.

Table 8
Weights of school bags and body weights of students
in 17 schools visited by Audit

Weight of school bag as a percentage of body weight of student	Number of students
5% or below	17
6% to 10%	122
11% to 15%	193
16% to 20%	112
21% to 25%	36
26% to 30%	6
31% to 35%	4
	} 158
Total	<u><u>490</u></u>

Source: Audit’s analysis

Note 3: *Audit only weighed the school bags in 17 out of the 18 schools visited because the students of one school were taking examinations during Audit’s visit. In each of the 16 schools, the school bags of 30 students were weighed. In one school with only ten students, all ten school bags were weighed.*

5.34 An example of the weights of the school bags and the body weights of 30 students in one school is shown in Appendix E.

Audit observations on weight of school bags

5.35 Audit's research indicates that, according to the health organisations of some advanced countries, children who are carrying too much weight could exhibit balance problems. Carrying excessive weight could lead to back, neck and shoulder pain, and could cause other spinal problems later in life. These organisations have suggested guidelines on the weight limit as a percentage of a child's body weight. For example, a health organisation in Australia has suggested that children should not carry a load weighing any more than 10% of their body weights, while a similar organisation in the USA has advised 5% to 10%.

5.36 Audit also noted that in 1998, the ED had consulted the following local experts on the weight of school bags:

- (a) Department of Health;
- (b) Hong Kong Medical Association;
- (c) Department of Orthopaedic Surgery of the University of Hong Kong;
- (d) Duchess of Kent Children's Hospital at Sandy Bay;
- (e) Department of Orthopaedic and Traumatology of the Chinese University of Hong Kong;
- (f) Department of Sports Science and Physical Education of the Chinese University of Hong Kong; and
- (g) a doctor who was a childcare specialist.

5.37 These experts had given their views on the weight carrying capacity of school children. Their views were as follows:

- (a) school bags of over 20% of the body weight brought a rise in heart rate, blood pressure and also stress on the pace of school children;

- (b) from the medical point of view, the weight of a school bag did not result in spinal deformities directly; however heavy school bags would overload children and cause fatigue;
- (c) there was documented optimum weight of school bags that children could tolerate with respect to their body weights; studies had shown that there was serious stress and fatigue pattern on the back in children who carried school bags over 15% of their body weights for over 20 minutes;
- (d) it was not possible to provide a definite weight of a school bag bearable to children of different ages without harmful effect on their health as there were many other factors involved, e.g. how long the bag was carried each time, and whether the child walked along a flat road or up staircases;
- (e) there was no clear scientific evidence about the optimum weight of a school bag that a child could tolerate with respect to body weight; and
- (f) spinal deformities such as scoliosis and kyphosis were not uncommon in school children but they were not caused by heavy school bags. There were no data on what the suitable amount of weight was; it obviously depended on a lot of factors such as the body weight, the body built, the physical fitness, the cardiovascular condition and the stamina of the child.

5.38 Although the local experts had diversified views, they made recommendations on the weight of school bags. Four of the seven organisations/specialist consulted (see para. 5.36 above) recommended that children should not be allowed to carry school bags of over 10% of their body weights, while two others recommended 12.5% to 15%. One organisation made no suggestion.

5.39 It can be seen from Table 8 in paragraph 5.33 above that according to the data collected by Audit from the 490 students, about one third of the students (i.e. 158) carried school bags exceeding 15% of their body weights. There were four students whose school bags even weighed between 31% to 35% of their body weights. In this connection, Audit observed that a benchmark on the weight of school bags has not yet been set in Hong Kong. Audit considers that it would be beneficial to the health of the students if such a benchmark is established for the parties concerned to follow.

5.40 It can also be seen from Appendix E that the weights of school bags of students could vary greatly between students in the same class. For example, in a Primary Three class of a school visited by Audit, the weight of one school bag was only 4 kg or 13% of her body weight, while that of another was 8.2 kg or 23% of her body weight. Audit considers that schools should do more to

reduce the weight of school bags, in order to keep the adverse effects of over-weighted school bags to a minimum.

