

CHAPTER 3

Home Affairs Department

Operation and management of District Offices

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OPERATION AND MANAGEMENT OF DISTRICT OFFICES

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OPERATION AND MANAGEMENT OF DISTRICT OFFICES

Summary

1. To promote public participation in district affairs and to ensure that public opinions are effectively channelled to the Government, in 1982, the District Administration Scheme commenced with the establishment of a District Council (DC) in each district in Hong Kong. The Home Affairs Department (HAD) is responsible for the District Administration Scheme and discharges its responsibilities primarily through its 18 District Offices (DOs). Funds are voted by the Legislative Council for DCs to undertake various activities within their districts. In 2002-03, the total expenditure of DC funds on Community Involvement (CI) projects and Minor Environmental Improvement projects amounted to \$199 million (paras. 1.2, 1.3, 1.9, 1.11 and 1.12).

AUDIT FINDINGS

Review of HAD's staff establishment

2. In August 1994, the HAD agreed with the Civil Service Bureau (CSB) to carry out a staffing review covering all aspects of its work. In December 1994, the Working Group on Review of the District Offices' Establishment and Structure (ESWG) was set up within the HAD to conduct a review on the organisational structure and establishment of DOs. Based on practical experience and need, the ESWG formulated model structures for DOs which (if implemented) would lead to a net reduction of 72 posts of supporting staff, resulting in an annual saving of \$6.1 million at the 1995-96 price level. However, in 1995, the ESWG's recommendations were shelved by the HAD. Audit's recent review of the HAD's staff establishment revealed that the HAD did not have standardised and updated manning scales based on objective criteria for determining the manpower requirement of its DOs. Audit also found that the HAD had not fulfilled its 1994 agreement with the CSB that a staffing review on all aspects of its work should be carried out. The HAD needs to critically review the existing staff establishment and structure of its Headquarters and DOs (paras. 2.3, 2.4, 2.9, 2.10 and 2.15 to 2.17).

Provision of district sub-offices

3. District sub-offices (DSOs) were first established in the 1960s to provide a network of easily accessible points of contact between the Government and the public. The standard for the provision of DSOs is one DSO for 150,000 people. In 1995, the ESWG commented that, since the early 1980s, the function of DSOs had diminished as a result of the rapid development in communication and transportation networks and the urbanisation of new towns in the New Territories. The ESWG recommended that, of the existing 38 DSOs, only 15 should be retained. This would lead to a reduction of 50 posts of supporting staff, resulting in an annual saving of \$5.7 million at the 1995-96 price level, and other savings (e.g. rent and operational costs). However, these ESWG's recommendations were also shelved (paras. 3.2, 3.6, 3.10(c), 3.12 and 3.15).

Monitoring of the use of DC funds for CI projects

4. Audit reviewed the monitoring of the use of DC funds for CI projects in nine selected DOs. Audit found cases of non-compliance with the HAD Headquarters' or individual DOs' guidelines on the use of DC funds for CI projects (DCF Guidelines). In some DOs: (a) a proper documentation system was not established; (b) other sources of income were not reported in the reimbursement claim forms; (c) reimbursements were not properly claimed; (d) an excessive quantity of souvenirs had been provided; (e) expenditure limits on individual items were exceeded; (f) the local organisations concerned failed to submit notification of changes in particulars of approved CI projects on time, or did not submit them at all; (g) there was late submission of reimbursement claims; (h) the prescribed minimum number of quotations for procurement was not obtained; (i) verifiable proof of execution of CI projects was not submitted; and (j) some DO staff did not attend the activities of CI projects (para. 4.10).

Management information for monitoring the use of DC funds

5. Audit's review of the management information for monitoring the use of DC funds revealed that: (a) the HAD Headquarters had not taken effective action to ensure that DOs submitted their quarterly reports punctually; (b) there was duplication of work because DOs were still required to prepare manually monthly reports after the implementation of the computerised District Council Funds Accounting System; and (c) there were inconsistent classifications of CI projects among DOs (paras. 5.6 to 5.8).

Internal audit activities

6. The HAD's Internal Audit Section (IAS) had not been set up properly to enable it to function effectively in discharging its duties. Audit found that the IAS: (a) had not regularly prepared annual and long-term work plans on internal audit activities; (b) had not conducted an adequate number of audit inspections on DOs; (c) was wholly engaged in one management study and did not carry out inspection visits of DOs at all during the period November 2001 to April 2003; (d) had not promptly reported all its findings to the DOs concerned and the HAD's senior management; and (e) had not promptly taken follow-up action on its recommendations (paras. 6.15, 6.18 and Appendix L).

AUDIT RECOMMENDATIONS

7. The Director of Home Affairs should:

Review of HAD's staff establishment

- (a) critically review the existing staff establishment and structure of the HAD Headquarters and DOs in the light of the social, economic and infrastructural developments in the territory and the present-day circumstances (para. 2.18(a));
- (b) draw up objective criteria for determining the number of staff required for a DO and ensure that these criteria are followed by all DOs in future (para. 2.18(b));

Provision of DSOs

- (c) critically review the need for retaining the existing 31 outlying DSOs in the light of the present-day circumstances (para. 3.21(a));
- (d) draw up criteria, which reflect the present-day circumstances, for determining the need for DSOs and the number of DSOs required, and ensure that these criteria are followed in setting up new DSOs in future (para. 3.21(c));

Use of DC funds for CI projects

- (e) ensure that a proper documentation system is established by all DOs to keep all relevant documents and records of CI projects in one single location (para. 4.11(a));
- (f) strengthen the controls on the use of DC funds for CI projects and the monitoring of the execution of approved CI projects (para. 4.11(b) and (e));
- (g) ensure that DOs fully comply with the HAD Headquarters' and their own DCF Guidelines in vetting applications for DC funds and in approving reimbursements to local organisations (para. 4.11(d));

Management information for monitoring the use of DC funds

- (h) take effective measures to ensure that DOs promptly submit to the HAD Headquarters consistent and updated management information on the use of DC funds (para. 5.9(a));

Internal audit

- (i) reorganise the IAS so that it can perform its work objectively and independently and ensure that the Head of the IAS reports directly to a top HAD directorate officer (para. 6.16(a) and (b)); and
- (j) step up internal audit inspections on DOs and strike a proper balance in the deployment of resources between carrying out management studies and traditional audit work (para. 6.19(c) and (d)).

Response from the Administration

8. The Administration generally agrees with Audit's recommendations.

PART 1: INTRODUCTION

1.1 This PART describes the background to the audit and outlines the audit objectives and scope.

District administration

1.2 In 1982, the District Administration Scheme commenced with the establishment of a District Council (DC — Note 1) and a District Management Committee in each district in Hong Kong. The main objectives of the scheme are:

- (a) to ensure that public facilities and services are provided efficiently and effectively at the district level;
- (b) to promote public participation in district affairs; and
- (c) to ensure that public opinions are effectively channelled to the Government and the Government is responsive to district needs and problems.

1.3 The Home Affairs Department (HAD) is responsible for the District Administration Scheme. In 2002-03, \$540 million was spent on this programme area.

Role and main functions of DCs

1.4 DCs advise the Government on district matters and monitor the delivery of municipal services. As at 30 June 2003, there were 18 DCs with a total of 519 seats for DC Members (comprising 390 elected Members, 102 Members appointed by the Chief Executive and 27 ex-officio Members who were Chairmen of the Rural

Note 1: *A DC was formerly known as a District Board. During the period 1 July 1997 to 31 December 1999, District Boards were replaced by Provisional District Boards. On 1 January 2000, DCs were established to replace Provisional District Boards.*

Committees in the New Territories). The distribution of seats for DC Members by district as at that date is at Appendix A.

1.5 The main functions of a DC are:

- (a) to advise the Government on:
 - (i) matters affecting the well-being of the people in the district;
 - (ii) the provision and use of public facilities and services within the district;
 - (iii) the adequacy and priorities of government programmes for the district; and
 - (iv) the use of public funds allocated to the district for local public works and community activities; and
- (b) where funds are made available for the purpose, to undertake community activities, environmental improvement, and promotion of recreational and cultural activities within the district.

District organisations

1.6 Operating in parallel with DCs are District Management Committees which provide a forum for government departments to discuss and resolve district issues. Area committees (Note 2) are also formed in districts to advise District Officers on matters relating to the local communities, including helping to organise community activities and promoting government campaigns. The many mutual aid

Note 2: *The functions of an area committee are to encourage public participation in district affairs, to advise on and assist in the organisation of community involvement activities and the implementation of government-sponsored initiatives, and to advise on issues of a localised nature affecting the area.*

committees (Note 3) and owners' corporations (Note 4) provide an extensive network of communication between the Government and the grassroots throughout the territory.

District Management Committee

1.7 A District Management Committee, chaired by a District Officer, is a government committee consisting of representatives of the core departments (Note 5) serving the district. It responds positively to the advice and requests of the DC and submits a comprehensive written report on its work to each DC meeting.

1.8 To enhance communication between the District Management Committee and the DC, the DC Chairman and Vice-chairman attend the District Management Committee meetings as members. Starting from March 2002, the Chairmen of Committees which are formed under a DC may also attend District Management Committee meetings to assist discussions.

District Offices

1.9 The HAD's responsibilities for district administration are discharged primarily through its 18 District Offices (DOs) covering the whole territory. DOs play liaison roles with all local organisations such as area committees, mutual aid committees and owners' corporations. DOs are also tasked to:

Note 3: *The primary functions of a mutual aid committee are to promote a sense of friendliness, mutual help and responsibility among members, and better security, a better environment and more effective management within the building. These committees provide a two-way communication channel between the Government and the residents on matters affecting the well-being of the individual and the community and opportunities for residents to participate in community activities.*

Note 4: *An owners' corporation is a legal entity formed under the Building Management Ordinance (Cap. 344) by the owners of a private building. These corporations are statutory bodies vested with certain legal powers to facilitate the management of a building. Most of them were formed with the assistance of District Offices.*

Note 5: *The core departments include the Buildings Department, Department of Health, Education Department (now the Education and Manpower Bureau), Food and Environmental Hygiene Department, HAD, Hong Kong Police Force, Housing Department, Lands Department, Leisure and Cultural Services Department, Planning Department, Social Welfare Department, Territory Development Department and Transport Department.*

- (a) organise and coordinate activities/projects and campaigns; and
- (b) collect public opinions on, and reactions to, government policies.

Role of District Officers

1.10 As the Government's representative at the district level, the District Officer:

- (a) has the responsibility of overseeing directly the operation of the District Administration Scheme in the district and the execution of district programmes, ensuring that the advice of the DC is properly followed up, and promoting residents' participation in district affairs;
- (b) has the duty to ensure that district problems are resolved promptly through inter-departmental consultation and cooperation;
- (c) plays an active role in lobbying support from the DC for the Government's policies and programmes; and
- (d) acts as a link between the DC and government departments, and serves as a mediator between them when problems arise.

DC funds

1.11 As mentioned in paragraph 1.5(b), one of the main functions of a DC is to undertake community activities, environmental improvement and the promotion of recreational and cultural activities within the district. Funds are voted by the Legislative Council for DCs to implement Community Involvement (CI) projects, Minor Environmental Improvement (MEI) projects, the District Festivals Subsidy Scheme and the District Cultural Project Grants Scheme.

