

CHAPTER 4

Education and Manpower Bureau

<p>Corporate governance and Headquarters administration of the English Schools Foundation</p>
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**Audit Commission
Hong Kong
23 October 2004**

This audit review was carried out under a set of guidelines tabled in the Provisional Legislative Council by the Chairman of the Public Accounts Committee on 11 February 1998. The guidelines were agreed between the Public Accounts Committee and the Director of Audit and accepted by the Government of the Hong Kong Special Administrative Region.

Report No. 43 of the Director of Audit contains 11 Chapters which are available on our website at <http://www.info.gov.hk/aud/>

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CORPORATE GOVERNANCE AND HEADQUARTERS ADMINISTRATION OF THE ENGLISH SCHOOLS FOUNDATION

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PART 1: INTRODUCTION

1.1 This PART describes the background to the audit and outlines the audit objective.

Background

1.2 The English Schools Foundation (ESF — Note 1) was established under the English Schools Foundation Ordinance (Cap. 1117) in 1967. The main object of the ESF is to administer and operate within Hong Kong schools offering a modern liberal education through the medium of the English language to boys and girls who are able to benefit from such an education. As stated in its 2002-03 audited financial statements (Note 2), the ESF had a total income of \$1,051 million, of which \$719 million (68%) were school fees, \$299 million (29%) were government subsidies (Note 3) and \$33 million (3%) were other income.

The Foundation

1.3 The membership of the Foundation and its subordinating committees includes representatives from the Government, the community, parents of ESF students, and ESF teachers and management. As at 1 April 2004, the Foundation comprised a Chairman and 131 members (Note 4). The Foundation has established an Executive Committee comprising a Chairman and eight members (Note 5). The Foundation is supported by a Foundation Office, which is headed by the Chief Executive of the ESF. As laid down in the English Schools Foundation Ordinance, the Secretary of the Foundation is the principal academic and administrative officer of the ESF. The Secretary of the Foundation also holds the post of the Chief Executive of the ESF.

Note 1: *For clarity, throughout this report, ESF will be used to refer to the ESF as an organisation and the Foundation as its supreme governing body.*

Note 2: *ESF financial year covers the period 1 September to 31 August.*

Note 3: *These government subsidies did not include \$7 million hardship allowances for ESF students and refund of \$6 million rates and government rents to the ESF.*

Note 4: *As at 1 April 2004, there were four membership vacancies.*

Note 5: *As laid down in the English Schools Foundation Ordinance, the Chairman of the Foundation shall preside at all meetings of the Foundation and of its Executive Committee.*

English Schools Foundation schools

1.4 In September 2003, the ESF operated:

- (a) 15 schools receiving recurrent government subsidies (hereinafter referred to as ESF schools), including nine primary schools (with 5,481 students enrolled), five secondary schools (with 5,785 students enrolled) and one special education school (with 57 students enrolled); and
- (b) one primary school (with 324 students enrolled) without recurrent government subsidies (Note 6).

1.5 ESF primary and secondary schools are co-educational day schools and provide education similar in content and method to that available in schools in the United Kingdom but adapted to the Hong Kong context. In the 2003-04 school year (Note 7), the annual ESF school fees were \$47,300 for each primary-school student and \$78,600 for each secondary-school student.

1.6 In 1994, the ESF established the ESF Educational Services Limited (Note 8) under the Companies Ordinance (Cap. 32). In September 2003, the ESF Educational Services Limited administered three kindergartens (with 662 students enrolled) and one primary-cum-secondary school (with 345 students enrolled) without government subsidies. In 2001, the Education and Manpower Bureau (EMB) granted two sites (one in Ma On Shan and another in Discovery Bay) to the ESF for operating two

Note 6: *The student numbers shown in this paragraph were based on ESF data. Government subsidies to the ESF were based on the number of ESF students in November every year. In November 2003, the nine ESF primary schools enrolled 5,598 students, the five ESF secondary schools enrolled 5,793 students, the ESF special education school enrolled 59 students, and the primary school operated by the ESF without recurrent government subsidies enrolled 328 students.*

Note 7: *A school year covers the period 1 September to 31 August.*

Note 8: *The ESF Educational Services Limited (the company) is limited by guarantee. In the event that the company is wound up, each member's guaranteed contribution to the assets of the company is limited to \$100. As at 1 April 2004, the company had three members (comprising the Chairman, the Vice-chairman and a member of the Executive Committee of the Foundation) and three directors (comprising the Acting Chief Executive of the ESF, and the Human Resources Director and the School Improvement Officer (Secondary) of the Foundation Office).*

primary-cum-secondary schools under the Private Independent School Scheme (Note 9) by 2007. These two schools are to be operated by the ESF Educational Services Limited.

Authority for conducting value for money audit of the English Schools Foundation

1.7 According to the Value for Money (VFM) Audit Guidelines tabled in the Provisional Legislative Council on 11 February 1998, the term “audited organisation” shall include any organisation which receives more than half its income from public moneys. The Guidelines also state that the Director of Audit may carry out a VFM audit of an organisation which receives less than half its income from public moneys by virtue of an agreement made as a condition of subvention.

1.8 On 24 March 2004, the Chairman of the Foundation informed the Secretary for Education and Manpower that the Executive Committee of the Foundation had decided, by way of mutual agreement with the Government and as a condition of subvention, to welcome the Director of Audit to perform VFM audits of the ESF. On 29 March 2004, the Secretary confirmed to the Chairman that the ESF would become an audited organisation under the VFM Audit Guidelines.

Value for money audit of the English Schools Foundation

1.9 Against the above background, the Audit Commission (Audit) has recently conducted a VFM audit of the ESF. Since this is a broad subject, the scope of this audit review is divided into three topics. The audit findings are contained in three separate reports, as follows:

- (a) government subsidies to the English Schools Foundation (see Chapter 3 of the Director of Audit’s Report No. 43);
- (b) corporate governance and Headquarters administration of the English Schools Foundation (the subject matter of this report); and
- (c) school administration of the English Schools Foundation (see Chapter 5 of the Director of Audit’s Report No. 43).

Note 9: *Schools operated under the Private Independent School Scheme do not receive recurrent government subsidies. They are eligible for land grant at a nominal premium and for one-off capital grant from the Government. There is a requirement that at least 70% of their students should be Hong Kong permanent residents. They may adopt either a local or an overseas curriculum.*

Audit review of corporate governance and Headquarters administration of the English Schools Foundation

1.10 As laid down in the English Schools Foundation Ordinance, the Foundation has established an Executive Committee (Note 10) and, in each ESF school, a school council. The Foundation delegates to the Executive Committee authority to administer the ESF's properties, manage its affairs and control its finance. The Executive Committee in turn delegates some of these powers and duties to individual school councils. The Foundation has also set up a Staff Council, a Management Committee, a Joint Council of Parent Teacher Associations and an Academic Committee (see Appendix A). The Foundation is the supreme governing body over the committees and councils established under it.

1.11 The Foundation Office of the ESF, headed by the Chief Executive (who is also the Secretary of the Foundation), administers the day-to-day affairs of the ESF, including management of finance, collection of school fees, payment of staff salaries, employment of staff, administration of staff housing and medical schemes, maintenance of school premises and staff quarters, monitoring of major capital works projects, preparation of financial statements, provision of educational support to schools, and inspection of schools.

1.12 The objective of this audit review is to examine the corporate governance of the ESF and the financial and administrative controls of the ESF Headquarters in the provision of education services. The audit has focused on the following areas:

- (a) corporate governance (see PART 2);
- (b) financial management (see PART 3);
- (c) staff remuneration and recruitment (see PART 4);
- (d) staff housing benefits (see PART 5);
- (e) staff medical benefits (see PART 6); and
- (f) entertainment expenses (see PART 7).

Note 10: *Members of the Executive Committee include the Chairman of the Foundation (who is the Chairman of the Executive Committee), the Vice-chairman of the Foundation (who is the Vice-chairman of the Executive Committee), the Secretary of the Foundation, the Treasurer of the Foundation, the Permanent Secretary for Education and Manpower or her appointed representative, the Chairman of the Management Committee, the Chairman of the Academic Committee, the Chairman of the Staff Council, and the Chairman of the Joint Council of Parent Teacher Associations.*

1.13 Audit has found that there is room for improvement in various areas and has made a number of recommendations to address the related issues.