Audit recommendations on weight of school bags

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

- (a) **in consultation with the Director of Health, consider including in the ED's guidelines a benchmark on the weight of school bags;**
- (b) **ensure that schools, students and parents follow the benchmark on the weight of school bags;**
- (c) **urge schools and parents to take more actions to reduce the weight of school bags (e.g. using more double periods and providing essential facilities such as pencil sharpeners and staplers for use by students); and**
- (d) **provide publicity materials to schools for dissemination to parents regarding the impact that overweight school bags may have on the posture and overall health of students.**

Response from the Administration

5.42 The **Director of Education** generally agrees with Audit's recommendations. He has said that:

- (a) in September 2002, the ED consulted the Department of Health on whether a benchmark could be established on the weight of school bags. The Director of Health has said that there is no scientific evidence to show that heavy school bags affect the growth of a child. While there is variation of weights among children of the same age and different sexes, the Department of Health has no objection to recommending that school children should avoid carrying school bags which exceed 10–15% of their body weights for long periods of time as a precautionary measure; and
- (b) the ED will include information on the above precautionary measure in future school circular and/or publicity materials, and alert schools and parents to take more action in reducing the weight of school bags, making reference to the examples provided by the Department of Health.

PART 6: SUPPORT FROM ED TO SCHOOLS

6.1 This PART examines the adequacy of support provided by the ED to schools.

Support to schools

6.2 The ED provides various types of support to schools to assist them in enhancing the quality of teaching and learning. The support includes:

- (a) providing financial support to schools to meet their costs of operation and implement the various education initiatives;
- (b) rendering professional support on curriculum development, student guidance and services for academically low achievers;
- (c) issuing guidelines and circulars to schools on effective school-based practices;
- (d) through the Regional Education Offices (REOs) of the ED, providing school-based support to schools to facilitate them to formulate and implement improvement measures;
- (e) providing training and seminars for the professional development of teachers and principals;
- (f) liaising with relevant departments on the progress of school maintenance and improvement programmes; and
- (g) conducting audit inspections of schools and providing them with advice on improvements of accounting and internal control procedures.

Views of school principals on ED's support

6.3 During Audit's visit of the 18 schools, some of the school principals expressed their views on the support provided by the ED and requested Audit to make them known to the ED for consideration. Some principals advised Audit that, since the setting up of the REOs, the ED had provided much better and responsive school-based support to schools in various areas of school administration and development. However, they considered that there was still room for improvement. The school principals' views are summarised as follows:

- (a) it takes time and energy to manage effectively the use of grants provided by the ED as there are too many types of them. The ED needs to further consolidate some of these grants and to allow schools even greater flexibility in the use of the grants;
- (b) while schools are expected to follow the SAG, it is too broad and no priorities have been set. Smaller-size schools, which are already overloaded with administrative and teaching work, can hardly spare additional resources to fully comply with the SAG. The ED should render more support to help smaller-size schools to overcome their problems in implementing the SAG;
- (c) they are overwhelmed by the large number of circulars and guidelines issued from time to time by the ED, many of which are on similar subjects (e.g. four circulars were issued in 2001 on trading operations in aided schools and on sale of textbooks and school items). The ED should try to consolidate the circulars/guidelines on similar subjects and get the messages across in a more concise and comprehensive manner;
- (d) the training courses or seminars organised by the ED for the development of teachers and principals are not systematic. There are too many such courses and some of them are not entirely useful; and
- (e) as school improvement and maintenance projects involve various parties (e.g. the ED, the Architectural Services Department, works contractors and the school), they hope that the ED could play a more active role in coordinating with all the relevant parties and to ensure early completion of the projects.