1.12 The Director of Home Affairs is the Controlling Officer of the DC funds. Since 1982, DCs have made major efforts in the promotion of community involvement

activities and in improving the quality of life in districts through CI projects and MEI projects. In 2002-03, the total expenditure of DC funds on CI projects and MEI projects amounted to \$199 million.

Audit review

1.13 Audit has conducted a review on the operation and management of DOs. The audit objectives were to examine:

- (a) the HAD's internal reviews on the staff establishment of DOs (see PART 2);
- (b) the provision of district sub-offices (see PART 3);
- (c) the monitoring of the use of DC funds for implementing CI projects (see PART 4);
- (d) the management information for monitoring the use of DC funds (see PART 5); and
- (e) internal audit activities (see PART 6).

PART 2: STAFF ESTABLISHMENT REVIEWS

2.1 This PART examines the HAD's internal reviews on staff establishment of DOs.

Staff strength of the HAD

2.2 The majority of the HAD's staff work in DOs. The work of a DO includes secretariat support to the DC, general administration, liaison, building management, minor capital works, translation and other miscellaneous services to the public. During the period 1995 to 2003:

- (a) on average, 82% of the HAD's staff worked in DOs; and
- (b) the HAD's staff strength increased from 1,733 to 1,840 (see Appendix B).

Proposed staff establishment review in 1994

2.3 In August 1994, anticipating that the wholly elected DCs would have a significant impact on the work of the department, particularly at the DO level, the HAD (previously known as the City and New Territories Administration) agreed with the Civil Service Bureau (CSB) that a "root and branch" review, which would cover all aspects of its work, should be carried out. The HAD intended to start a full-scale review of its role, structure and resources by October 1995.

1994 Working Group on Review of District Offices' Establishment and Structure

2.4 In December 1994, the Working Group on Review of the District Offices' Establishment and Structure (ESWG) was set up within the HAD to conduct a review on the organisational structure and establishment of DOs. The ESWG was chaired by the Deputy Director of Home Affairs and consisted of eight District Officers as members. Other District Officers could also attend meetings of the ESWG and participate in its deliberations. Papers and meeting minutes of the ESWG were copied to all District Officers.

ESWG's scope of work

- 2.5 The ESWG identified the following key areas for review:
- (a) distribution of duties between Assistant District Officers and Senior Liaison Officers and their supporting staff;
 - (b) duty schedule of the two Senior Executive Officers (SEOs) in districts and their supporting staff;
 - (c) manning scale of Liaison Officers (LOs);
 - (d) criteria for the establishment of district sub-offices (DSOs);
 - (e) clerical support; and
 - (f) other supporting staff and works staff.

ESWG's findings in 1995

2.6 In August 1995, the ESWG issued its report. Its major findings on the staff establishment of DOs were as follows:

- (a) ***Lack of manning scales for some DO posts.*** There were no manning scales for LOs and clerical staff in general registries, liaison teams of DOs and other supporting staff in various sections. As a result, there were large variations in staff distribution at different levels among the 18 DOs;
- (b) ***Standard manning scales for some DO posts were not followed.*** Although there were standard manning scales for clerical support for sub-offices in urban districts and the New Territories (NT) districts, clerical staff levels in different DSOs varied. Since the 1980s, different manning levels for executive support had been adopted in urban DOs and the NT DOs. Owing

to different district practices and operational demands, executive support in the 18 DOs varied not only in the number of posts but also in their deployment; and

- (c) ***Clerical support in DOs varied.*** Clerical support for DCs in the NT DOs was always stronger than that in urban DOs. The reason for such discrepancy was unknown.

2.7 The ESWG attempted to assess the workload of LOs in districts with a view to formulating an appropriate manning scale. However, the ESWG found that using population as the sole factor was probably too simplistic to determine the number of LO posts required in a district. Other factors of a district (such as demographic features, area, number of DC constituencies, number of area committees, mutual aid committees and active local organisations, and number of buildings) might also have to be considered. It was therefore difficult to formulate a simple and clear manning scale taking into account all these factors.

2.8 The ESWG also found that, apart from historical reasons, different structures of urban DOs and the NT DOs arose from different functional needs and operational demands of the districts. For example, urban districts had more district management work, management of back lanes and building management work, whereas the NT DOs had dedicated works teams and handled more development/clearance and environmental improvement projects. Emergency work was more frequent in the NT DOs because of their wider geographical coverage and topography.

ESWG's recommendations

2.9 The ESWG considered that, given the operational differences, it would be more appropriate to formulate different model structures for urban DOs and the NT DOs. The ESWG proposed to divide the districts into six groups, having regard to interacting factors such as population, size, number of DC constituencies, number of local organisations, geographical and demographic features, and characteristics of districts. Based on practical experience and need, the ESWG formulated a model structure for each group of DOs and advised on the number of LO posts required for each group. The model structures would form the basis upon which future staff adjustments arising from subsequent developments and changes would be made.

2.10 If implemented, the ESWG's proposals would bring about a net reduction of 72 posts of supporting staff (see Appendix C), resulting in an annual saving of \$6.1 million at the 1995-96 price level. The saving would result mainly from a reduction in the number of DSOs from 38 to 15 (see para. 3.12) and a more rational deployment of clerical and other supporting staff.

**Outgoing Director of Home Affairs' comments
on the ESWG's recommendations in 1995**

2.11 In August 1994, the HAD agreed with the CSB that a "root and branch" review on all aspects of its work should be carried out (see para. 2.3). On 7 August 1995, the Director of Home Affairs informed the Secretary for the Civil Service of the completion of an internal review of the HAD's staff establishment. As there would be a change in the incumbent of the Director of Home Affairs with effect from 17 August 1995, the Director said that he would provide his comments to his successor, who would decide how to take the matter forward. The Director assured the Secretary that the HAD had fully taken on board the need to streamline its operations and, if necessary, the HAD would be reorganised. The Director also said that, subject to his successor's views, he did not see any urgency for an external review of the HAD's organisation and functions.

2.12 On 8 August 1995, the outgoing Director of Home Affairs gave his successor his comments on the ESWG's Review Report, as follows:

- (a) the ESWG's review could be taken as a Part I exercise. A Part II exercise should review the HAD Headquarters' establishment and structure; and
- (b) the ESWG's recommendations regarding the reduction of DSOs and a more rational deployment of clerical staff should be actively pursued.

The outgoing Director also informed his successor that he had agreed to keep the Secretary for the Civil Service fully informed and, more importantly, had assured the CSB that the HAD could be left alone to streamline its operations.

Secretary for the Civil Service's comments on the ESWG's recommendations in 1995

2.13 On 9 August 1995, the Secretary for the Civil Service replied to the Director of Home Affairs, expressing his appreciation of the HAD's work and requesting a copy of the ESWG's Review Report. (This was forwarded to the CSB on 14 August 1995.)

2.14 On 28 September 1995, the Secretary for the Civil Service again wrote to the Director of Home Affairs, stating that:

- (a) he trusted that the Director was examining the ESWG's recommendations with a view to deciding on the way forward;
- (b) the ESWG's review had not examined the HAD Headquarters' role and structure which, he understood, should form part of the comprehensive review;
- (c) in a letter dated 12 August 1994 issued by the CSB to the former Director, the agreed scope and timing of the staffing review had been set out (see para. 2.3); and
- (d) he would like the Director to keep the CSB informed of any developments/changes which might affect the ESWG's recommendations.

Latest development on the ESWG's review

2.15 **The Secretary for the Civil Service's letter of 28 September 1995 (see para. 2.14) was the latest correspondence in the relevant files of the HAD and the CSB concerning the ESWG's review.** In response to Audit's enquiry about the HAD's actions on the ESWG's recommendations, in August 2003, the HAD informed Audit that the former Director of Home Affairs (in post from August 1995 to June 2002) had now recollected that it was her decision in 1995 to shelve the ESWG's recommendations because she found them unacceptable and incompatible with her vision of the HAD. The former Director said in August 2003 that she had duly informed the CSB and got the CSB's endorsement of the decision. **However, the HAD**

has not been able to provide Audit with substantiating documentation about these remarks.

Audit observations

2.16 Audit found that there were:

- (a) large variations (see shaded items in Appendix D) in the average staff workload of each DO in terms of the population of the district, the number of DC Members served and the number of consultations conducted in 2002. The staff establishment ranged from 57 in the Wan Chai DO to 116 in the Yuen Long DO (see Appendix D); and
- (b) large variations in the number and proportion of supporting staff in the staff establishment of each DO. It can be seen from Appendix E that as at 31 March 2003:
 - (i) the number of supporting staff ranged from 25 in the Wan Chai DO to 52 in the Kwai Tsing DO; and
 - (ii) the proportion of supporting staff to the staff establishment ranged from 43% in the Central and Western DO to 54% in the Kwai Tsing DO.

These large variations indicated that the HAD did not have standardised and updated manning scales based on objective criteria for determining the manpower requirement of its DOs.

2.17 Had the ESWG's proposals on the staff establishment of DOs in 1995 been implemented, 72 posts of supporting staff could have been reduced, resulting in an annual saving of \$6.1 million at the 1995-96 price level (see para. 2.10). However, Audit found that:

- (a) the ESWG's recommendations had been shelved (see para. 2.15). No follow-up action had been taken by the HAD; and

- (b) the HAD had not fulfilled its 1994 agreement with the CSB that a “root and branch” review on all aspects of its work should be carried out (see para. 2.3).

Audit considers that the HAD needs to critically review the existing staff establishment and structure of its Headquarters and DOs.

Audit recommendations

2.18 **Audit has recommended that the Director of Home Affairs should:**

- (a) **critically review the existing staff establishment and structure of the HAD Headquarters and DOs in the light of the social, economic and infrastructural developments in the territory and the present-day circumstances;**
- (b) **draw up objective criteria for determining the number of staff required for a DO and ensure that these criteria are followed by all DOs in future;**
- (c) **consider reducing the number of administrative/clerical/other supporting staff at the district level (e.g. by pooling the supporting staff and reducing the number of outlying DSOs); and**
- (d) **ensure that major decisions on staffing matters (e.g. shelving the ESWG’s recommendations) are properly documented.**

Response from the Administration

2.19 The **Director of Home Affairs** agrees with the audit recommendations. She has also said that:

- (a) **the HAD agrees with the audit recommendation to review the existing staff establishment and structure of its Headquarters and DOs in the light of the social, economic and infrastructural developments in Hong Kong.** Although the ESWG’s recommendations were shelved in 1995, in

the ensuing years, this issue has been constantly reviewed under the Enhanced Productivity Programme;

- (b) in conducting such reviews, the topographical characteristics and social needs of individual districts have been taken into account. In addition, the expansion of the HAD's role and responsibility in relation to the District Administration Scheme, building management, promotion of local community economy and election of village representatives, etc. during the past years has prevented the HAD from adopting a simple manning scale for DOs;
- (c) instead of using the traditional manning scale, the HAD developed in 2001-02 a "model structure" by dividing the 18 DOs into groups/bands for resource distribution purposes. To achieve a more systematic way of distribution, a "formula approach" was subsequently evolved in 2002 to distribute resources in accordance with a number of weighted criteria such as the population, and the number of area committees, owners' corporations, mutual aid committees, rural villages and private buildings. The HAD will further revise and fine-tune these criteria in drawing up future manpower plans for DOs; and
- (d) in line with the Government's policy of downsizing civil service establishment and identifying efficiency savings, the HAD has been achieving savings through various exercises (e.g. the closure of sub-treasury offices in nine NT DOs, the rationalisation of translation and supplies services, and the return of surplus Housing Officer grade staff to the Housing Department starting from 2003-04), resulting in a net reduction of 109 staff. The HAD will continue to conduct establishment reviews in future with a view to achieving manpower savings wherever practicable.