General response from the English Schools Foundation

1.14 The ESF has stated that:

- (a) in most of the past 14 years, it has attained or exceeded targets set in its annual budgets. In those years when its income exceeded its estimates, it still maintained control over its costs. This approach has enabled it to generate surpluses which have been used to invest in new and improved facilities for its students;
- (b) since 1994, its fee policy has been to minimise fee increases whilst maintaining high-quality education. In the light of changing circumstances, it is reviewing this policy. Other fee-charging educational institutions may not have established such a fee policy. This fee policy has led to low rates of fee increase compared to other fee-charging educational institutions. ESF fees have increased only once (by less than 5%) over the last six years in a period during which the government subvention has been frozen or reduced. Some international schools have raised their fees by up to 30% over the last six years. As a subvented organisation, it has been mindful of the need to provide affordable education in line with its mission of serving Hong Kong people during this economically difficult period; and
- (c) it sees itself as an integral part of the architecture of the local education system. It takes pride in its mission to serve Hong Kong families. It dedicated financial and professional resources to support the EMB at the time of the collapse of an international school in 2002. It is also the only significant provider outside the local education sector for children with special education needs. In comparison, other international schools:
 - (i) meet a separate need;
 - (ii) are not an integral part of the local education system; and
 - (iii) are free from the above-mentioned obligations.

1.15 The ESF has also suggested that this audit review should have covered more audit issues of the ESF, such as the effectiveness of education provided by ESF schools, its performance in achieving budgets, its management of fee levels and its contributions to local education. In response, Audit has informed the ESF that:

- (a) due mainly to resource constraints, Audit has selected the relatively high-risk, material and timely issues, which are of public interest, for examination in this review, with a view to bringing about improvements on the issues;
- (b) Audit considers that this audit review has achieved its objective because, as indicated in ESF response:
 - (i) the Executive Committee of the Foundation has accepted most of the audit recommendations; and
 - (ii) Audit research will be valuable in assisting the ESF in its future planning and formulation of policies; and
- (c) in the event the ESF considers that there are other areas where improvement is needed, such as the effectiveness of education provided by ESF schools, it may wish to engage specialist consultants to conduct separate reviews.

General response from the Administration

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

- (a) the EMB generally agrees with the audit observations and recommendations;
- (b) the EMB believes that the conduct of a VFM audit of the ESF by Audit would contribute to the transparency and accountability of the ESF, which is a major player in the local international-school sector, serving over 11,000 students; and
- (c) with a view to ensuring more prudent use of public funds and tuition fees received from parents of ESF students, the EMB urges the ESF to give due consideration to the audit observations and to introduce appropriate improvement measures as a matter of urgency. This would help achieve savings to benefit other competing priorities in the provision of education. Parents of ESF students would also benefit from reduced tuition fees resulting from the savings.

Acknowledgement

1.17 Audit would like to acknowledge with gratitude the full cooperation of the staff of the EMB, the ESF and seven local international schools during the course of the audit review.

PART 2: CORPORATE GOVERNANCE

2.1 This PART examines corporate governance issues of the ESF.

Corporate governance

2.2 Good corporate governance of a public organisation:

- (a) assists its board and management to pursue objectives that are in the interests of the organisation and its stakeholders;
- (b) facilitates monitoring and encourages it to use its resources more efficiently;
- (c) gains and maintains the trust of its stakeholders for the proper use and stewardship of the funds and other assets with which it is entrusted;
- (d) assures its stakeholders of its quality and ethical standards; and
- (e) sets a good example in terms of transparency, openness, accountability, and organisational and personal integrity, in relation to matters such as human resources, procurement, remuneration and disclosure policies (Note 11).

2.3 In its 2002-03 financial year, in addition to the \$719 million school fees, the ESF received \$299 million recurrent government subsidies. Therefore, the stakeholders of the ESF, including parents of ESF students, ESF staff and the community at large, would have an expectation that the ESF adopts a high standard of corporate governance.

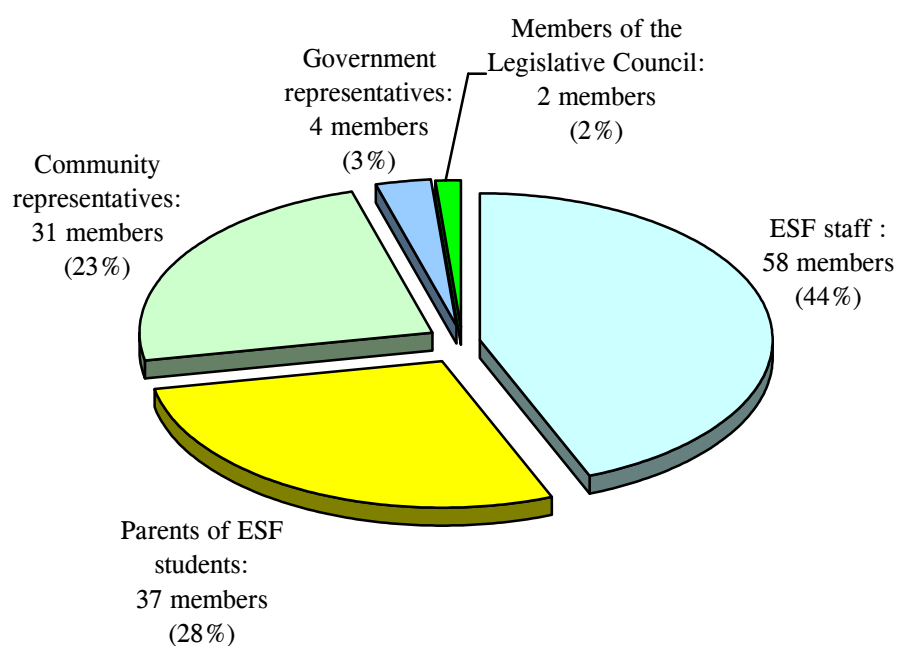
Membership size of the Foundation

2.4 As at 1 April 2004, the Foundation had 132 members (see Figure 1). Section 3.2 of the Regulations of the English Schools Foundation, made in accordance with section 10 of the English Schools Foundation Ordinance, prescribes the membership of the Foundation (see Appendix B).

Note 11: *Adapted from the “Corporate Governance for Public Bodies — A Basic Framework” issued by the Hong Kong Institute of Certified Public Accountants in May 2004.*

Figure 1

**Membership of the Foundation
(1 April 2004)**



Source: ESF records

Audit observations

2.5 Audit notes that the membership size of the Foundation (132 members as at 1 April 2004) is large when compared with that of other similar public institutions, such as the eight University Grants Committee (UGC — Note 12) funded institutions (see Table 1).

Note 12: *The UGC is a non-statutory advisory committee. Its main functions are to advise the Government on the development and funding of higher education in Hong Kong and to administer government grants made to the UGC-funded institutions. As at 1 April 2004, there were eight higher-education institutions which received government grants through the UGC.*

Table 1
Membership size of supreme governing bodies and advisory bodies
of the ESF and the eight UGC-funded institutions
(1 April 2004)

Entity	Number of members	
	Supreme governing body	Advisory body
ESF	132	—
UGC-funded institution:		
A	57 (56 as at 1 December 2002)	—
B	20 (45 as at 1 December 2002)	109
C	34	37
D	30	—
E	33	38
F	28	36
G	29	48
H	26	—

Source: Audit research

2.6 As shown in Appendix B, each ESF primary school may have up to six members in the Foundation (comprising two parents of students, two teachers, one principal and the chairman of its school council) and each ESF secondary school up to eight members (comprising three parents of students, three teachers, one principal and the chairman of its school council). Upon its inception in 1967, the ESF opened two schools. At that time, the total number of school representatives on the Foundation might be up to 14 (representatives from one primary school and one secondary school). However, in the 2003-04 financial year, as a result of a significant increase in the number of ESF schools from 2 to 15, the

maximum number of school representatives increased from 14 to 105 (Note 13). This partly accounted for the large membership size of the Foundation.

2.7 As shown in Table 1 in paragraph 2.5, the membership size of 132 of the Foundation (as at 1 April 2004) was 232% of that of Institution A (the UGC-funded institution with the largest governing body). In this connection, in November 2003, upon considering the Director of Audit's Report No. 40 on the eight UGC-funded institutions, the Public Accounts Committee of the Legislative Council expressed concern that the membership size of the governing bodies of Institution A and Institution B was not in line with the international trend towards a smaller-size governing body. In response, the governing body of Institution A recognised that, as a decision-making executive body, its membership size of 56 was too large. Institution A had commenced a review of the membership size and composition of its governing body. Institution B reduced the membership size of its governing body from 45 to 20.