Audit recommendations on views of school principals

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

- (a) **note the views of the school principals as mentioned in paragraph 6.3 above;**
- (b) **take appropriate follow-up action to provide better support to schools; and**
- (c) **conduct regular surveys to solicit the views of all stakeholders (including the school principals) on the administration and management of schools, so as to identify areas where further improvements can be made.**

Response from the Administration

6.5 The **Director of Education** generally agrees with Audit's recommendations. He has said that:

- (a) to facilitate principals to have better pre-arrangement of school matters, starting from June 2003, the ED will announce by the end of June each year the training courses or seminars to be organised for principals in the following school year;
- (b) as reflected from post-course evaluation, the principals opined that most courses or seminars organised by the ED were useful. Nevertheless, for courses or seminars rated as not useful, the ED will stop running them;
- (c) the ED has frequent contacts/meetings with schools councils/heads associations/school sponsors and other major educational bodies to collect their views. The ED will step up these contacts in the course of its review of current policies. Separate surveys to collect the views of stakeholders, including school principals on the administration and management of schools will also be conducted on a need basis;
- (d) the ED is conducting a fundamental review of grants, with rationalisation and consolidation of grants as the key area of consideration; and
- (e) the ED is trying to consolidate circulars on related subjects so as to facilitate schools' easy reference and to enhance clarity.

School inspection teams of ED

6.6 The school inspection teams of the ED are responsible for:

- (a) conducting financial audit inspections of schools to enable a reasonable degree of regularity or compliance audit work to be undertaken on a random basis;
- (b) examining annual audited accounts of schools to assess the subvention surplus for the purpose of clawback; and
- (c) providing advice to schools on improvements of accounting and internal control procedures during audit inspections.

6.7 Audit examined the audit inspection reports issued by the ED's school inspection teams on the 18 schools in the past three years. The major findings of these inspection reports on the schools are as follows:

- (a) financial budget was not prepared;
- (b) register of furniture, equipment and capital assets was not kept;
- (c) accounting records and ledger accounts were not kept up-to-date;
- (d) ledger or sub-ledger accounts were not properly maintained in accordance with the CAPS;
- (e) expenditure items were incorrectly charged to ledger accounts;
- (f) excessive surpluses of the grant accounts were not returned to the ED;
- (g) cash books and bank reconciliation statements were not certified by the principal; and
- (h) some payments were not supported by original invoices.

6.8 In this review, Audit also identified weaknesses in the financial management and procurement of goods and services in some of these 18 schools. The audit observations are summarised below:

- (a) a school (School C) was substantially over-provided with funding for electricity charges. The school did not take the initiative to pay back the surplus funds to the ED. Instead, the school used the funds for other purposes (see paras. 2.30 to 2.35 above);
- (b) some schools procured goods and services based on the personal knowledge of the principals or the staff concerned, instead of obtaining quotations (see para. 4.5 above);
- (c) in the procurement of goods and services, some schools set their own financial limits instead of following the ED's guidelines that oral quotations should be obtained for purchases below \$30,000 (see para. 4.6 above); and

- (d) some schools could not produce records showing that quotations had been obtained (see para. 4.7 above).

6.9 Audit appreciates that the school inspection teams of the ED have carried out its inspection on a test check basis and they should not be fully relied upon to detect all weaknesses in control procedures, fraud, errors or instances of non-compliance. In view of the weaknesses in the control system identified by Audit, there is a need for the school inspection teams to focus their inspection more on the financial management and procurement of goods and services by schools.

Audit recommendation on the work of the school inspection teams

6.10 **Audit has recommended that the Director of Education should ensure that the ED's school inspection teams, in carrying out inspection of schools, focus more on the financial management and procurement of goods and services by schools.**

Response from the Administration

6.11 The **Director of Education** generally agrees with Audit's recommendation. He has said that:

- (a) the ED has been focusing inspections on financial management and procurement of goods and services by schools. For government schools, the school inspection team examines their financial and internal control arrangements and will be satisfied if these arrangements are adequate and effective. For aided schools, the team's audit programme embraces financial management matters (e.g. the school governance structure, budget approval, expenditure monitoring arrangements and investment of surplus funds). In addition, the ED's Supplies Section conducts inspections of government schools and aided schools on procurement of goods and services. Among the 18 schools selected by Audit, the Section had inspected five aided and two government schools. However, it is inevitable that inspections were carried out on a test check basis and should not be fully relied upon to detect each and every instance of non-compliance, including those identified in paragraph 6.8 above; and
- (b) the ED will continue to carry out inspections. Furthermore, to promote awareness of financial management of the school sector, the ED will continue to organise seminars/briefing sessions for school managers, principals, and other school personnel dealing with finance matters.