PART 3: DISTRICT SUB-OFFICES

3.1 This PART examines the provision of DSOs and suggests measures for improvement.

Establishment of DSOs

3.2 DSOs were first established in the 1960s. Since then, DSOs have become an integral part of the Government's community building strategy to provide a network of easily accessible points of contact between the Government and the public. DSOs are essential community relation offices where ordinary people can get information or guidance from, or referral to, appropriate agencies/departments or make complaints. As at 30 April 2003, 31 outlying DSOs were operating in ten districts (see Table 1).

Table 1
Staff in the 31 DSOs
(30 April 2003)

District	Number of DSOs	Number of staff
(A) Hong Kong Island		
Eastern	2	15
Southern	3	21
(B) Kowloon		
Kowloon City	4	22
Kwun Tong	5	22
Wong Tai Sin	3	21
(C) NT		
Islands	3	7
Kwai Tsing	5	35
Sai Kung	1	9
Sha Tin	1	5
Tuen Mun	4	16
Total	31	173 (Note)

Source: HAD's records

Note: These included LO grade staff and supporting staff.

3.3 Most of the outlying DSOs are located in the HAD's community centres/community halls or government-owned premises for which no rent is payable. However, some DSOs are located in rented commercial premises. As at 30 April 2003, seven DSOs were located in commercial premises, the total rent of which was \$2.8 million a year. Apart from the 31 outlying DSOs, there were five sub-offices (Note 6) which were located in the same building of their district main office. A total of 28 staff, comprising 16 LO grade staff and 12 supporting staff, worked in these five sub-offices.

Criteria and arrangements for setting up a DSO

3.4 In its 1980 policy statement on community building, the Community Building Policy Committee (Note 7) reaffirmed the standards for the provision of DSOs, as follows:

- (a) for the urban region, DSOs should be provided at a ratio of about one office to 150,000 people; and
- (b) for the NT region, DSOs should be provided at the ratio of one office to 100,000 people and at places where the size and distribution of the population justified such DSOs.

3.5 In addition to the population criterion, the Community Building Policy Committee stated that, in considering whether a DSO should be set up, other factors (such as geographical spread of people in the area, need for government presence, need for contact point and liaison base, and the number of local organisations) should be taken into account.

3.6 Following the rapid development of the NT in the 1980s, in 1989, the standards for the provision of DSOs were reviewed and standardised. The Community

Note 6: *These five sub-offices were the Aberdeen Sub-office, Ngau Tau Kok Sub-office, Town and Industrial Area Sub-office, Tsui Ping Sub-office and Shau Kei Wan Sub-office.*

Note 7: *The Community Building Policy Committee, chaired by the Secretary for Home Affairs, included the Director of Home Affairs, Director of Social Welfare, Director of Housing, then Director of Education and Commissioner of Police as members. Its main functions were to determine overall policy on community building and recommend priorities for community building projects.*

Building Policy Committee agreed to adopt a common standard for the provision of DSOs, i.e. one DSO for 150,000 people for both urban and the NT regions. However, due consideration should be given to deserving cases which would not satisfy the established population criterion, e.g. the outlying islands and rural areas in particular districts.

3.7 From September 1989, for setting up new DSOs, the DOs were required to follow the following procedures:

- (a) DOs should satisfy themselves that the population criterion of 150,000 people was met; and
- (b) all the proposals should be submitted to the Administration Division of the HAD Headquarters for endorsement and for consolidation of the additional resources required.

Provision of Public Enquiry Service Centre within DSOs

3.8 Before 1990, when a DSO was being set up, the provision of a Public Enquiry Service Centre within the sub-office would be automatically included. A Public Enquiry Service Centre might sometimes be set up instead when a full-scale DSO was not justified, e.g. on the outlying islands. In September 1990, at a Star Chamber (Note 8) meeting, it was decided that each district should be allowed to retain only one Public Enquiry Service Centre. As a result, the number of Public Enquiry Service Centres was reduced from 69 to 20. The district main offices absorbed most of the services previously provided by the Public Enquiry Service Centres. Thereafter, the main function of DSOs has become maintaining the liaison network in districts and acting as focal points for community relation services in the areas. The liaison teams stationed in each DSO are also responsible for organising and coordinating district activities, identifying deficiencies of services in the area, and collating public opinion. The officer-in-charge for liaison in each DSO (at LO I level) is also responsible for the operation and management of the community centres/community halls in the area.

Note 8: *The Star Chamber comprised the Chief Secretary, Financial Secretary, then Secretary for the Treasury and Secretary for the Civil Service. The Star Chamber's role was to oversee the annual Resource Allocation Exercise (covering both recurrent and capital expenditure).*

Review of the provision of DSOs in 1994-95

3.9 In December 1994, the ESWG reviewed the organisational structure and establishment of DOs. One of the ESWG's tasks was to review the criteria for the establishment of DSOs (see para. 2.5(d)). As at 1 March 1995, 38 DSOs were established in 11 districts. A list of these DSOs together with the number of staff working there is at Appendix F. The ESWG's findings are given in paragraph 3.10.

ESWG's findings and recommendations on the provision of DSOs

3.10 On the provision of DSOs, the ESWG commented in August 1995 that:

- (a) the distribution of DSOs did not follow the standard of provision of one DSO for 150,000 people (see para. 3.6);
- (b) some districts had no sub-offices while others had many of them; and
- (c) the Government's strategy of establishing DSOs in the 1960s aimed at providing more convenient points of contact between the Government and the public. However, rapid development in communication and transportation networks, particularly the Mass Transit Railway, electrified Kowloon Canton Railway and Light Rail Transit systems since the early 1980s, had enabled people to travel to most parts of Hong Kong quickly and conveniently. Furthermore, the rapid development of new towns in the NT had made most parts of the NT less remote and rural. **Consequently, the original function of DSOs of providing easily accessible points of contact had become less important.**

3.11 The ESWG considered that there was a need to review the functional needs of DSOs and the criteria for their establishment. A sub-group, co-chaired by the Sai Kung District Officer and the Southern District Officer, was formed to examine this issue and make recommendations to the ESWG. The DOs were asked to re-examine the need for sub-offices in their districts and provide justifications for their retention/establishment.

3.12 Based on the sub-group's recommendations, in its report of August 1995, the ESWG recommended that 15 DSOs would be required for the territory (see Appendix G). This would result in a net reduction of 23 DSOs. It was estimated that the closure of DSOs would bring about a reduction of 50 posts of supporting staff, resulting in an annual saving of \$5.7 million at the 1995-96 price level, and other savings in rent and operational costs of these DSOs.

Subsequent action on the ESWG's Review Report

3.13 In August 1995, the ESWG's Review Report was submitted to the Secretary for Home Affairs and the Secretary for the Civil Service (Note 9). However, as far as Audit could ascertain, up to 31 July 2003, there had been no further exchange of correspondence between the CSB and the HAD concerning the ESWG's Review Report (see para. 2.15).

Further discussion on the issue of DSOs in 1997

3.14 In April 1997, a discussion paper on DSOs was prepared by the HAD to consider whether to adopt the ESWG's recommendations. After internal consultations, at a meeting in June 1997 (chaired by the Director of Home Affairs) to discuss the way forward for DSOs, it was decided that:

- (a) in view of changing circumstances, the ESWG's recommendations concerning the closure of DSOs should be set aside; and
- (b) in future, it might be necessary to review the staffing and functions of DSOs. Pending an overall review, District Officers could put forward proposals at any time for the closure of DSOs or for the opening of new ones, provided that no additional staffing resources were required.

Note 9: *While pointing out that the review provided an ideal opportunity for districts to evaluate and re-examine the deployment of resources in the light of the changes brought about by the reorganisation of the then City and New Territories Administration, the Chairman of the ESWG recommended that the structure of the department should be rationalised.*

Audit observations

Need to reduce the number of DSOs

3.15 Since the early 1980s, the function of DSOs to provide easily accessible points of contact between the Government and the public has diminished (see paras. 3.2 and 3.10(c)). In 1995, the ESWG recommended that, of the existing 38 DSOs, only 15 should be retained (see para. 3.12). However, the ESWG's recommendations had been shelved. Despite the relocation and merging of some DSOs, as at 30 April 2003, 79 supporting staff still worked in 31 outlying DSOs (see Appendix H). **Audit considers that the HAD needs to review the justifications for retaining these 31 DSOs in the light of the social, economic and infrastructural developments of the territory.**

Need to review the population standard for the provision of DSOs

3.16 Since 1989, the standard for the provision of DSOs has been one DSO for 150,000 people (see para. 3.6). Audit has found that some DOs have established outlying sub-offices in their districts while other DOs have no sub-offices. As at 30 April 2003, of the 18 districts, only 10 had outlying DSOs. The ESWG had pointed out the disparity in the provision of DSOs in various districts in 1995 (see para. 3.10). **Audit considers that the HAD needs to critically review the existing standards for the provision of DSOs, particularly the standard of one DSO for 150,000 people, to see if they are still applicable.**

Merging of DSOs with the district main office or other DSOs

3.17 From 1997 to 2002, there were a number of instances where sub-offices were moved to the same building of their district main offices, or some sub-offices were merged. These included:

- (a) the merging of the four DSOs in Kwai Tsing into two DSOs and of all four DSOs in Sham Shui Po with their district main office; and
- (b) the moving of the Aberdeen Sub-office, Ngau Tau Kok Sub-office and Shau Kei Wan Sub-office into the same building of their district main offices.

3.18 Some of these DOs considered that merging sub-offices with their district main offices was feasible because of the convenient transportation and communication network. In addition, this would have the following advantages:

- (a) economy of scale would be achieved through savings in staff costs and reduction in accommodation space because of centralisation of administrative support; and
- (b) grouping all the liaison teams in one central place would improve office support and supervision and hence the overall efficiency.

To obtain efficiency gains, Audit considers that the DOs which still have outlying DSOs should explore the feasibility of merging their DSOs with the district main offices.

Approval for setting up a new DSO

3.19 Since September 1989, DOs have been requested to follow standardised procedures for proposing new DSOs in their districts (see para. 3.7). Audit noted that after 1995, three new DSOs, namely the Ma On Shan Sub-office, the Tung Chung Sub-office and the To Kwa Wan Sub-office were established. Before setting up the Ma On Shan Sub-office and the Tung Chung Sub-office, the DOs concerned had obtained formal policy support from the HAD Headquarters.