2.8 **Audit considers that the large membership size of the Foundation is not conducive to its efficient decision making. The Foundation needs to review this issue with reference to the best practices adopted by similar educational institutions.**

2.9 As laid down in the Regulations of the English Schools Foundation, four of the eight UGC-funded institutions each has a representative on the Foundation. Audit notes that the four UGC-funded institutions which were established or were granted university titles after the last revision of the Regulations in 1985 do not have representatives on the Foundation. **Audit considers that the ESF needs to review the Regulations with a view to ensuring that they reflect the latest developments in the community.**

2.10 Audit appreciates the need for the Foundation to provide a forum for representatives of different stakeholders (see Appendix B) to make contributions to the development of the ESF. **In this connection, the Foundation may consider establishing an advisory body similar to those established by the UGC-funded institutions (see Table 1 in para. 2.5).**

Audit recommendations

2.11 **Audit has recommended that the ESF should:**

Note 13: *In addition to the 15 ESF schools (which had 100 representatives on the Foundation), the ESF directly ran a primary school without recurrent government subsidies. This school had five representatives (comprising two parents of students, two teachers and one principal) on the Foundation.*

- (a) **conduct a review with a view to reducing the membership size of the Foundation, with reference to the best practices of similar educational institutions;**
- (b) **conduct a review of the Regulations of the English Schools Foundation with a view to reflecting the latest developments in the community; and**
- (c) **consider establishing an advisory body similar to those established by the UGC-funded institutions to provide a forum for representatives of different stakeholders to make contributions to its developments.**

Response from the English Schools Foundation

2.12 The **Executive Committee of the Foundation** accepts that the ESF's governance should be reviewed with a view to ensuring that it is in line with the best practices.

Response from the Administration

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

- (a) the EMB considers that the composition of the Foundation should have regard to the ESF's role as well as the relevance and anticipated contributions of its members to the proper functioning of the ESF. Apart from the balance of internal and external Foundation members, there may be a need to reconsider the justification for the continued presence of some government and community representatives. In this connection, in 2001, Members of the Legislative Council discussed its representation on the Foundation. In addition, the EMB will review its membership on the Foundation and the Executive Committee, taking into account:
 - (i) government subsidies to the ESF; and
 - (ii) the fact that, apart from government schools, the EMB does not have any role in the operational management of any other school-sponsoring bodies and schools; and
- (b) the EMB considers that, if the ESF implements the audit recommendation to downsize its Foundation, its smaller governing body would likely be able to

afford the time to arrange more frequent meetings and to consider policy matters more thoroughly. Hence, there would be a possibility that the roles and functions of the Foundation would overlap with those of its Executive Committee. The EMB therefore considers that it may not be necessary for the ESF to operate at two levels, i.e. the Foundation and the Executive Committee levels, in addition to individual school councils.

Composition of the Foundation

2.14 As shown in Figure 1 in paragraph 2.4, of the 132 members of the Foundation as at 1 April 2004, 58 (44%) were internal members (all of them were ESF staff). The remaining 74 members (56%) were external members comprising parents of ESF students, community representatives, government representatives and Members of the Legislative Council.

Audit observations

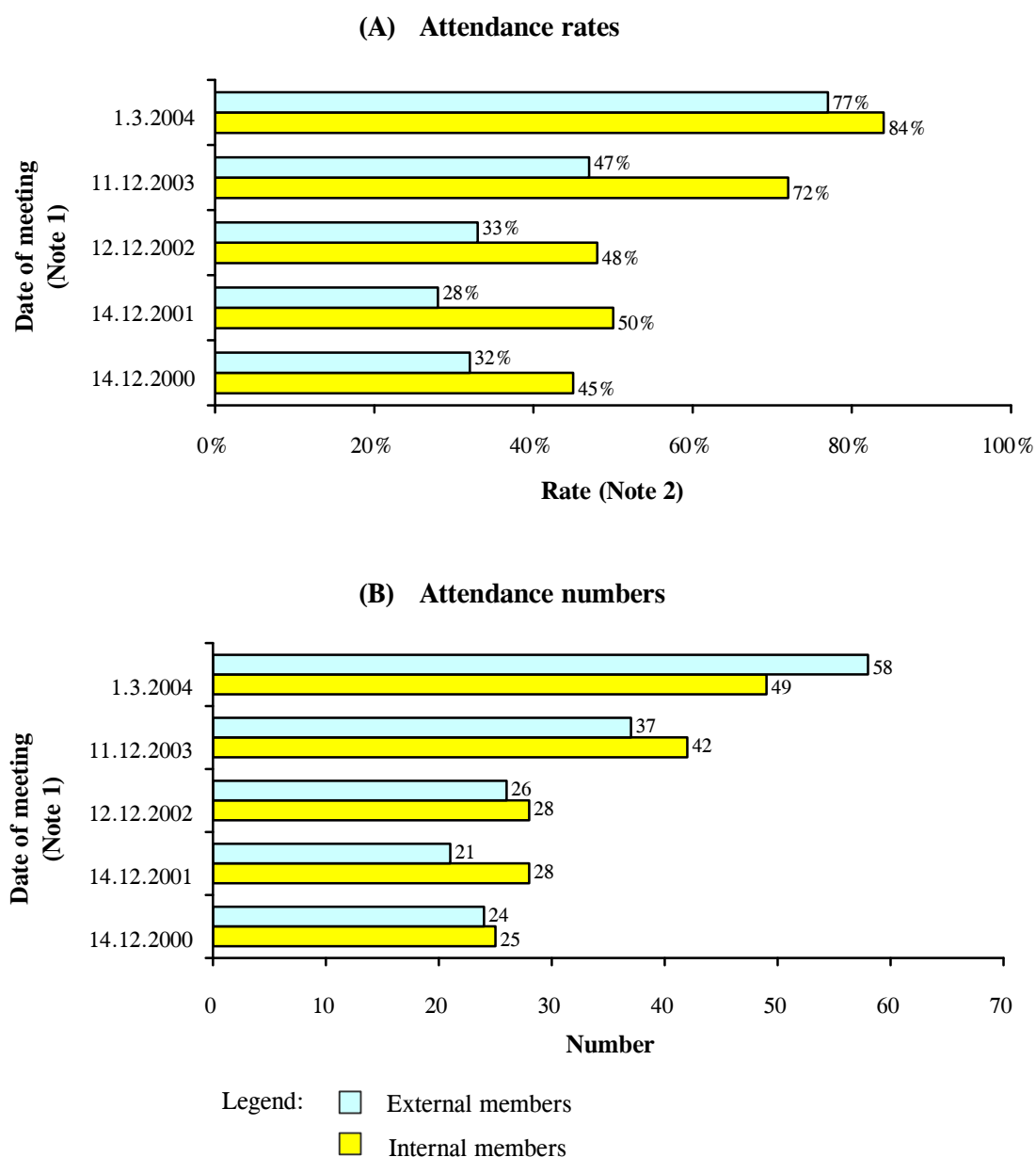
Majority of members at Foundation meetings

2.15 Audit considers it necessary for the governing body of a public organisation (such as the ESF) to have a majority of external members who are capable of monitoring effectively the performance of the management, giving independent advice and making impartial decisions on important issues (e.g. setting strategic directions and appointment of senior staff). These external members with different skills and knowledge are able to contribute effectively to the development of the organisation concerned.

2.16 Audit notes that, as at 1 April 2004, external members of the Foundation constituted a majority of members as the ratio of external members to internal members was 1.3 : 1. However, in the Foundation's four annual general meetings held in the 2000-01 to 2003-04 ESF financial years, due to the higher attendance rates of internal members than those of external members (see Figure 2(A)), external members of the Foundation did not constitute a majority at any of these meetings (see Figure 2(B)). At its special meeting held in March 2004 for the election of the Chairman and Vice-chairman of the Foundation, 58 external members and 49 internal members were present. This was the only Foundation meeting in the past four years at which external members constituted a majority.

Figure 2

**Attendance of Foundation members at Foundation meetings
(2000-01 to 2003-04 ESF financial years)**



Source: ESF records

Note 1: The Foundation meeting held on 1.3.2004 was a special meeting for the election of the Chairman and Vice-chairman of the Foundation. The other meetings were annual general meetings.

