

Report No. 43 of the Director of Audit — Chapter 1

CONTROL AND MONITORING OF DISTRICT COUNCIL EXPENSES AND RELATED ACTIVITIES

Summary

1. The District Administration Scheme commenced in 1982 with the establishment of a District Board (now a District Council (DC)) and a District Management Committee in each district in Hong Kong. The Home Affairs Department (HAD) is responsible for this Scheme. As at 1 January 2004, there were 18 DCs with 529 seats. Financial support given to DC Members in the form of a remuneration package includes a monthly honorarium of \$16,690, an annual provision of Operating Expenses Allowance (OEA) of \$192,120 and a one-off Information Technology and Other Support Grant (ITOSG) of up to \$10,000 for the 2004-07 DC term. The total remuneration payable to all DC Members in 2004 is about \$211 million.

Tax deduction on 50% of the honorarium for District Council Members

2. The honorarium for DC Members attracts Salaries Tax under the provisions of the Inland Revenue Ordinance (Cap. 112). As an administrative measure, since 1982 the Commissioner of Inland Revenue has allowed, without query, a deduction of 50% of the honorarium as tax deductible expenses. During the years from 1982-83 to 1995-96, DC Members' remuneration package was an all-inclusive non-accountable honorarium. Since April 1996, the remuneration package has expanded to include allowance and grant (i.e. the OEA and the ITOSG) for the reimbursement of various office expenses incurred by DC Members for discharging their DC duties. The Audit Commission (Audit) notes that the current rates of the allowance and grant for reimbursable expenses amount to almost 50% of the total remuneration package for DC Members and that the honorariums of the Executive Council Members and the Legislative Council Members are all taxable. Audit considers that there is a need to review the justifications for continuing to grant the tax deduction on 50% of the DC Members' honorarium. *Audit has recommended that the Director of Home Affairs should advise the Commissioner of Inland Revenue the current arrangements for paying honorarium and allowances to DC Members and render assistance to her if she decides to review the administrative measure that allows, without query, 50% of the DC Members' honorarium as a deductible expense.*

Allowance and grant for District Council Members

3. A DC Member is eligible to claim the OEA and the ITOSG on a reimbursement basis on production of certified receipts. The OEA covers the expenses actually paid by DC Members for employing assistants and running their ward offices in the district for

discharging their DC duties. In 2003-04, the expenditure on the OEA was \$91 million. The ITOSG helps DC Members equip their ward offices with basic information technology equipment and facilities. For the 2000-03 DC term, the total payment of the ITOSG was \$3.8 million.

4. The HAD Headquarters has issued guidelines on the reimbursements of the OEA and the ITOSG (HAD Guidelines) to the 18 District Offices (DOs). Audit random sample check of the reimbursements of the OEA and the ITOSG to the DC Members in nine selected DOs has found that: (a) there are 354 cases of non-compliance with the HAD Guidelines; (b) the supporting documents for the employment of assistants are inadequate; (c) the HAD Guidelines do not provide adequate guidance for the DOs to deal with issues relating to the misuse of the OEA subsidised ward offices for carrying out non-DC activities; (d) the HAD Guidelines do not specify the detailed requirements of a site visit to DC Members' ward offices; and (e) the need and procedures for buying back capitalised items from DC Members should be re-examined. *Audit has recommended that the Director of Home Affairs should: (a) introduce additional control measures to ensure that the DOs comply with the HAD Guidelines in processing the reimbursements of the OEA and the ITOSG to DC Members; and (b) consider revising the HAD Guidelines to address the audit observations.*

Use of District Council funds for the Minor Environmental Improvement projects

5. DC funds are provided to the DCs to implement, among other projects, Minor Environmental Improvement (MEI) projects to improve the living environment and quality of life of the local community. The HAD Headquarters has issued the District Council Funds Guidelines (DCF Guidelines) on the use of DC funds for the MEI projects. The DCs and the District Officers are jointly responsible for controlling the use of DC funds for the MEI projects. In 2003-04, the total payment for 338 MEI projects was \$23 million. Audit random sample check of the MEI projects in nine selected DOs has found that: (a) contrary to the DCF Guidelines, most of the selected DOs did not maintain an up-to-date list of all the MEI projects for which they had maintenance responsibility; (b) approvals for some MEI projects given by the approving officers did not follow the approving authority stated in the DCF Guidelines; (c) extra works not covered by the DC's original approval were included in one MEI project; (d) payments for some MEI projects were not made in accordance with the relevant circulars and guidelines; (e) some MEI projects were outside the HAD's responsibilities; (f) the arrangement of some MEI projects under separate contracts was not cost-effective; and (g) some MEI projects undertaken by a rural committee were not cost-effective and exposed the Government to claims for accidents arising from the projects. *Audit has recommended that the Director of Home Affairs should, in implementing the MEI projects: (a) ensure that the DOs comply with the requirements and observe the conditions laid down in the relevant circulars and guidelines; (b) evaluate the cost-effectiveness of the projects; and (c) ensure that the Government is protected against claims for accidents arising from the projects.*

Submission of annual district plans

6. General Circular No. 1/2002 on “District Administration” requires the core departments to submit to the DCs their annual district plans (ADPs) and to incorporate the views of DC Members into their work plans as far as practicable. Audit conducted a survey in May 2004 to obtain information from the 18 DOs on the submission of the ADPs by the core departments during the period from January 2002 to June 2004. Audit found that the average submission rates of the ADPs varied significantly among the 18 districts. The overall average submission rate for the period of 30 months ended 30 June 2004 was only 55%. Audit also found that the HAD had not issued guidelines on the standard procedures to be followed by all the DOs to monitor and follow up the submission of the ADPs by the core departments. *Audit has recommended that the Director of Home Affairs should: (a) introduce appropriate control measures to ensure that all the core departments submit the ADPs on time for onward submission to the DCs; and (b) consider issuing guidelines requiring all the DOs to adopt a standard practice of monitoring and following up the submission of the ADPs.*

District Council Homepages

7. Each DC is provided with a standard homepage platform to establish its independent DC Homepage to disseminate district-related information to the public. The HAD Headquarters is responsible for carrying out the maintenance and enhancement work on the basic DC Homepage platform. The individual DC Secretariats of the 18 DOs are responsible for uploading information onto their DC Homepages. The Government has issued the Guidelines on Dissemination of Information through Government Homepages (Government Homepage Guidelines) to ensure that government homepages are designed to provide relevant information in an efficient and effective manner and in a format that encourages access by the local and international communities.

8. Audit reviewed the 18 DC Homepages and found that: (a) there were some cases of non-compliance with the Government Homepage Guidelines; and (b) there was room for improvement in the DC Homepages. Audit also found that two DCs had set up their own separate homepages by using DC funds. In this connection, the HAD Headquarters had pointed out that under the guidelines on the use of DC funds, it was not appropriate to use DC funds for such purpose. The total expenditure including the development and maintenance costs up to 2003-04 amounted to \$419,200. *Audit has recommended that the Director of Home Affairs should: (a) encourage the DC Secretariats to follow the Government Homepage Guidelines and improve the contents of DC Homepages; and (b) review the use of DC funds for the development and maintenance of separate homepages for the DCs.*

Response from the Administration

9. The Administration generally agrees with the audit recommendations.

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