3.20 For the setting up of the To Kwa Wan Sub-office, Audit could not find any formal approval of the HAD Headquarters. In response to Audit's enquiry, the Kowloon City DO explained that the Director of Home Affairs had once indicated her positive response in considering a DC Member's suggestion for the setting up of a new DSO. Despite the lack of formal approval, the To Kwa Wan Sub-office commenced operation in mid-1999 (in an office with an area of 135 square metres at a monthly rent of \$49,400). **Audit considers that the Kowloon City DO should have sought formal policy support from the HAD Headquarters before setting up a new DSO in To Kwa Wan.**

Audit recommendations

3.21 **Audit has recommended that the Director of Home Affairs should:**

- (a) **critically review the need for retaining the existing 31 outlying DSOs in the light of the present-day circumstances;**

- (b) **critically review the existing population standard on the provision of DSOs;**
- (c) **draw up criteria, which reflect the present-day circumstances, for determining the need for DSOs and the number of DSOs required, and ensure that these criteria are followed in setting up new DSOs in future;**
- (d) **examine the feasibility of merging sub-offices with their district main offices in order to achieve savings (e.g. through the pooling of the administrative/clerical/other supporting staff); and**
- (e) **ensure that the DOs comply with the laid-down procedures regarding the setting up of new DSOs, particularly those procedures which require them to seek formal approval from the HAD Headquarters.**

Response from the Administration

3.22 The **Director of Home Affairs** generally agrees with the audit recommendations. She has also said that:

- (a) the HAD will critically review the number of DSOs and the corresponding manpower requirements with a view to identifying savings. The HAD considers that DSOs should be maintained on a need basis in view of their unique roles and functions to reach out to the public and provide various kinds of public services;
- (b) in determining the establishment of a DSO, the HAD takes into account a number of factors such as the population and its distribution in the district, the accessibility and remoteness of the main office and other sub-offices, and the needs of the community. DOs are required to seek policy support from the HAD Headquarters before setting up a new DSO. The HAD will continue to follow this control mechanism; and
- (c) the HAD will continue to review critically the service needs for DSOs. The pooling of supporting staff will be considered in the light of efficiency savings initiative.

PART 4: USE OF DC FUNDS FOR COMMUNITY INVOLVEMENT PROJECTS

4.1 This PART examines the HAD's monitoring of the use of DC funds for implementing CI projects and suggests measures for improvement.

Ambit of DC funds

4.2 The Government provides DC funds to implement CI projects and MEI projects. DC funds are mostly spent on specific one-off CI projects which aim at enhancing community spirit and social cohesion and promoting the well-being of the people in the district. DC funds spent must benefit directly the local community. CI projects (Note 10) are organised by DCs and local organisations, or funded under the District Festivals Subsidy Scheme and the District Cultural Project Grants Scheme. The expenditure limit on each CI project organised by DCs and local organisations is \$600,000 while that on each project funded under the District Festivals Subsidy Scheme and the District Cultural Project Grants Scheme is \$2.5 million.

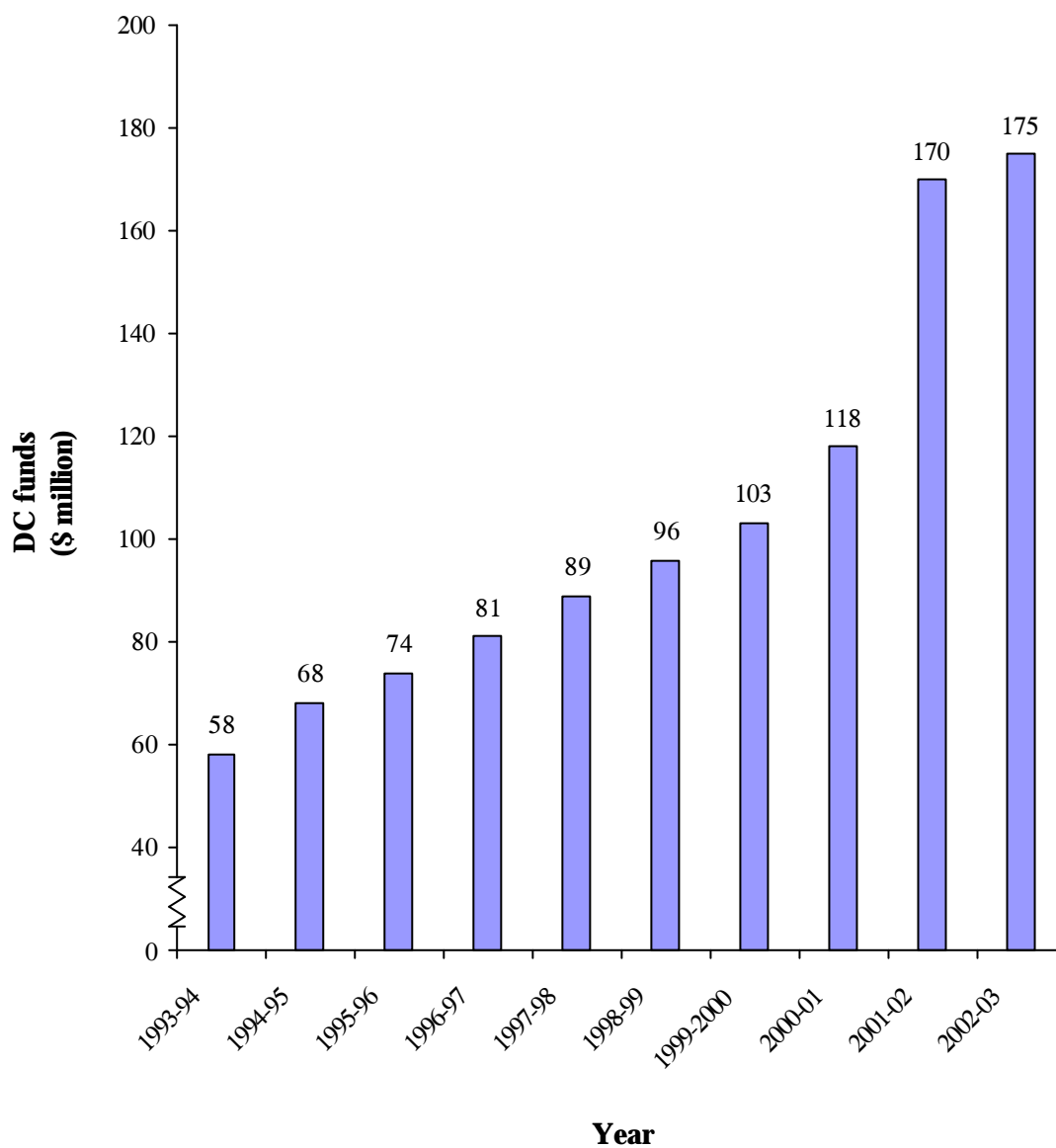
Amount of DC funds spent on CI projects

4.3 In 2002-03, \$175 million (or 88%) of the DC funds of \$199 million was spent on CI projects. In the last decade (1993-94 to 2002-03), the amount of DC funds spent on CI projects each year increased by \$117 million (or 202%), from \$58 million to \$175 million (see Figure 1).

Note 10: *CI projects include projects to promote district-based cultural, recreational and sport activities, exhibitions and surveys, celebration of traditional activities, district-wide arts festivals, sports festivals, district festivals, art project training courses, Mentors-of-the-Arts project, and projects to help enhance public understanding of the District Administration Scheme.*

Figure 1

**DC funds spent on CI projects
(1993-94 to 2002-03)**



Source: HAD's records

4.4 In 2002-03, DC funds were spent on a total of 7,536 CI projects (see Appendix I). The amount of DC funds spent on CI projects and the number of CI projects varied considerably among the 18 DOs. For example, the Kwai Tsing DO spent \$15.8 million on 519 CI projects, while the Islands DO spent \$5.4 million on 249 CI projects (see Appendix J). The amount of DC funds granted to each project ranged from less than \$500 to \$2 million. On average, \$23,000 was spent on each CI project.

Reviews on control of use of DC funds

HAD's review

4.5 In December 1994, the HAD's Working Group on Control of the Use of District Council Funds (CFWG — Note 11) made a number of recommendations to streamline and enhance the procedural controls on the use of DC funds with a view to minimising the occurrence of irregularities. The HAD generally agreed with most of the CFWG's recommendations.

Treasury's review

4.6 In September 1995, the Treasury conducted a review of the control procedures and guidelines on the use of DC funds with a view to ensuring that sufficient accounting controls on the use of DC funds were in place. The review was completed in January 1996. The HAD generally agreed with most of the Treasury's recommendations.

ICAC's review

4.7 In late 1995, in view of some complaints from the public, the Independent Commission Against Corruption (ICAC) conducted a review on the use of DC funds for

Note 11: *The main terms of reference of the CFWG were:*

- (a) to examine the guidelines laid down for the implementation of projects financed by DC funds and recommend any improvements or additional controls which might be considered necessary; and*
- (b) to consider whether and how reports on levels of DC funds might be submitted to the HAD Headquarters.*

CI projects. The ICAC's review covered six areas (Note 12). In February 1996, the ICAC made a number of recommendations which were mostly accepted by the HAD.

Guidelines on the use of DC funds

4.8 In May 1997, the HAD Headquarters issued to the 18 DOs revised guidelines on the use of District Council Funds for Community Involvement projects (hereinafter referred to as the DCF Guidelines) and the accounting procedures for the disbursement of DC funds. Thereafter, the HAD Headquarters regularly updated the DCF Guidelines. On the advice of DCs, individual DOs also prepared their own DCF Guidelines, which generally followed those issued by the HAD Headquarters.

Monitoring of the use of DC funds

4.9 DCs and District Officers are jointly responsible for monitoring the use of DC funds for CI projects. DCs are responsible for identifying, planning and setting the priority of CI projects, determining the timetable for their implementation and monitoring the progress of their implementation. District Officers are responsible for controlling the proper use of DC funds for CI projects in accordance with the guidelines issued by the HAD Headquarters and individual DOs.

Audit observations

4.10 Audit reviewed the monitoring of the use of DC funds for CI projects in nine selected DOs (Note 13). An analysis of those cases which did **not** comply with the HAD Headquarters' or individual DOs' DCF Guidelines is at Appendix K. Audit's observations are set out in Table 2.

Note 12: *These six areas included: allocation of DC funds at district level, funding allocation, advance payment, implementation and monitoring of projects, procurement of goods and services, and reimbursement or payment to claimants.*

Note 13: *These nine DOs were the Eastern DO, Kwai Tsing DO, Kwun Tong DO, Sai Kung DO, Sha Tin DO, Southern DO, Tuen Mun DO, Wong Tai Sin DO and Yau Tsim Mong DO.*

Table 2

Audit observations on monitoring of the use of DC Funds for CI projects

Criteria (Note)	Audit findings
(A) Proper documentation system not always established	
<i>A proper documentation system should be established so that all relevant documents and records of a CI project could be kept in a single case file.</i>	In early 2003, 5 DOs did not have a proper documentation system for CI projects.
(B) Other sources of income not reported in reimbursement claim forms	
<i>DC funds are utilised only when no other sources of income are readily available. Local organisations are required to submit to DOs a comprehensive statement of accounts of the CI project together with supporting documents and receipts, certifying that other sources of income and sponsorship stated therein are complete.</i>	In 3 DOs, there were 11 CI projects which did not reflect all sources of income, such as fees collected from the participants, in their statements of accounts. For one of the projects in the Sai Kung DO, an income of \$108,777, representing 12% of the total amount (\$872,543) of reimbursement claimed and paid, had not been reported in the reimbursement claim form. In February 2003, upon Audit's query, the local organisation concerned subsequently refunded the overpaid amount of \$108,777 to the DC funds.

Note: Unless otherwise stated, the criteria are based on the HAD Headquarters' DCF Guidelines.