Note 2: Members' attendance rate is calculated by:

$$\frac{\text{Number of members present at a meeting}}{\text{Total number of registered members at the time of the meeting}} \times 100\%$$

2.17 **Audit considers it necessary that important resolutions passed at Foundation meetings are made with a majority of external members. This will ensure that the resolutions are passed in an impartial manner, and be seen to be so. The ESF needs to review the composition of the Foundation members with a view to ensuring that external members will constitute a majority at Foundation meetings.** In this connection, in its recent report on UGC-funded institutions (see para. 2.7), the Public Accounts Committee recommended that all these institutions should adopt measures to ensure that external members will constitute a majority at the meetings of their governing bodies. **Following a recent review of its governing body, Institution B has increased its ratio of external members to internal members to 2 : 1 with a view to ensuring that external members will be in the majority at its meetings.** Institution E has adopted a practice that external members of its governing body should always form a majority at any meeting. Otherwise, there will be no quorum for the meeting. Some of the other UGC-funded institutions are conducting reviews of the membership of their supreme governing bodies with a view to ensuring that there is a clear majority of external members.

Attendance rate of members

2.18 As shown in Figure 2(A) in paragraph 2.16, many external members and internal members did not attend the five Foundation meetings held in the ESF financial years 2000-01 to 2003-04. For example, only 28% of external members attended the meeting held on 14 December 2001 and only 45% of internal members attended the meeting held on 14 December 2000. Among the external members, Audit notes that five community representatives and one government representative did not attend any of the five meetings.

2.19 **Audit considers it undesirable that large percentages of internal and external members did not attend Foundation meetings. The failure of members to attend Foundation meetings reduces their opportunities to contribute to the ESF. The ESF needs to take appropriate actions on this issue.** As an improvement measure, the ESF may consider issuing reminders to the related organisations if the attendance rates of their representatives at Foundation meetings are low.

Staff members of the Executive Committee

2.20 As at 1 April 2004, of the nine members of the Executive Committee of the Foundation, three were ESF staff (the Secretary of the Foundation, the Chairman of the Academic Committee and the Chairman of the Staff Council). **In order to avoid conflict of interests, Audit considers that these three ESF staff should not participate in voting on matters concerning ESF staff benefits at Executive Committee meetings.**

Audit recommendations

2.21 **Audit has *recommended* that the ESF should:**

- (a) **conduct a review of the composition of Foundation members with a view to ensuring that external members will constitute a majority at Foundation meetings;**
- (b) **consider increasing the ratio of external members to internal members of the Foundation to, say 2 : 1;**
- (c) **issue reminders to the related organisations if the attendance rates of their representatives at Foundation meetings are low; and**
- (d) **amend the Regulations of the English Schools Foundation to the effect that ESF staff members of the Executive Committee of the Foundation would abstain from voting on matters concerning ESF staff benefits at its meetings.**

Response from the English Schools Foundation

2.22 The **Executive Committee of the Foundation** accepts that the ESF's governance should be reviewed with a view to ensuring that it is in line with the best practices.

Response from the Administration

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

- (a) given the availability of education allowances for ESF staff with children studying in ESF schools, some parents of ESF students may be ESF staff. The EMB considers that ESF staff should not act in the capacity of parent representatives on both the Foundation and its Executive Committee; and
- (b) the EMB considers that the ESF needs to provide adequate management information in support of decision making by the Executive Committee of the Foundation. According to the Hong Kong Institute of Certified Public Accountants (see its "Corporate Governance for Public Bodies — A Basic Framework" issued in May 2004):

- (i) the governing board of a public organisation should establish appropriate arrangements to ensure that it has access to all the necessary information, advice and resources to enable it to carry out its role effectively; and
- (ii) members of the governing board should ensure that they are provided with all the information that they need to properly consider issues to be discussed at a governing board meeting, in good time before the meeting. There should be agreed channels for members who feel that they do not have all the information they require, to approach the management to obtain more information.

Internal audit function

2.24 As the Foundation is entrusted with large sums of money from parents of ESF students and the public in the form of government subsidies (see para. 2.3), it has a duty to ensure that the moneys are spent economically, effectively and in accordance with the policies and regulations approved by the Foundation. The Foundation has established some committees (see Appendix A) to help it discharge its duties. Among these committees, the Executive Committee (comprising the Chairman and the Vice-chairman of the Foundation and seven other members) is the executive body of the Foundation. Probably due to its large membership size (see para. 2.5), the Foundation normally only holds one meeting (i.e. annual general meeting) every year (see Figure 2 in para. 2.16). As a result, the Foundation relies heavily on its Executive Committee in administering the affairs of the ESF. The Executive Committee normally holds a meeting every month.

2.25 Modern-day corporate governance of a public organisation normally includes the establishment of an audit committee which exercises independent monitoring of the performance of its executive body, reports its findings and makes recommendations for improvement to its governing body directly. Such an audit committee assists the governing body of the organisation by providing it with independent reviews of the effectiveness of the auditing and financial reporting processes, internal controls and risk management of the organisation. It also helps enhance economy, efficiency and effectiveness and secure value for money in different areas of activities of the organisation. **Audit notes that the Foundation has not set up an audit committee to perform these functions.**

Audit observations

2.26 In October 2000, the Foundation Office appointed an internal auditor reporting directly to the Financial Controller of the ESF. Periodically, the internal auditor exchanged

memoranda/e-mails with the Financial Controller on his work plans. The internal auditor had no supporting staff. Audit notes that formal internal audit plans and audit programmes were not prepared for discharging the internal audit function. From September 2003 to June 2004, the internal auditor was on no-pay leave. **Audit considers that such internal audit arrangements are not sufficient to help the Foundation discharge its monitoring functions effectively. The Foundation needs to strengthen the internal audit function of the ESF. Furthermore, in view of Audit observations on the administration of ESF schools (see Chapter 5 of the Director of Audit's Report No. 43), the internal audit office of the ESF should prepare audit programmes for conducting reviews of them periodically.**

Audit recommendations

2.27 Audit has *recommended* that the ESF should:

- (a) set up an audit committee under the Foundation comprising external members;**
- (b) ensure that its internal audit office is staffed by well qualified and experienced personnel reporting directly to the audit committee; and**
- (c) require its internal audit office to prepare annual audit programmes (to be approved by the audit committee) for conducting reviews covering major and high-audit-risk activities of the ESF, including the ESF Educational Services Limited.**

Response from the English Schools Foundation

2.28 The Executive Committee of the Foundation accepts that the ESF's governance should be reviewed with a view to ensuring that it is in line with the best practices.

PART 3: FINANCIAL MANAGEMENT

3.1 This PART examines the financial management of the Foundation Office of the ESF.

Financial management

3.2 As laid down in the Regulations of the English Schools Foundation, the Executive Committee of the Foundation needs to submit to the Foundation the current-year Estimates of the ESF (which show the estimated income and expenditure of the ESF), together with the latest audited accounts, at its annual general meetings so that the observations of the Foundation are transmitted to the Executive Committee.

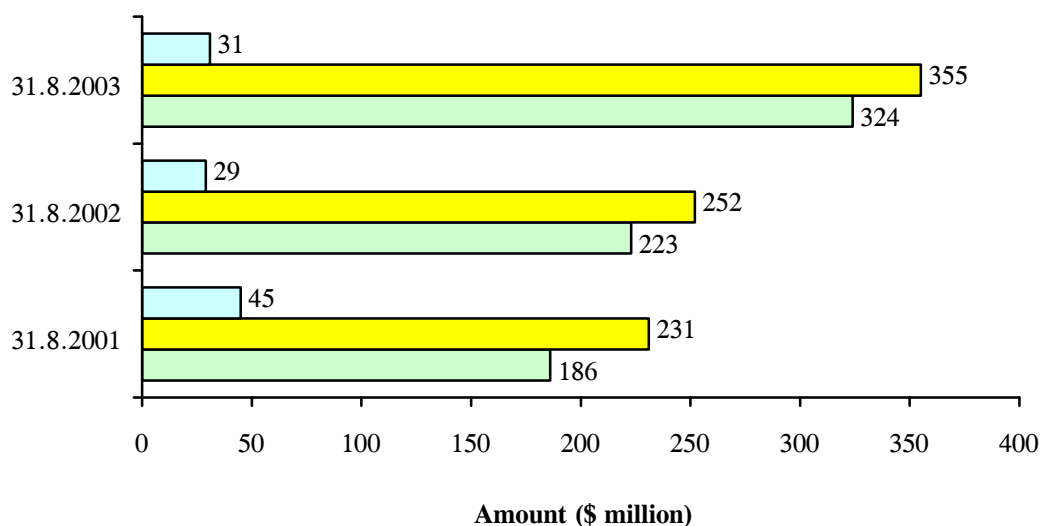
Audit observations

High net current liabilities at financial year end

3.3 As shown in the audited financial statements of the ESF for its past three financial years, the ESF had surpluses (total income less total expenditure) of \$40 million in 2000-01, \$46 million in 2001-02 and \$18 million in 2002-03. However, its current liabilities significantly exceeded its current assets at the financial year end (see Figure 3 and Appendix C).