**Estimated annual saving
if one more level of provision for CEG is introduced**

(a)	Existing amount of CEG for schools with less than 19 classes	\$450,000
(b)	Amount of CEG per class (b) = (a) ÷ 18	\$25,000
(c)	Amount of CEG if a new level of provision is introduced for schools with, say, less than ten classes (c) = (b) × 9	\$225,000
(d)	Saving per school with less than ten classes (d) = (a) – (c)	\$225,000
(e)	Number of schools operating less than ten classes	115
(f)	Estimated annual saving from introducing one more level of provision (f) = (d) × (e)	\$25,875,000
		Say \$26 million

Source: ED's records

**Estimate of the amount of surplus funds retained by schools
that could be clawed back by the ED based on the assumption
that schools are allowed to retain up to three months' provision of OEBG**

- (a) Audit examined the audited accounts (for school year 2000-01) of 100 schools (Note 1) and noted that 61 schools retained more than three months' provision of OEBG (Note 2). The total surplus and total provision of OEBG of these 61 schools are:
- | | | |
|------|---|---------------|
| (i) | Total surplus | \$51,937,879 |
| (ii) | Total provision for 2000-01 school year | \$136,031,679 |
- (b) If the 61 schools are allowed to retain surplus up to three months' provision of OEBG, the amount retained would be:
- | | | |
|---------|---|--------------|
| (a)(ii) | $\times \frac{3 \text{ months}}{12 \text{ months}}$ or $\$136,031,679 \times \frac{1}{4}$ | \$34,007,920 |
|---------|---|--------------|
- (c) The excessive surplus retained by the 61 schools would be:
- | | | |
|--------------|-------------------------------|--------------|
| (a)(i) - (b) | = \$51,937,879 - \$34,007,920 | \$17,929,959 |
|--------------|-------------------------------|--------------|
- (d) The excessive surplus retained by each of the 61 schools would be:
- | | | |
|----------|---------------------|-----------|
| (c) ÷ 61 | = \$17,929,959 ÷ 61 | \$293,934 |
|----------|---------------------|-----------|
- (e) Total number of audited accounts of aided schools (Note 3)
- | | |
|--|--------------|
| | 490 accounts |
|--|--------------|
- (f) Of the 100 audited accounts examined by Audit, 61 accounts show retained surplus of more than three months' provision of OEBG. On this basis, the number of accounts showing retained surplus of more than three months' provision of OEBG for 490 schools is calculated as below:
- | | |
|--------------------|--------------|
| 490 accounts × 61% | 299 accounts |
|--------------------|--------------|
- (g) Estimated amount of surplus funds retained by schools that could be clawed back by the ED is:
- | | |
|--------------------------------------|-------------------------|
| (d) × (f) = \$293,934 × 299 accounts | \$87,886,266 |
| | Say \$88 million |

Source: Aided schools' audited accounts and Audit's analysis

Note 1: As at the beginning of the 2001-02 school year (see para. 1.3 on page 1 of the audit report), there were 690 aided schools. These 690 schools had to submit altogether 490 audited accounts to the ED. (There were only 490 accounts as opposed to 690 schools because a school that has a.m. and p.m. sessions produces only one set of audited accounts to the ED.) As at 20 September 2002, the time that Audit made the estimation, 481 schools had submitted audited accounts to the ED. Of these 481 audited accounts, Audit examined 100 accounts (21%). These 100 accounts were provided randomly to Audit by the ED.

Note 2: Of the 100 schools examined, 61 schools retained a surplus of more than three months' provision. The remaining 39 schools also retained a surplus but the amount retained was less than three months' provision.

Note 3: The total number of audited accounts of aided schools is 490 (see Note 1 above). The government schools are not included in the estimation because these schools' accounts information was not readily available.