(C) Reimbursements for expenditure incurred before CI project approval, or submission of claims before CI project completion

<p><i>For CI projects already in progress when DC funds are applied, DC funds must not be allocated to cover expenditure already incurred. Reimbursements will be made to local organisations on the actual cost upon completion of a CI project.</i></p>	<p>In 4 DOs, there were 8 cases in which these guidelines had not been complied with.</p>
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(D) Excessive quantity of souvenirs

<p><i>DO staff should ensure that the proposed quantities of procurement for CI projects are reasonable having regard to the scope of the project, the attendance expected, the number of staff and existing resources of the organisations involved and other appropriate factors.</i></p>	<p>In 3 DOs, an excessive number of souvenirs had been provided to local organisations for 3 CI projects. The extra amount spent on these souvenirs was \$12,504, representing 8% of the total reimbursement (\$158,527).</p>
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(E) Expenditure limits on individual items exceeded

<p><i>The limits on 7 items of expenditure have been specified. Most of the DOs have also set their own expenditure limits.</i></p>	<p>In 8 DOs, there were 31 cases for which the expenditure limits on individual items had exceeded the limits specified in the HAD Headquarters' or individual DOs' DCF Guidelines.</p>
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<p><i>The expenditure on administrative costs has been limited to 30% of the total project cost for district cultural/arts organisations, and 25% for major local organisations.</i></p>	<p>The Southern DO had created a specific CI project merely for claiming administrative costs for CI projects organised by a major local organisation. The total administrative costs of \$39,000 reimbursed for 3 related CI projects exceeded the permitted expenditure limit by 10%.</p> <p>Audit considers that it is not appropriate to purposely set up a CI project for claiming administrative costs because DC funds must be spent to benefit directly the local community.</p>
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(F) Late or no notification of changes in particulars of approved CI projects

<p><i>Prior to the commencement of a CI project, local organisations are required to submit to DCs or their relevant committees details of any changes in particulars of the approved CI project.</i></p>	<p>7 DOs did not fully comply with this requirement in 16 cases.</p>
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(G) Late submission of reimbursement claims

<p><i>Reimbursement claims together with supporting documents should be submitted to DOs by local organisations within two months after the completion of a CI project.</i></p>	<p>There were 26 cases of late submission of reimbursement claims to 8 DOs.</p>
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(H) Required number of quotations for procurement not complied with

<p><i>For the procurement of equipment, services, stationery and stores, local organisations have to comply with the requirement of obtaining a minimum number of quotations.</i></p>	<p>In 3 DOs, there were 8 cases of non-compliance.</p>
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(I) Non-submission of verifiable proof of execution of CI projects

<p><i>Local organisations should submit verifiable proof (e.g. photographs, publicity leaflet or posters) of the execution of CI projects.</i></p>	<p>In 3 DOs, some local organisations did not provide such verifiable proof.</p>
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(J) Attendance of activities of CI projects by DO staff

<p><i>Wherever possible and necessary, DO staff should attend the activities of CI projects selectively and take the opportunity to assess and report whether the stated objectives of CI projects have been met.</i></p>	<p>Staff of 8 DOs did not attend the activities of CI projects and submit assessment reports.</p> <p>No follow-up action had been taken on 2 CI projects, the attendance rates of which were low.</p>
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(K) DC Members' attendance of activities of CI projects

<ul style="list-style-type: none"> • <i>DC Members and co-opted Members should also be invited, where possible, to attend and assess the activities organised by newly formed local organisations and organisations which have been granted considerable DC funds to undertake CI projects.</i> • <i>5 DOs have specified in their DCF Guidelines the criteria under which local organisations are required to invite DC Members to attend the activities of CI projects. DC Members are also required to submit assessment reports to DOs subsequently.</i> 	<ul style="list-style-type: none"> • In these 5 DOs: <ul style="list-style-type: none"> — some local organisations did not invite DC Members to attend the activities; and — some invited DC Members did not submit the assessment reports to DOs after attending the activities. • No follow-up action had been taken by these DOs.
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Source: *Audit's review of DOs' records*

Audit recommendations

4.11 **Audit has recommended that the Director of Home Affairs should ensure that DOs and local organisations comply with the HAD Headquarters' and DOs' DCF Guidelines in implementing CI projects. In doing so, the Director should:**

- (a) **ensure that a proper documentation system is established by all DOs to keep all relevant documents and records of CI projects in one single location;**
- (b) **strengthen the controls on the use of DC funds for CI projects so that other sources of income are always used first;**

- (c) **ensure that the quantities of souvenirs provided for CI projects are not excessive;**
- (d) **ensure that DOs fully comply with the HAD Headquarters' and their own DCF Guidelines in vetting applications for DC funds and in approving reimbursements to local organisations;**
- (e) **strengthen the monitoring of the execution of approved CI projects by ensuring that:**
 - (i) **local organisations submit verifiable proof of the execution of CI projects;**
 - (ii) **DO staff attend the activities of CI projects and submit assessment reports; and**
 - (iii) **DC Members attend the activities of CI projects and submit assessment reports to DOs; and**
- (f) **ensure that DOs take effective and prompt follow-up action after assessing the performance of CI projects.**

Response from the Administration

4.12 The **Director of Home Affairs** agrees that there is room for improvement in the use of DC funds for CI projects. She has also said that:

- (a) the HAD will review the monitoring procedures and will work closely with DO staff to ensure proper processing and implementation of CI projects; and
- (b) follow-up actions have been and will be taken in response to the audit observations on those CI projects which were found to have been implemented not in accordance with the HAD Headquarters' and DOs' DCF Guidelines.

PART 5: MANAGEMENT INFORMATION FOR MONITORING THE USE OF DC FUNDS

5.1 This PART examines the management information for monitoring the use of DC funds and suggests measures for improvement.

Management information submitted to HAD Headquarters by DOs

5.2 It has been a long-standing practice of the HAD Headquarters to require DOs to submit regularly manually prepared reports on:

- (a) the monthly financial position on the use of DC funds (hereinafter referred to as “monthly reports”); and
- (b) the quarterly position on the number and types of CI projects and MEI projects implemented with DC funds (hereinafter referred to as “quarterly reports”).

5.3 The HAD considers that the quarterly reports provide readily available information on the number and types of CI projects, which is not provided elsewhere. In 1994, the CFWG:

- (a) commented that the quarterly reports, which summarised information on CI projects implemented by DCs, provided a useful guide to the profile of expenditure for various types of activities undertaken by different organisations; and
- (b) recommended that the submission of quarterly reports by DOs should continue, and CI projects organised by DCs/DOs and local organisations should be classified into different categories (Note 14).

The CFWG’s recommendations were accepted by all DOs.

Note 14: *The classification included district festivals, campaigns, festive events, carnivals, Summer Youth Programmes, sports and recreation activities, cultural activities, civic education and surveys.*

Accounting system for monitoring the use of DC funds

5.4 The District Council Funds Accounting System (DCFAS) is a computerised accounting system recording the amount of DC funds spent on CI projects and MEI projects. It came into operation in 1997. The major objectives of the system are, among others, to record and monitor the spending of DC funds and to provide comprehensive control and analysis reports or enquiries on the use of DC funds. The system provides two categories of reports, as follows:

- (a) **for each DO**, analysis reports on the usage of funds on projects of different classifications and status; and
- (b) **for the HAD Headquarters**, summary reports on the budget and actual payments of all DOs.

The HAD Headquarters cannot obtain, through the DCFAS, the analysis reports mentioned in inset (a) above because such information is only available to individual DOs.

Audit observations

5.5 On the HAD's management information for monitoring the use of DC funds, Audit's findings are set out in paragraphs 5.6 to 5.8. **Audit considers that the HAD needs to ascertain its information needs and to take effective measures to ensure that its management is provided with consistent, timely and updated management information.**

Submission of quarterly reports to HAD Headquarters

5.6 To efficiently and effectively monitor the spending of DC funds, the management information provided to the HAD Headquarters should be accurate and timely. All along, the HAD Headquarters had reminded DOs to submit all quarterly reports before the 15th day of the next quarter. However, Audit found that:

- (a) not all the DOs submitted quarterly reports to the HAD Headquarters on time. During the period 2000 to 2002, the submission rate of quarterly reports of all the 18 DOs dropped from 83% to 72%; and

- (b) eleven DOs did not submit all the required quarterly reports for the years 2000 to 2002 to the HAD Headquarters (see Table 3). In these three years, the North DO had not submitted quarterly reports to the HAD Headquarters at all.

No effective action had been taken by the HAD Headquarters to ensure that quarterly reports were submitted timely by DOs.

Table 3

**Submission rate of quarterly reports of eleven DOs
(2000 to 2002)**

DO	Submission rate
	(%)
North	0%
Kowloon City	33%
Southern	50%
Wan Chai	} 58%
Yau Tsim Mong	
Central and Western	} 75%
Islands	
Wong Tai Sin	
Kwai Tsing	} 92%
Kwun Tong	
Sham Shui Po	

Source: HAD's records

Duplication of work for preparing monthly reports

5.7 With the implementation of the DCFAS in 1997, the monthly financial position on the use of DC funds by individual DOs could be obtained by the HAD Headquarters from this system. However, Audit found that the HAD Headquarters still continued to request DOs to submit monthly reports after the implementation of the DCFAS. As far as could be ascertained, the HAD had not reviewed the need for monthly reports. As a result, there was duplication of work for DOs when preparing manually monthly reports after the implementation of the DCFAS.

Inconsistent classification of CI projects

5.8 The CFWG recommended that CI projects organised by DCs/DOs and local organisations should be classified in different categories (see Note 14 in para. 5.3). All DOs accepted this recommendation. However, Audit found that classifications of CI projects organised/co-organised by DCs/DOs and local organisations varied among the 18 DOs.

Audit recommendations

- 5.9 **Audit has recommended that the Director of Home Affairs should:**
- (a) **take effective measures to ensure that DOs promptly submit to the HAD Headquarters consistent and updated management information on the use of DC funds; and**
 - (b) **ascertain the information required by the HAD's management to control and monitor DC funds and, in the process of collecting such information:**
 - (i) **fully utilise the information already available in the DCFAS;**
 - (ii) **standardise the classification of management information in both the DCFAS and the quarterly reports; and**

- (iii) **consider dispensing with the preparation of unnecessary management reports.**

Response from the Administration

5.10 The **Director of Home Affairs** generally agrees with the audit recommendations. She has also said that:

- (a) the HAD agrees to take more effective measures to ensure DOs' prompt submission of the updated management information to its Headquarters. In future, delay in the submission of the quarterly reports by DOs will be brought to the personal attention of the District Officers;
- (b) the classification of management information in both the DCFAS and quarterly reports will be reviewed with a view to obtaining accurate and consistent information for monitoring the use of DC funds; and
- (c) the DCFAS does not provide information on the District Festivals Subsidy Scheme and the District Cultural Project Grants Scheme. Hence, the HAD considers that there is a need for DOs to prepare monthly and quarterly reports to provide additional management information for monitoring the use of DC funds. Nevertheless, the Treasury's assistance will be sought to explore the feasibility of enhancing the DCFAS by incorporating necessary management information in the system so that the monthly and quarterly reports from DOs can be dispensed with.