Figure 3

**Current assets, current liabilities and net current liabilities
of the ESF at its financial year end
(2000-01 to 2002-03 ESF financial years)**



Legend:

- Current assets
- Current liabilities
- Net current liabilities (current liabilities less current assets)

Source: ESF audited financial statements

3.4 As shown in Figure 3, the net current liabilities of the ESF increased by 74% from \$186 million as at 31 August 2001 to \$324 million as at 31 August 2003. As at 31 August 2003, its current liabilities of \$355 million were more than 11 times of its current assets of \$31 million. As at the same date, the ESF used a bank overdraft of \$99 million (Note 14) to finance its expenditure. **Audit considers that this financial position was undesirable because:**

Note 14: The ESF secured bank overdraft facilities from a local bank using its residential properties as security.

- (a) **the high ratio of its current liabilities to current assets poses a potential financial risk to the ESF. If there is a sudden, unforeseen decrease in its income (such as low student enrolment) or increase in its expenditure (such as large financial claims against the ESF), the ESF may encounter cash-flow problems; and**
- (b) **the rising trend of bank interest rates may lead to higher interest expenditure. In the 2002-03 ESF financial year, the interest expenditure of the ESF was \$160,000.**

Views of the Financial Controller of the ESF on the bank overdraft

3.5 In the draft 2004-05 Estimates prepared for the consideration of the Executive Committee of the Foundation in April 2004, the Financial Controller of the ESF stated that:

- (a) the ESF's cash balances fluctuated during a financial year. At the end of a financial year, the cash balance was at its lowest point because of the seasonal nature of the cash flow. During the summer, little income was received but contract gratuities were paid to staff;
- (b) typically each year, the cash balances would be positive from October through to June. From the end of June to mid-September or early October, there would be an overdraft. This had worked well for the ESF since the early 1990s. In effect, it provided a low-cost method of financing capital works improvements and new buildings. The cost of credit (overdraft at prime rate) was only payable for a few months in each year. Therefore, financing charges were minimal relative to the funding made available;
- (c) for the 2002-03 ESF financial year, the forecast overdraft as at 31 August 2003 was \$88 million and the outturn was \$99 million. The forecast overdraft as at 31 August 2004 was \$128 million. The revised forecast overdraft as at 31 August 2004 made in April 2004 was \$130 million; and
- (d) these forecasts were dependent on the capital payments and prompt collection of school fees. This became more difficult in the aftermath of the Severe Acute Respiratory Syndrome.

3.6 Audit notes that, subsequent to the receipt of government grants in September 2003 and April 2004 and school fees, the ESF was able to maintain positive bank balances from September 2003 to June 2004. As at 31 August 2004 (the completion date of this audit), the ESF had a bank overdraft of \$95 million (Note 15).

3.7 In September 2004, in response to Audit findings in paragraphs 3.3 to 3.6, the ESF stated that:

- (a) the potential financial risk referred to in paragraph 3.4(a) was not as high as implied in the paragraph. For example, a large component of the current liabilities was the provision for staff gratuities. The majority of these liabilities were paid on a two-year cycle coinciding with ESF teaching staff's two-year contracts. Thus, about half of the staff would be paid at the end of one financial year, with the remaining staff paid at the end of the succeeding financial year. The related ESF liabilities at the end of one year were replaced by similar liabilities at the end of the following year. Therefore, such liabilities would not crystallise; and
- (b) ESF interest expenditure of \$160,000 in the 2002-03 ESF financial year represented 0.015% of its total income of \$1,051 million in the year.

3.8 **Audit recognises that ESF bank overdrafts would only last for a few months in a year (see para. 3.5(b)). However, due to the risks involved in adopting such a financing strategy (see paras. 3.4 and 3.5(d)), Audit considers that the ESF should adopt a more prudent method of budgeting and avoid relying on bank overdrafts.**

Audit recommendations

3.9 **Audit has recommended that the ESF should:**

- (a) **take action to reduce its net current liabilities; and**

Note 15: *ESF audited financial statements for the year ended 31 August 2004 would only be available in late 2004. This bank overdraft amount is per ESF bank statements.*

- (b) **avoid preparing budgets based on a high level of bank overdraft at its financial year end.**

Response from the English Schools Foundation

3.10 The **ESF** has stated that:

- (a) the Executive Committee of the Foundation will continue to carefully:
 - (i) monitor ESF budgets and current liabilities; and
 - (ii) determine prudent limits to borrowing; and
- (b) no commercial organisation would deny itself access to credit which can help maximise value for shareholders.

Response from the Administration

3.11 The **Secretary for Education and Manpower** agrees with Audit that the high ratio of the ESF's current liabilities to its current assets poses a potential financial risk to the ESF and is undesirable. He has said that the ESF should better manage its cash-flow situation and obviate or reduce its need for bank overdrafts.

Bank deposits held by English Schools Foundation schools

3.12 At the beginning of a financial year, the Foundation Office allocates each ESF school with a capitation allowance (Note 16) for meeting miscellaneous school expenditure. Each school has its own bank account for handling the capitation allowance. ESF schools are allowed to carry forward the unspent balances of the capitation allowance at the end of a financial year. The total capitation allowances amounted to \$38 million for the 2002-03 ESF financial year and \$40 million for the 2003-04 ESF financial year.

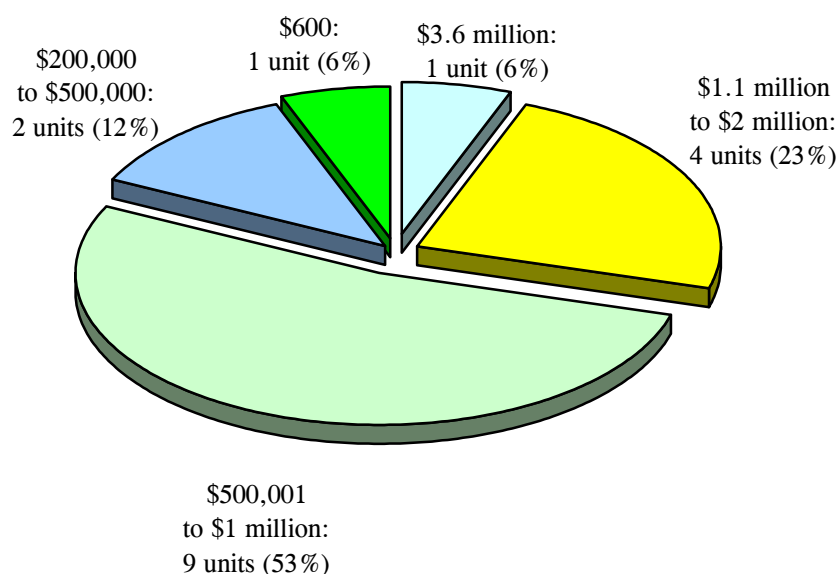
Note 16: *For the 2001-02 to 2003-04 ESF financial years, the annual capitation allowance was \$2,271 for each primary-school student, \$3,565 for each secondary-school student and \$15,579 for each special-education-school student. There was also a supplementary annual allowance of \$897 for each student of Year 7 to Year 11.*

Audit observations

3.13 While having bank overdrafts amounting to \$18 million as at 31 August 2002 and \$99 million as at 31 August 2003, the ESF held bank deposits amounting to \$15 million as at 31 August 2002 and \$17 million as at 31 August 2003 (see Appendix C). The \$17 million bank deposits as at 31 August 2003 represented the total bank deposits of the Foundation Office, the 15 ESF schools and the primary school operated by the ESF without recurrent government subsidies (see Figure 4).

Figure 4

**Bank deposits held by 17 ESF units (Note)
(31 August 2003)**



Source: ESF records

Note: The 17 ESF units comprised the Foundation Office, the 15 ESF schools, and the primary school operated by the ESF without recurrent government subsidies.