Estimated annual saving from outsourcing of janitor services

Existing amount (based on 2001-02 salary scale) spent in employment of janitor staff (Note 1)	\$451,989,708
Less: Cost of outsourcing of janitor services (Note 2)	\$351,726,072
	\$100,263,636
	Say \$100 million

Source: Information provided by the ED and Audit's analysis

Note 1: Existing amount spent in employment of janitor staff is calculated as follows:

(a) Total number of janitors entitled by aided and government schools	3,743
(b) Annual salary of a janitor staff	\$120,756
(c) Existing amount spent in employment of janitor staff	
(a) × (b) = 3,743 × \$120,756	\$451,989,708

Note 2: Cost of outsourcing of janitor services is calculated as follows:

(a) Total number of aided and government schools	731
(b) Total number of janitors entitled by aided and government schools	3,743
(c) Assuming subsequent to outsourcing, on average, two janitors are still required in each school for residual work. The number of janitors that would be retained in schools is:	
(a) × 2 = 731 × 2	1,462
(d) Annual salary of a janitor staff	\$120,756
(e) Cost of retaining two janitors in each school would be:	
(d) × (c) = \$120,756 × 1,462	\$176,545,272
(f) Number of janitors that may be outsourced would be:	
(b) – (c) = 3,743 – 1,462	2,281
(g) According to the case in paragraph 3.26, an amount of \$384,000 was incurred for the employment of five outsourced workers. Therefore, the cost of an outsourced worker is:	
\$384,000 ÷ 5	\$76,800
(h) Cost of outsourcing 2,281 janitors would be:	
(g) × (f) = \$76,800 × 2,281	\$175,180,800
(i) Total cost of outsourcing of janitor services would be:	
(e) + (h) = \$176,545,272 + \$175,180,800	\$351,726,072

**Examples of procurement by two schools without obtaining quotations
and without documentation of quotations obtained**

**Purchase of school furniture without obtaining quotations
(School D)**

In August 2001, this school purchased chairs totalling \$7,600 from an office furniture company. The school bought directly from this company without obtaining quotations from other suppliers. The principal of the school informed Audit that sometimes he made purchases based on his personal knowledge of the suppliers.

Source: School's records and Audit's enquiries

**Purchase of video camera without documentation of quotations obtained
(School Q)**

In March 2001, this school purchased a video camera for \$9,100. The principal of the school informed Audit that the school had obtained quotations from a number of sources before the purchase was made. However, the school could not produce for Audit's inspection any record indicating that quotations had been obtained.

Source: School's records and Audit's enquiries

**Weights of school bags and body weights of students
in one school visited by Audit
(School P)**

Student	Class	Weight of school bag	Body weight of student	Weight of school bag as a percentage of body weight of student
		(a) (kgs)	(b) (kgs)	(c) = $\frac{(a)}{(b)} \times 100\%$ (%)
1	1B	3.6	18.6	19%
2	1B	2.8	26.8	10%
3	1B	4.0	27.6	14%
4	1B	2.8	34.0	8%
5	1B	3.6	38.0	9%
6	2B	6.0	26.2	23%
7	2B	5.4	27.2	20%
8	2B	7.2	28.0	26%
9	2B	4.0	22.6	18%
10	2B	4.6	24.4	19%
11	3B	8.2	36.2	23%
12	3B	5.0	37.2	13%
13	3B	4.6	33.0	14%
14	3B	5.4	26.2	21%
15	3B	4.0	30.0	13%
16	4B	4.0	27.2	15%
17	4B	5.2	27.6	19%
18	4B	6.4	39.0	16%
19	4B	6.0	30.0	20%
20	4B	4.0	37.2	11%
21	5B	6.4	34.0	19%
22	5B	4.0	34.0	12%
23	5B	5.4	30.0	18%
24	5B	5.4	31.8	17%
25	5B	6.0	38.6	16%
26	6B	5.0	35.0	14%
27	6B	2.4	46.6	5%
28	6B	2.8	39.4	7%
29	6B	2.2	39.0	6%
30	6B	6.0	41.2	15%

Source: *Audit's analysis*

Acronyms and abbreviations

CAPS	Code of Aid for Primary Schools
CEG	Capacity Enhancement Grant
EC	Education Commission
ED	Education Department
FC	Finance Committee
OEBG	Operating Expenses Block Grant
PTA	Parent-Teacher Association
REOs	Regional Education Offices
SAG	School Administration Guide
SBM	School-based management
SCBG	Subject and Curriculum Block Grant
SCC	Schools Curriculum Circular
SMC	School Management Committee
SSE	School self-evaluation