PART 6: INTERNAL AUDIT ACTIVITIES

6.1 This PART examines the work of the HAD's Internal Audit Section (IAS) on the activities of DOs.

Background leading to the establishment of IAS

6.2 During the period 1985-86 to 1994-95, the amount of DC funds had increased by \$65 million (or 186%), from \$35 million to \$100 million. In view of this significant increase, the CFWG commented in its review report of December 1994 that:

- (a) more checking was required than the minimal spot checking undertaken by districts and the HAD Headquarters. More systematic and immediate attention to the adequacy of, and adherence to, procedural arrangements was necessary; and
- (b) due to increased public interest in the use and control of DC funds at the district level, it was important that mechanisms for a degree of continuous and independent checking were seen to be in place.

6.3 The CFWG recommended that a dedicated team, headed initially by an SEO, should be established at the HAD Headquarters. The SEO would report to the HAD's senior management, through the Assistant Director of the Administration Division, on his appraisal of the HAD's internal control systems.

Establishment of IAS in 1994

6.4 In September 1994, the HAD established an IAS which comprised three staff, i.e. an SEO as the Head of the Section, a Senior Clerical Officer and an Assistant Clerical Officer. The main duties of the IAS were to visit DOs to carry out audit reviews and to report its findings to the Director of Home Affairs.

Additional duties of the Head of IAS

6.5 In 1995, as the HAD experienced a large increase in the application of information technology (IT), the SEO of the newly formed IAS, SEO(IA), also took up IT management duties. The additional IT duties included developing and implementing

IT projects, controlling and managing IT resources, and providing advice to divisions and districts on IT-related matters.

Treasury's reviews

Review of guidelines and control procedures on the use of DC funds in 1995

6.6 In September 1995, the Treasury conducted a review of the guidelines and control procedures on the use of DC funds. In January 1996, the Treasury recommended to the HAD that the IAS should expand its scope of work to attend CI projects selectively to ensure that monies were well spent and procedural requirements were complied with.

Review to streamline accounting control procedures in 1997

6.7 In January 1997, a Project Team from the Treasury was seconded to the HAD to streamline the HAD's accounting control procedures, including the development of the DCFAS. In late 1997, concerning the IAS, the Project Team commented that:

- (a) the IAS was not entirely independent of the HAD's daily operations. Its officer-in-charge, SEO(IA), was also the administrator of the HAD's local area network. This was not satisfactory because internal audit should be an independent appraisal function within an organisation to review its activities objectively; and
- (b) the duties of internal audit were primarily accounting in nature. The IAS staff should be trained in accountancy and proficient in applying internal audit methods, procedures and techniques.

6.8 The Treasury's Project Team recommended that the HAD should consider:

- (a) restructuring the IAS's organisation and line of responsibility so that the IAS:

- (i) would not perform duties other than internal audit; and
 - (ii) would report directly to the senior management (e.g. a Deputy Director);
- (b) introducing a more cost-effective IAS's service to review all financial aspects of the HAD so as to help ensure that departmental objectives were achieved and value for money was obtained as far as possible; and
- (c) whether it would be more appropriate to appoint a Treasury Accountant grade officer to take charge of the IAS.

Follow-up review of DCFAS in 1998

6.9 In July 1998, another Project Team from the Treasury conducted a follow-up review of the DCFAS and, in addition, examined the banking and disbursement arrangements at DOs. The Project Team reported the following findings:

- (a) reasonable written procedures for the control and management of expenditure on projects financed with DC funds were in place. However, the observance of the procedures and the supervision of the staff involved were less than ideal. The DOs designated to deal with CI projects were ill-prepared for financial control responsibilities which were required and were specified in various written procedures;
- (b) some weaknesses revealed in the review were similar to those found in the Treasury's review in 1997. All the weaknesses revealed contributed to an unsatisfactory level of financial control over the disbursement of DC funds; and
- (c) some irregularities found by the IAS (eight months ago) had not yet been rectified by the DOs concerned.

The Project Team recommended that the IAS should conduct post-audit reviews to ensure that appropriate follow-up actions were promptly taken by DOs.

6.10 In February 1999, the Treasury advised the Financial Services and the Treasury Bureau (Note 15) on the findings mentioned in paragraph 6.9. The Financial Services and the Treasury Bureau expressed concern about the reported laxity in the management of DC funds and in the banking and disbursement arrangements at DOs. The Financial Services and the Treasury Bureau then urged the HAD to take immediate action to overcome the weaknesses and to ensure that a robust system for monitoring the use and disbursement of public funds was in place. In reply, the HAD advised the Treasury and the Financial Services and the Treasury Bureau that the weaknesses reported by the Treasury had largely been revealed by its IAS and the HAD had been attempting to address these weaknesses.

HAD's response to Treasury's comments

6.11 In March 1999, the HAD Headquarters informed DOs about the continual undesirable practices revealed by the IAS and that most of the Treasury's findings and recommendations had already been covered in the HAD's standing circulars. DOs were requested to comply with the procedures in place and provide a progress report to the HAD Headquarters on the remedial action taken. In May 1999, DOs reported to the HAD Headquarters that steps had been taken to strengthen the control of DC funds. Thereafter, DOs were required to submit regularly "Returns on Control of DC Funds" to the HAD Headquarters (Note 16).

HAD expanded IAS's role in 2001

6.12 In July 2000, an inter-departmental Working Group, chaired by a representative of the Home Affairs Bureau, was set up to examine the future roles and functions of DCs. After this review in July 2001, additional funding (of more than \$41 million a year) was allocated to DOs for carrying out more CI projects and MEI projects. Consequently, more effort would be required from the IAS to ensure that DC funds were properly charged. The HAD therefore expanded the role of its IAS from merely checking accounts to include management studies.

Note 15: *With the implementation of the Accountability System, with effect from 1 July 2002, the Financial Services and the Treasury Bureau took over the statutory functions of the then Finance Bureau.*

Note 16: *After April 2002, "Returns on Control of DC Funds" were no longer prepared by DOs. In August 2003, the HAD informed Audit that since April 2002, instead of keeping on calling returns from DOs, the HAD had implemented other monitoring measures (such as issue of memoranda/checklists to DOs and regular discussion of the item at the SEOs and DOs meetings) so as to constantly remind DOs to exercise control on the use of DC funds.*

IAS became part of HAD's Finance and Supplies Section

6.13 In 2001, in conjunction with the expansion in duties of its IAS (see para. 6.12), the HAD conducted an Information System Strategy Study to assess its future IT requirements. After the study, the HAD considered that the SEO(IA) could no longer concurrently take up both IT management and internal audit responsibilities.

6.14 In April 2002, the HAD set up an IT Management Section. As a result, a new Chief Executive Officer post, offset by the deletion of the SEO(IA) post, was created to head the new section. For the IAS, the HAD considered that the SEO of the Finance and Supplies Section should take up the functions of internal audit because the functions of financial management and auditing were complementary in nature. The remaining two IAS staff were also transferred to the Finance and Supplies Section.

Audit observations

6.15 In 1993, the Treasury issued an Internal Audit Manual (IAM) to all Controlling Officers. The manual sets out, among other things, the objectives, scope of activities, audit approach, planning, reporting line and standards of internal audit. Audit's comparison of the set-up of the IAS with that recommended by the Treasury's IAM has revealed the following inadequacies:

Criteria according to IAM

As a general rule, the head of an IAS should be a member of the Treasury Accountant grade.

An internal audit unit should have no executive responsibilities, must perform audit work objectively and must be independent of other activities.

Internal auditors should not be expected to participate in designing, installing, or operating systems or in drafting procedures because such tasks are not audit functions.

Audit findings

The IAS was headed by the SEO(IA) and is now headed by the SEO of the Finance and Supplies Section (see paras. 6.4 and 6.14).

Staff of the IAS are responsible to the SEO of the Finance and Supplies Section who is also responsible for financial and accounting functions. The Finance and Supplies Section is subject to review by staff of the IAS.

The former SEO(IA) was also assigned executive duties in IT management (see paras. 6.5 and 6.7(a)). Furthermore, the Senior Clerical Officer of the IAS was deployed to a DO for carrying out operational duties in 2000 and 2001.

Audit recommendations

- 6.16 **Audit has recommended that the Director of Home Affairs should:**
- (a) **by reference to the internal audit guidelines in the Treasury's IAM and the Treasury's previous recommendations concerning the IAS, reorganise the IAS so that it can perform its work objectively and independently;**
 - (b) **ensure that the Head of the IAS reports directly to a top HAD directorate officer; and**
 - (c) **seek the Treasury's assistance in determining the staffing structure and training needs of the IAS.**

Response from the Administration

6.17 The **Director of Home Affairs** agrees that the Head of the IAS should report directly to the Assistant Director of the Administration Division. She has also said that:

- (a) the existing set-up of the IAS has been established having regard to the departmental objectives and the resources available; and
- (b) the IAS's staffing support has been strengthened since November 2002. Any further increase in the IAS's manpower will be considered in consultation with the Treasury on a need basis.

The work of IAS

6.18 Audit observations on the work of the IAS concerning:

- (a) preparation of audit plans;
- (b) internal audit inspections on DOs;

- (c) reporting of the IAS's audit findings; and
- (d) follow-up action by the IAS on its recommendations

are at Appendix L. See paragraph 6.19 for the related audit recommendations.

Audit recommendations

6.19 **Audit has recommended that the Director of Home Affairs should:**

Preparation of audit plans

- (a) **ensure that annual and long-term internal audit plans are prepared regularly to coordinate the overall audit activities and are submitted to the HAD's senior management for approval;**
- (b) **closely monitor the subsequent implementation of internal audit plans and programmes to ensure that they are properly executed and all the objectives of the IAS are achieved over a planned cycle;**

Internal audit inspections on DOs

- (c) **step up internal audit inspections on DOs, and ensure that the required numbers of inspection visits to DOs are carried out;**
- (d) **strike a proper balance between the need to deploy resources for carrying out management studies and the IAS's commitment to completing its traditional audit work programme over a pre-determined cycle;**

Reporting of IAS's audit findings

- (e) **ensure that all the IAS's audit findings are promptly reported to the DOs concerned and the HAD's senior management; and**

Follow-up action by IAS on its recommendations

- (f) **ensure that the IAS takes follow-up action promptly after the issue of audit reports so that its recommendations are implemented or dealt with satisfactorily by the DOs concerned.**

Response from the Administration

6.20 The **Director of Home Affairs** generally agrees with the audit recommendations. She has also said that:

Preparation of audit plans

- (a) the limited number of audit plans prepared in the past was attributable to the HAD's stringent staffing resources and competing priorities in the past few years;
- (b) in fact, since the IAS's reorganisation in November 2001, audit plans have been devised on a job basis so as to facilitate the implementation of auditing activities. Hence, an audit work plan on an 18-month management study of community centres/community halls was prepared in November 2001 and the study was subsequently conducted. Another one-year plan on audit visits of DOs was devised in May 2003 and the visits are being undertaken currently;

Internal audit inspections on DOs

- (c) the HAD will step up internal audit inspections on DOs. The limited number of audit inspections conducted from January 1995 to August 2001 was attributable to the HAD's stringent staffing resources and competing priorities. In fact, in response to the Treasury's recommendations, the HAD had tried to secure additional manpower resources for this purpose but in vain. The HAD has since then adopted a new auditing approach by enlisting the help of officers at the district level to monitor and control the use of DC funds in their respective districts. In future, internal audit inspections will be carried out in accordance with the audit work plan and on a need basis;
- (d) while the HAD agrees that DC funds form a significant proportion of its expenditure, there are other priorities within the HAD which have been

attended to with substantial resources and should be given due weight in deciding the extent of internal audit work for the HAD as a whole. That is the reason why the current audit plan for 2003-04 covers several core issues other than DC funds. To keep up audit inspections on DC funds, the HAD has adopted a two-tier approach, i.e. random checks are conducted at district level while surprise checks are conducted by the IAS in addition to the scheduled audit assignments;

Reporting of IAS's audit findings

- (e) starting from the management study of community centres/community halls, all inspection reports have been submitted to the Assistant Director of the Administration Division for endorsement. The findings of the individual site inspections have also been issued to the respective District Officers for follow-up action. The IAS has, subsequent to the management study, taken follow-up action to ascertain if the problems identified from the site inspections have duly been addressed/followed-up. All progress reports are submitted to the Assistant Director of the Administration Division regularly for examination;
- (f) the endorsement of audit reports by the Assistant Director of the Administration Division personally is considered appropriate. Any issues of significance will be brought to the attention of the HAD's senior management, where necessary; and

Follow-up action by IAS on its recommendations

- (g) the HAD will take follow-up action to ensure that the IAS's recommendations are duly addressed/implemented. In addition, DOs will be required to double-check their bills and accounts carefully to supplement the IAS's work.