3.14 Audit appreciates that ESF schools need to maintain bank balances to meet their expenditure. **However, Audit considers that the ESF needs to take action to reduce the high level of bank overdraft of the ESF at its financial year end (see para. 3.13) and its bank interest expenditure.**

Audit recommendation

3.15 **Audit has *recommended* that, in order to reduce its bank overdrafts at its financial year end, the ESF should adopt an arrangement under which:**

- (a) **its schools would transfer a part of their bank deposits for which they do not have immediate needs to the Foundation Office; and**
- (b) **the Foundation Office would refund to individual schools the money deposited with it when the need arises.**

Response from the English Schools Foundation

3.16 The **Executive Committee of the Foundation** accepts that it is necessary to make improvement on the arrangement for ESF schools to maintain bank balances. The ESF has stated that it will adopt:

- (a) either an arrangement under which ESF schools would transfer a part of their bank deposits (for which they do not have immediate needs) to the Foundation Office; or
- (b) a central cash management and payment system similar to those adopted by large commercial organisations, without the need for each ESF school to maintain its own bank account.

PART 4: STAFF REMUNERATION AND RECRUITMENT

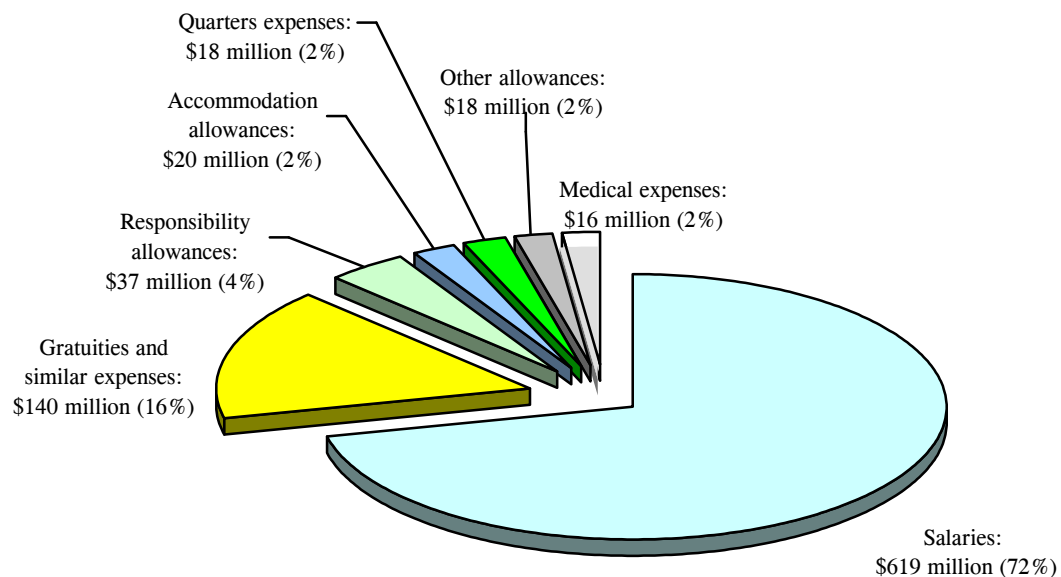
4.1 This PART examines the remuneration packages of ESF staff and the ESF's arrangements for recruiting senior staff and teaching staff.

English Schools Foundation staff remuneration

4.2 As at 1 April 2004, the ESF had 1,218 staff, including 18 senior staff, 763 teaching staff and 437 non-teaching staff. The total staff expenditure in the 2002-03 ESF financial year was \$868 million (see Figure 5).

Figure 5

Staff expenditure of the ESF (2002-03 ESF financial year)



Source: ESF records

4.3 Between 2000 and 2004, the ESF made the following adjustments to the remuneration of its senior staff and teaching staff:

- (a) in December 2000, based on the report of its Staff Benefits Working Group, the ESF introduced a new benefit package (involving housing allowances, medical benefits, passages and education allowances) for its teaching staff with effect from September 2001; and
- (b) in early 2004, subsequent to an ESF review of staff remuneration with reference to that of other local international schools, the Executive Committee of the Foundation accepted the ESF Pay Review Body's recommendation to implement a salary reduction of 4.42% on the salaries of all new ESF senior staff and teaching staff with effect from January 2004 and on all existing ESF senior staff and teaching staff upon renewal of their contracts with effect from September 2004.

In March 2004, the ESF set up a Remuneration Study Group to review the salaries of its senior staff and teaching staff.

English Schools Foundation senior staff remuneration

4.4 As at 1 April 2004, the ESF had 22 senior staff posts comprising:

- (a) **8 posts in the Foundation Office.** These included the Chief Executive of the ESF (vacant), the Financial Controller, the Human Resources Director, the Educational Development Director (vacant), the School Improvement Officer (Primary), the School Improvement Officer (Secondary), the Information and Communication Technology Advisor, and the Advisor for Special Educational Needs (vacant); and
- (b) **14 principal posts.** These included the principals of 14 ESF schools (one post was vacant — Note 17).

Note 17: *For the purpose of staff benefits, the ESF did not classify the Head of its special education school as an ESF senior staff member.*

Audit observations

4.5 In 1986, the ESF set the salary of the Chief Executive of the ESF at Point 3 of the Directorate Pay Scale of the Civil Service. In 1991, it set the salaries of the Financial Controller and the Human Resources Director each at 80% of that of the Chief Executive of the ESF.

4.6 In October 2003, the ESF:

- (a) created the post of Educational Development Director whose salary was set at 80% of that of the Chief Executive of the ESF;
- (b) created the posts of School Improvement Officer (Primary) and School Improvement Officer (Secondary) whose salaries were each set at 65% of that of the Chief Executive of the ESF;
- (c) created the post of Advisor for Special Educational Needs; and
- (d) upgraded the post of Information and Communication Technology Advisor to the senior staff rank.

The salary scale of ESF school principals was set in 1990, based on the salary scale of school principals in the United Kingdom (Note 18). Subsequently, their salary scale was adjusted in accordance with the annual salary adjustments of the Civil Service.

4.7 As shown in paragraphs 4.5 and 4.6, the salaries of the senior staff of the Foundation Office, with the exception of the Advisor for Special Educational Needs and the Information and Communication Technology Advisor, were set based on the salary of a Civil Service Directorate Grade officer. The salary scale of ESF school principals was set 14 years ago based on a similar salary scale in the United Kingdom. **Audit considers that the current salary scales of ESF senior staff (see Appendix D) may not be appropriate because:**

- (a) **the duties and responsibilities of the Chief Executive of the ESF may have changed vis-à-vis those of civil servants at Point 3 of the Civil Service Directorate Pay Scale since his salary was set 18 years ago;**

Note 18: *This was known as the Baker Salary Scale.*

- (b) **the salaries of the other ESF senior staff, whose salaries have been pegged to that of the Chief Executive of the ESF, may not be in line with those of posts having similar duties and responsibilities in other local educational organisations; and**
- (c) **the salaries of ESF school principals may be at variance with those of similar posts in other local educational institutions for the following reasons:**
 - (i) **their salaries were set based on those of school principals in the United Kingdom 14 years ago; and**
 - (ii) **their subsequent salary adjustments were based on those of the local civil service.**

4.8 In response to Audit findings in paragraphs 4.5 to 4.7, in September 2004, the ESF stated that:

- (a) the Chief Executive of the ESF's salary was set in 1986. Between 1986 and 2004, the number of schools under the ESF increased from 13 to 16, and the number of students served by it increased from 7,112 to 11,647;
- (b) the difference between the salaries of United Kingdom school principals and ESF school principals was being eroded; and
- (c) any linkage of the remuneration packages of its senior staff with those of other local educational organisations could be damaging to its staff recruitment and retention.

4.9 Apart from salary, the total remuneration package of an ESF senior staff member includes other staff benefits such as contract gratuities and housing and medical benefits. Any review of the remuneration of ESF senior staff needs to take into account these benefits.

Audit recommendation

4.10 **Audit has *recommended* that the ESF should conduct a review of the remuneration packages of its senior staff with a view to ensuring that they are broadly in line with those of similar posts in other local educational organisations.**

Response from the English Schools Foundation

4.11 The ESF has stated that the remuneration packages of its senior staff:

- (a) have been reviewed by its Pay Review Body; and
- (b) will be within the purview of its Remuneration Study Group.

English Schools Foundation teaching staff remuneration

4.12 In 1990, the ESF converted the salary scale of teaching staff in the United Kingdom for its teaching staff. Subsequently, ESF teaching staff salary scale was adjusted in accordance with the annual salary adjustments of the Civil Service. The monthly salaries of ESF teaching staff in the 2003-04 ESF financial year ranged from \$31,022 to \$54,311.