6.21 The **Director of Accounting Services** supports the audit findings in this PART and concurs with the audit recommendations to enhance the quality and scope of the HAD's IAS. The Director has also said that the Treasury has always placed a high emphasis on the need for, and the role of, Internal Audit in bureaux and departments and stands ready to assist the HAD if the HAD wishes to pursue the audit recommendations.

**Distribution of seats for DC Members by district
(30 June 2003)**

District	Number of seats
(A) Hong Kong Island	
Central and Western	19
Eastern	46
Southern	21
Wan Chai	14
	—
Subtotal	100
(B) Kowloon	
Kowloon City	27
Kwun Tong	42
Sham Shui Po	26
Wong Tai Sin	31
Yau Tsim Mong	20
	—
Subtotal	146
(C) New Territories	
Islands	19
Kwai Tsing	36
North	25
Sai Kung	24
Sha Tin	46
Tai Po	26
Tsuen Wan	24
Tuen Mun	37
Yuen Long	36
	—
Subtotal	273
	—
Total	519
	==

Source: HAD's records

**Staff strength of HAD
(1995 to 2003)**

As at 31 March	Staff strength			Percentage of HAD staff working in DOs
	Headquarters	DOs	Total	
	(a)	(b)	(c) = (a) + (b)	(d) = $\frac{(b)}{(c)} \times 100\%$
				(%)
1995	304	1,429	1,733	82
1996	318	1,448	1,766	82
1997	316	1,493	1,809	83
1998	325	1,496	1,821	82
1999	324	1,557	1,881	83
2000	335	1,562	1,897	82
2001	339	1,527	1,866	82
2002	355	1,507	1,862	81
2003	368	1,472	1,840	80
			Average	82

Source: HAD's records

ESWG's 1995 proposed changes in staff establishment of DOs

Proposed changes in staff establishment

Post	Increase	Decrease
Executive Officer I	11	
Executive Officer II		9
Liaison Officer II		2
Clerical Officer I	8	
Clerical Officer II		33
Clerical Assistant		23
Office Assistant		24
Workman II	1	
Personal Secretary II	1	
Typist		2
Chinese Language Officer II		1
Calligraphist	3	
Supplies Supervisor II		2
	Total	
	24	96
	Net reduction	72

Source: HAD's records

**Average staff workload of the 18 DOs
(2002)**

DO	Staff establishment as at 31.12.2002	Population in 2002	DC Members as at 31.12.2002	Consultations in 2002	Average staff workload in terms of		
					Population	No. of DC Members	No. of consultations
	(a)	(b)	(c)	(d)	$(e) = \frac{(b)}{(a)}$	$(f) = \frac{(c)}{(a)}$	$(g) = \frac{(d)}{(a)}$
	(No.)	('000)	(No.)	(No.)	('000)	(No.)	(No.)
(A) Hong Kong Island							
Central and Western	65	244	19	221	3.8	0.3	3.4
Eastern	79	609	46	213	7.7	0.6	2.7
Southern	70	284	21	126	4.1	0.3	1.8
Wan Chai	57	155	14	251	2.7	0.2	4.4
(B) Kowloon							
Kowloon City	73	366	27	41	5.0	0.4	0.6
Kwun Tong	91	567	42	72	6.2	0.5	0.8
Sham Shui Po	85	359	26	144	4.2	0.3	1.7
Wong Tai Sin	77	450	31	473	5.8	0.4	6.1
Yau Tsim Mong	83	283	20	266	3.4	0.2	3.2
(C) NT							
Islands	81	99	19	140	1.2	0.2	1.7
Kwai Tsing	98	494	36	53	5.0	0.4	0.5
North	88	290	25	99	3.3	0.3	1.1
Sai Kung	84	358	24	86	4.3	0.3	1.0
Sha Tin	99	633	46	146	6.4	0.5	1.5
Tai Po	92	306	26	172	3.3	0.3	1.9
Tsuen Wan	86	268	24	67	3.1	0.3	0.8
Tuen Mun	94	502	37	245	5.3	0.4	2.6
Yuen Long	116	503	36	241	4.3	0.3	2.1

Source: HAD's records

**Supporting staff in the 18 DOs
(31 March 2003)**

DO	Number of supporting staff (Notes 1 and 2)	Staff establishment (Note 1)	Percentage of supporting staff to staff establishment
	(a)	(b)	(c) = $\frac{(a)}{(b)} \times 100\%$ (%)
(A) Hong Kong Island			
Central and Western	28	65	43
Eastern	35	78	45
Southern	37	70	53
Wan Chai	25	57	44
(B) Kowloon			
Kowloon City	34	73	47
Kwun Tong	45	91	49
Sham Shui Po	42	85	49
Wong Tai Sin	37	77	48
Yau Tsim Mong	37	83	45
(C) NT			
Islands	34	78	44
Kwai Tsing	52	97	54
North	38	83	46
Sai Kung	40	81	49
Sha Tin	50	97	52
Tai Po	45	88	51
Tuen Mun	41	92	45
Tsuen Wan	38	84	45
Yuen Long	50	108	46

Source: HAD's records

Note 1: In order to compare the staff of the 18 DOs on a like-with-like basis, the supporting staff in certain sections of the DOs in the NT (which do not exist in urban DOs) are excluded from the staff establishment.

Note 2: The ranks of supporting staff include Clerical Officer, Assistant Clerical Officer, Office Assistant, Chinese Language Officer I, Calligraphist, Personal Secretary I, Personal Secretary II, Senior Typist, Typist, Telephone Operator, Car Park Attendant II, Motor Driver, Property Attendant and Workman II.

**Staff in the 38 DSOs
(1 March 1995)**

District	Number of DSOs	Number of staff		
		Liaison staff	Supporting staff	Total
(A) Hong Kong Island				
Eastern	3	15	15	30
Southern	4	12	15	27
(B) Kowloon				
Kowloon City	3	10	9	19
Kwun Tong	6	18	17	35
Sham Shui Po	4	14	15	29
Wong Tai Sin	3	15	10	25
Yau Tsim Mong	1	4	3	7
(C) NT				
Islands	2	5	1	6
Kwai Tsing	7	22	23	45
Sai Kung	1	3	2	5
Tuen Mun	4	13	4	17
Total	38	131	114	245

Source: HAD's records

ESWG's 1995 proposal for the distribution of outlying DSOs

District	Existing DSOs	ESWG's proposal	Location of proposed DSOs
(A) Hong Kong Island			
Eastern	Shau Kei Wan Chai Wan Causeway Bay	Close Retain Retain	Chai Wan Causeway Bay
Southern	Stanley Aberdeen Ap Lei Chau Wah Kwai	Retain Close Close Retain	Stanley Wah Kwai
(B) Kowloon			
Kowloon City	Ho Man Tin Lung Shing Hung Hom	Retain Retain Close	Ho Man Tin Lung Shing
Kwun Tong	Shun Lee Kai Yip Ngau Tau Kok Lam Tin Sau Mau Ping Yau Tong	} Close	
Sham Shui Po	Nam Cheong Nam Shan Cheung Sha Wan Mei Foo	} Close	
Wong Tai Sin	Lower Wong Tai Sin Fung Tak Tze Wan Shan	} Retain any two offices	Lower Wong Tai Sin/ Fung Tak/Tze Wan Shan
Yau Tsim Mong	Tai Kok Tsui	Close	

District	Existing DSOs	ESWG's proposal	Location of proposed DSOs
(C) NT			
Islands	Mui Wo Cheung Chau	} Retain	Mui Wo Cheung Chau
Kwai Tsing	Kwai Chung (North East) Kwai Chung (West) Kwai Shing Kwai Chung (Central) Kwai Chung (South) Tsing Yi (South West) Tsing Yi (North East)	} Retain } Close } Retain } Retain	Kwai Chung (North East) Tsing Yi (South West) Tsing Yi (North East)
Sai Kung	Tseung Kwan O	Retain	Tseung Kwan O
Sha Tin	—	Proposed to open one sub-office in Ma On Shan	Ma On Shan (Note)
Tuen Mun	On Ting/Yau Oi Leung King Tai Hing Butterfly Bay	} Close	
Total	38 DSOs		15 DSOs

Source: HAD's records

Note: The Ma On Shan Sub-office was opened in late November 1996.

**Reduction in the number of outlying DSOs
(1 March 1995 to 30 April 2003)**

District	Position as at 1 March 1995		Position as at 30 April 2003	
	DSOs	Number of supporting staff	DSOs	Number of supporting staff
(A) Hong Kong Island				
Eastern	Shau Kei Wan	5	(Note 1)	–
	Chai Wan	5	Chai Wan	4
	Causeway Bay	5	Causeway Bay	3
Southern	Stanley	4	Stanley	4
	Aberdeen	3	(Note 1)	–
	Ap Lei Chau	4	Ap Lei Chau	5
	Wah Kwai	4	Wah Kwai	4
(B) Kowloon				
Kowloon City	Ho Man Tin	3	Ho Man Tin	2
	Lung Shing	3	Lung Shing	2
	Hung Hom	3	Hung Hom	2
		–	To Kwa Wan (Note 2)	2
Kwun Tong	Shun Lee	3	Shun Lee	2
	Kai Yip	3	Kai Yip	1
	Ngau Tau Kok	3	(Note 1)	–
	Lam Tin	3	Lam Tin	1
	Sau Mau Ping	3	Sau Mau Ping	1
	Yau Tong	2	Yau Tong	2
Sham Shui Po	Nam Cheong	4	} (Note 3)	–
	Nam Shan	4		–
	Cheung Sha Wan	4		–
	Mei Foo (renamed as Lei Cheng Uk and So Uk)	3		–
Wong Tai Sin	Lower Wong Tai Sin	3	Lower Wong Tai Sin	3
	Fung Tak	3	Fung Tak	3
	Tze Wan Shan	4	Tze Wan Shan	3
Yau Tsim Mong	Tai Kok Tsui (Note 4)	3		–

District	Position as at 1 March 1995		Position as at 30 April 2003	
	DSOs	Number of supporting staff	DSOs	Number of supporting staff
(C) NT				
Islands	Mui Wo	1	Mui Wo	1
	Cheung Chau	-	Cheung Chau	2
			Tung Chung (Note 5)	3
Kwai Tsing	Kwai Chung (North East)	5	Kwai Chung (North East)	4
	Kwai Chung (West)	3	Kwai Chung (West) (Note 6)	4
	Kwai Shing	3		
	Kwai Chung (Central)	2	Kwai Chung (Central and South) (Note 7)	4
	Kwai Chung (South)	3		
	Tsing Yi (South West)	4	Tsing Yi (South West)	4
	Tsing Yi (North East)	3	Tsing Yi (North East)	4
Sai Kung	Tseung Kwan O	2	Tseung Kwan O	3
Sha Tin		-	Ma On Shan (Note 8)	2
Tuen Mun	On Ting/Yau Oi	1	On Ting/Yau Oi	1
	Leung King	1	Leung King	1
	Tai Hing	1	Tai Hing	1
	Butterfly Bay	1	Butterfly Bay	1
	Total	114		79

Source: HAD's records

Note 1: The sub-office has been relocated to the same building of its district main office.