4.13 ESF teaching staff are normally employed on a two-year contract and, upon completion of the contract, are entitled to 25% contract gratuities on the total salaries earned during the contract period. In addition to salaries and contract gratuities, most ESF teaching staff (Note 19) are entitled to medical benefits. Furthermore, some teaching staff are:

- (a) paid responsibility allowances (with 25% contract gratuities); and/or
- (b) granted accommodation allowances or allocated with staff quarters.

Audit survey on remuneration packages

4.14 The salary scale for ESF teaching staff may not be in line with those for teaching staff of other local international schools for the following two reasons:

- (a) their salaries were set based on those of teaching staff in the United Kingdom 14 years ago; and
- (b) their subsequent salary adjustments were based on those of the local civil service.

The total remuneration package of an ESF teaching staff member includes, in addition to his salary, other staff benefits such as contract gratuities and housing and medical benefits.

Note 19: *Part-time and temporary teaching staff are not entitled to medical benefits.*

4.15 As at 1 November 2003, in addition to the 15 ESF schools and the primary school operated by the ESF without recurrent government subsidies, there were 38 international schools offering non-local curricula mainly in the medium of the English language. In June 2004, after visiting four international schools, Audit designed a questionnaire to survey the remuneration packages of the teaching staff of the ESF and of the eight largest local international schools (in terms of student population) in the 2003-04 school year. In the questionnaire, the ESF and these international schools were requested to provide the following information relating to staff remuneration benefits of their primary-school teaching staff and secondary-school teaching staff:

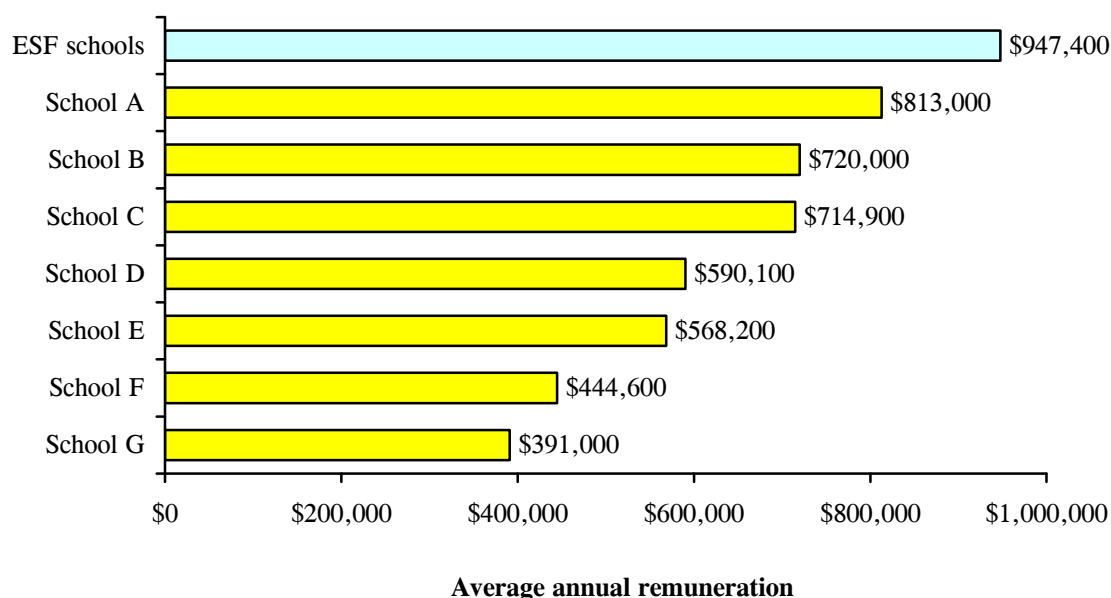
- (a) average annual salary per teaching staff member in different teaching-experience groups;
- (b) rates of contract gratuities and provident fund benefits;
- (c) average responsibility allowances;
- (d) average housing benefits including estimated rental values of staff quarters; and
- (e) average medical benefits.

4.16 The ESF and seven of the eight international schools completed and returned Audit questionnaires. Based on the information provided, Audit estimated (Note 20) the average annual remuneration per ESF teaching staff member and that per teaching staff member of each of the seven other international schools in different teaching-experience groups (see Appendix E). In order to illustrate the relativity of the average annual remuneration per ESF teaching staff member vis-à-vis that per teaching staff member of each of the seven other international schools, Audit estimated the average annual remuneration per teaching staff member of each school without taking into account his teaching experience (see Figure 6).

Note 20: *In the event that an international school offered courses using a foreign language other than English as the medium of instruction, the remuneration information of the teaching staff concerned was excluded from Audit's estimates.*

Figure 6

**Estimated average annual remuneration per
teaching staff member of ESF schools and of seven local international schools
(2003-04 school year)**



Source: Audit survey and estimates

Remarks: The remuneration included salaries, contract gratuities, responsibility allowances, accommodation allowances, staff quarters benefits, provident fund contributions made by the schools, and medical benefits.

Audit observations

Remuneration packages of ESF teaching staff

4.17 The average annual remuneration per ESF teaching staff member should be broadly in line with that per teaching staff member of other local international schools because:

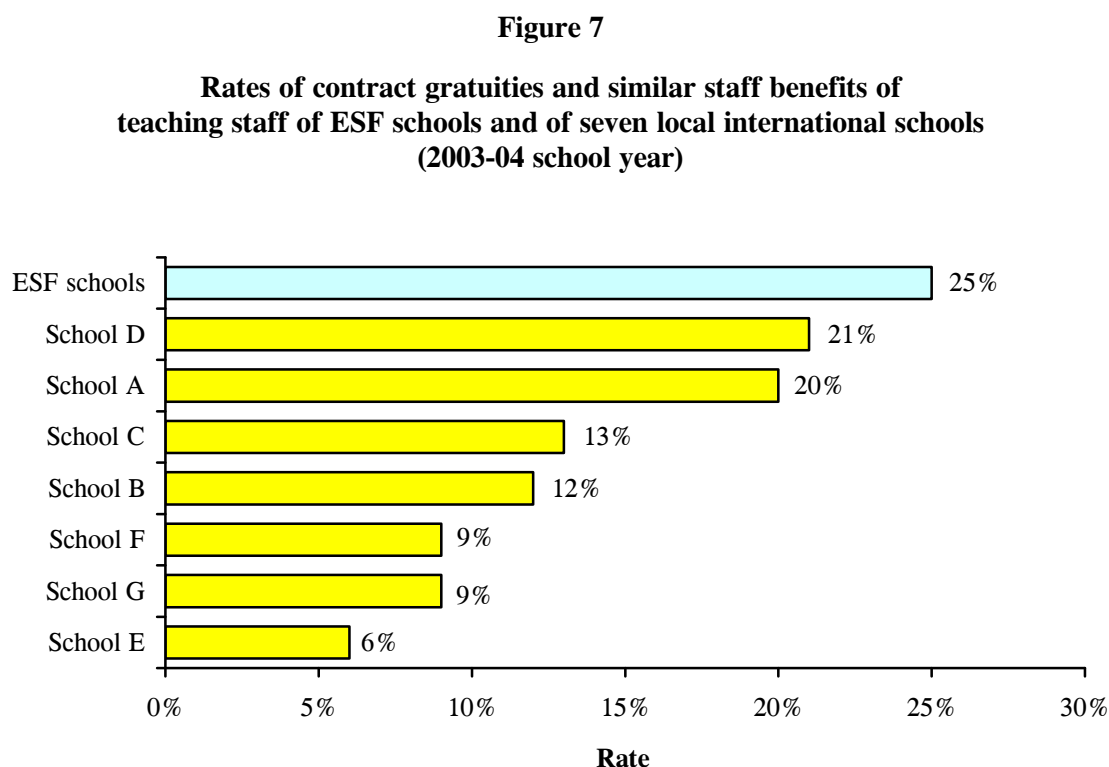
- (a) ESF schools are broadly similar to other local international schools in terms of curricula and student mix; and
- (b) both ESF schools and other local international schools usually recruit teaching staff from similar sources and of similar background and experience.