Note 2: The To Kwa Wan Sub-office was established in July 1999.

Note 3: All the sub-offices under the Sham Shui Po DO were merged with the main office in January 2000.

Note 4: The Tai Kok Tsui Sub-office was closed in early 1996.

Note 5: The Tung Chung Sub-office was established in October 2001.

Note 6: The Kwai Chung (West) Sub-office and Kwai Shing Sub-office were merged in 1997.

Note 7: The Kwai Chung (Central) Sub-office and Kwai Chung (South) Sub-office were merged in 1997.

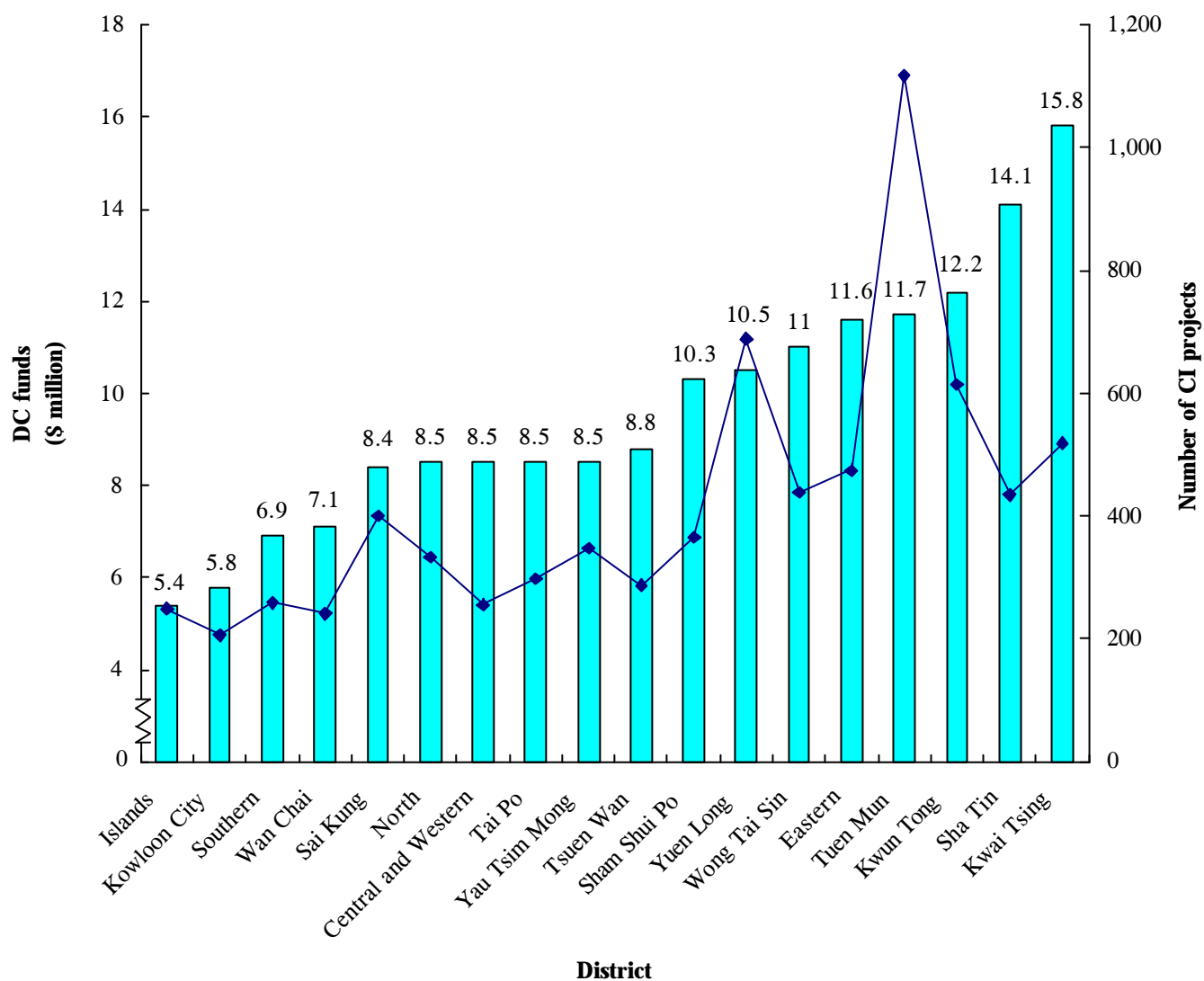
Note 8: The Ma On Shan Sub-office was established in 1996.

**Analysis of DC funds spent on CI projects
(2002-03)**

Type of CI projects	Number of CI projects	Amount of DC funds (\$ million)	
Festivals	733	50.8	(29%)
Campaigns	779	26.7	(15%)
Arts and cultural activities	1,105	22.1	(13%)
Recreational activities	2,622	21.3	(12%)
Publicity and tourism	253	17.0	(10%)
Social service activities	988	15.0	(8%)
Sports activities	722	10.2	(6%)
Other activities	332	10.5	(6%)
Central reserve	2	1.1	(1%)
	Total	7,536	174.7

Source: HAD's records

**DC funds spent on CI projects and number of CI projects
(2002-03)**



Legend: ■ Amount of DC funds spent on CI projects
◆ Number of CI projects

Source: HAD's records

Remarks: The HAD Headquarters also spent \$1.1 million on two CI projects for promoting local community economy and for the Community Education Program — New Year celebration.

**Analysis of cases not in compliance
with HAD Headquarters' or individual DOs' DCF Guidelines**

← — — — — — — — — — — *Number of cases* — — — — — — — — — — →

DO	Proper documentation system in place	Other sources of income not reported	Reimbursements for expenditure incurred before project approval, or submission of claims before project completion	Excessive quantity of souvenirs	Expenditure limits on individual items exceeded	Late or no notification of changes in particulars of approved projects	Late submission of claims	Required number of quotations not complied with
(A) Hong Kong Island								
Eastern	Yes	2	3	—	—	1	2	—
Southern	No	5	—	—	7	1	—	—
(B) Kowloon								
Kwun Tong	Yes	—	—	1	3	3	9	2
Wong Tai Sin	No	—	—	1	1	3	2	—
Yau Tsim Mong	Yes	—	2	1	5	6	1	1
(C) NT								
Kwai Tsing	Yes	—	—	—	7	—	2	—
Sai Kung	No	4	2	—	2	1	2	—
Sha Tin	No	—	1	—	5	—	1	—
Tuen Mun	No	—	—	—	1	1	7	5
	Total	11	8	3	31	16	26	8

Audit observations on the work of HAD's IAS

Criteria

Audit findings

(A) Preparation of audit plans

<p><i>According to the IAM, the internal auditor should prepare and subsequently monitor audit plans and programmes to ensure proper coordination of all internal audit activities. Such audit plans outlining the department's audit work should be annually submitted to the Head or Deputy Head of Department for approval.</i></p>	<p>Two audit plans were prepared by the IAS in 1994 and 1995. After the 1995 Audit Plan, no more plans were prepared until November 2001. The 2001 Audit Plan was on a management study on the community centres/community halls. In May 2003, another audit plan on DO visits for 2003-04 was prepared.</p>
--	--

(B) Internal audit inspections on DOs

<p><i>Mechanisms should be established for continuous and independent checking of DOs.</i></p>	<p>From January 1995 to August 2000, 26 audit inspections on DOs were conducted by the IAS. The number of audit inspections on DOs in each year ranged from 2 to 7. The average number of audit inspections on DOs in each year was 4.</p> <p>From September 2000 to May 2003, no audit inspection on DOs was carried out (Note).</p>
<p><i>According to the IAM, when deciding on the extent of internal audit work, the internal auditor should consider the effects on his prime responsibility of evaluating the internal control system and hence balance resources for management studies against those for internal audit's traditional work.</i></p>	<p>From November 2001 to April 2003, the IAS was wholly engaged in one management study on the community centres/community halls whereas DOs were not subject to internal audit at all in 2001-02 and 2002-03.</p>

(C) Reporting of IAS's audit findings

<p><i>According to the IAM, the internal auditor should report audit findings to functional management, and monitor the management's responses and follow-up actions. Therefore, upon the completion of each audit inspection, the IAS should issue an audit report to the DO concerned for remedial action on the audit observations.</i></p>	<p>After the audit inspections, not all audit reports were issued by the IAS to the DOs concerned. During the period January 1995 to August 2000, of the total 26 audit inspections, only 22 reports had been issued to the DOs concerned.</p>
<p><i>According to the IAM, audit findings and recommendations should be regularly reported to the Head or Deputy Head of Department as appropriate.</i></p>	<p>Not all audit reports were submitted to the HAD's senior management. During the period January 1995 to August 2000, of the total 26 audit reports, only 16 were sent to the Assistant Director of the Administration Division.</p>

(D) Follow-up action by IAS on its recommendations

<p><i>In 1998, the Treasury recommended that post-audit reviews should be conducted by the IAS to ensure that appropriate follow-up actions were promptly taken by DOs.</i></p>	<p>During the period January 1995 to August 2000, of the 22 audit reports issued to DOs during the past years, for 11 cases, Audit could not find any responses from the DOs concerned. The IAS had not taken follow-up action.</p>
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Source: HAD's records and Treasury's IAM

Note: In June 2003, the HAD explained that:

- (a) from August 2000 to October 2001, the Senior Clerical Officer of the IAS was on loan to the Sham Shui Po DO for carrying out operational duties;
- (b) from November 2001 to April 2003, the IAS was conducting a management study on the community centres/community halls;
- (c) DOs had strengthened internal controls on DC funds by requiring those SEOs in charge of district management work in each DO to step up monitoring procedures on granting DC funds; and
- (d) starting from mid-June 2003, the IAS had resumed DO visits.

Acronyms and abbreviations

CFWG	Working Group on Control of the Use of District Council Funds
CI	Community Involvement
CSB	Civil Service Bureau
DC	District Council
DCF Guidelines	Guidelines on the use of District Council Funds for Community Involvement projects
DCFAS	District Council Funds Accounting System
DO	District Office
DSO	District sub-office
ESWG	Working Group on Review of the District Offices' Establishment and Structure
HAD	Home Affairs Department
IAM	Internal Audit Manual
IAS	Internal Audit Section
ICAC	Independent Commission Against Corruption
IT	Information technology
LO	Liaison Officer
MEI	Minor Environmental Improvement
NT	New Territories
SEO	Senior Executive Officer