4.18 However, as shown in Figure 6 in paragraph 4.16, in the 2003-04 school year, the estimated average annual remuneration of \$947,400 per ESF teaching staff member was the highest when compared with the corresponding figures of the seven other international schools. This average remuneration was 116.5% of that of School A, which offered the second highest staff remuneration. **Audit considers that the ESF needs to carry out a comprehensive review of this issue.**

4.19 A further analysis of the remuneration information revealed that ESF teaching staff's higher remuneration was partly due to their higher contract gratuity benefits and responsibility allowances. These two ESF staff benefits were the highest when compared with similar benefits provided by the seven other international schools (see paras. 4.20 to 4.24).

Contract gratuity benefits

4.20 ESF teaching staff's 25% contract gratuities (including the ESF's contributions towards staff provident fund) were the highest when compared with the rates of similar staff benefits provided by the seven other international schools (see Figure 7).



Source: Audit survey

Remarks: 1. The rates are expressed as percentages of staff salaries.
2. Similar staff benefits mainly consisted of employers' contributions towards staff provident funds.

4.21 Audit notes that the teaching staff of the primary-cum-secondary school operated by the ESF Educational Services Limited (see para. 1.6) only received contract gratuities equal to 10% of their salaries.

Responsibility allowances

4.22 Responsibility allowances are given to teaching staff taking up additional responsibilities. Audit survey shows that, when compared with the seven other international schools:

- (a) the ESF had the highest percentage (66%) of teaching staff receiving responsibility allowances; and
- (b) ESF teaching staff in receipt of the allowance received the highest average amount (\$98,600 a year — see Table 2).

Table 2

**Responsibility allowances received by
teaching staff of ESF schools and of seven local international schools
(2003-04 school year)**

School	Percentage of teaching staff receiving responsibility allowance	Average annual responsibility allowance per staff member in receipt of the allowance
		(\$)
ESF schools (Note)	66%	98,600
School A (Note)	32%	71,000
School B	28%	18,600
School F	26%	25,800
School D (Note)	19%	37,500
School E	14%	30,000
School C	10%	72,000
School G	Nil	Nil

Source: Audit survey

Note: These schools granted contract gratuities on teaching staff's responsibility allowances, which are included in the average amounts shown.

4.23 In response to EMB enquiries in 2003, the ESF stated that:

- (a) a responsibility allowance was given to a staff member appointed to take up responsibilities in addition to the primary responsibilities of the post he was holding;
- (b) every year, based on its number of classes and student enrolment, the ESF provided a fixed sum of responsibility allowance to each ESF school for allocation to its staff;
- (c) higher responsibility allowances were normally given to department heads in important subjects like English and Science; and
- (d) the ESF did not have central guidelines on the allocation of responsibility allowances. Different school principals might adopt different policies on the allocation of these allowances based on their schools' circumstances.

4.24 **Audit considers it undesirable that different ESF schools adopted different policies on the allocation of responsibility allowances. The ESF needs to ensure that responsibility allowances are allocated to its teaching staff consistently, fairly and strictly on a need basis, by reference to the practices adopted by other local international schools.**

4.25 In September 2004, in response to Audit findings in paragraphs 4.17 to 4.24, the ESF stated that:

- (a) overseas-term contracts and salary supplements had not been granted to new ESF teaching staff since the introduction of the new staff benefit package in September 2001 (see para. 4.3(a)). There would be continued financial savings as a result of teaching staff on the old remuneration packages leaving the ESF. It estimated that the average annual remuneration per teaching staff member of ESF schools of \$947,400 would be reduced by \$48,337 (5.1%) after all ESF teaching staff on the old remuneration packages had left;
- (b) as stated in paragraph 4.3(b), it was implementing a salary reduction of 4.42% on its teaching staff. It estimated that the average annual remuneration per teaching staff member of ESF schools of \$947,400 would be further reduced by \$37,159 (3.9%) upon full implementation of the salary reduction;

- (c) in addition to the salary information in Audit survey, information on teachers' duties, class sizes, etc. would be useful for comparison purpose;
- (d) while the ESF was keen on maintaining its staff costs and remuneration packages at competitive levels, it was important to emphasise that competition was fierce for the internationally accomplished staff sought by ESF schools. It was highly desirable for ESF schools to have a stable teaching staff. Excessive staff turnover was detrimental to school effectiveness and caused additional expenditure and workload on recruitment;
- (e) positive and significant cost-saving advantages of securing the employment of highly-motivated and long-staying staff needed to be taken into account in evaluating the staff cost information; and
- (f) ESF teaching staff turnover had increased against the background of the salary reduction in 2004 (see Table 3).

Table 3

**Teaching staff leaving the ESF
(2000-01 to 2003-04 school years)**

ESF teaching staff leaving		
School year	Number	Expressed as a percentage of total ESF teaching staff
2000-01	50	7 %
2001-02	64	9 %
2002-03	67	9 %
2003-04	85	11 %

Source: ESF records

Audit recommendations

4.26 Audit has recommended that the ESF should:

- (a) **conduct a review of the remuneration packages of its teaching staff with a view to setting new packages, having regard to those of other major local international schools;**

- (b) **in doing so, take into consideration the need to pay competitive salaries to recruit and retain quality teaching staff from English-speaking countries;**
- (c) **implement the new remuneration packages on newly recruited teaching staff as soon as possible, and on existing teaching staff over a period of time, taking into account the effects of the new remuneration packages on their financial commitments; and**
- (d) **draw up central guidelines on the payment of responsibility allowances to teaching staff for compliance by its schools, with reference to the practices adopted by other local international schools.**

Response from the English Schools Foundation

4.27 The **ESF** agrees with the audit recommendations in paragraph 4.26. It has stated that:

- (a) it has established a Remuneration Study Group to conduct reviews of the remuneration packages of its teaching staff;
- (b) it must continue to be the employer of choice;
- (c) changes to contractual conditions of its teaching staff can only be implemented on renewal of their contracts or with their consent; and
- (d) principals and school councils require a degree of independence on payment of responsibility allowances to teaching staff to meet the unique circumstances of individual schools.

Response from the Administration

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

- (a) Audit findings on ESF teaching staff remuneration are broadly in line with the EMB's observations in its fact-finding exercise;
- (b) as estimated by Audit, the average remuneration of ESF teaching staff is 16.5% more favourable than the highest offer among the seven selected international schools and 142% higher than the lowest offer; and

- (c) given the wide differences in remuneration packages, the EMB considers that the ESF should justify its unique and special circumstances in comparison with those of other local international schools.

Extra payments to senior staff leaving the English Schools Foundation

4.29 If an ESF senior staff member wishes to resign from the ESF, he needs to give eight months' notice or make a payment of eight months' salary in lieu of the notice. Audit notes that, in the 2002-03 ESF financial year, three ESF senior staff received extra payments from the ESF upon their resignation (see Table 4).

Table 4

Senior staff resigning from the ESF (2002-03 ESF financial year)

Staff	Particulars
A	On 13 November 2002, Staff A notified the ESF of his resignation with effect from 31 August 2003. On 14 November 2002, the Executive Committee of the Foundation approved that Staff A should relinquish his responsibilities with effect from 31 December 2002 and that his salary and other benefits (including 25% contract gratuities on his salary) should be paid up to 31 August 2003.
B	On 30 October 2002, Staff B notified the ESF of his resignation with effect from 31 August 2003. On 13 November 2002, Staff B stated in his letter to the ESF that: <ul style="list-style-type: none"> (a) he accepted ESF offer of a special leave from 1 January 2003 to 31 August 2003; and (b) his salary and other benefits (including 25% contract gratuities on his salary) would be paid until his contract expired on 31 August 2003.
C	On 26 June 2003, Staff C notified the ESF of his resignation with effect from 30 June 2003. On 30 June 2003, on behalf of the ESF, the Chairman of the Foundation signed an agreement with Staff C to the effect that, among others, the ESF would make an extra payment equivalent to 10 months' salary to Staff C upon his leaving the ESF.

Source: ESF records

4.30 As shown in Table 4, the ESF made extra payments equivalent to 10 months' salaries to Staff A, Staff B and Staff C upon their leaving the ESF. Apart from Staff A, whose extra payment upon his leaving the ESF had been approved by the Executive Committee of the Foundation, Audit could not find records of the Executive Committee's decisions regarding the extra payments made to Staff B and Staff C upon their leaving the ESF.

Audit observations

4.31 Audit appreciates that the arrangements for some ESF senior staff leaving the ESF may be the results of negotiations between the ESF and the staff concerned. **Audit considers that the Executive Committee of the Foundation, as the body entrusted by the Foundation with the duties and responsibilities to manage the affairs of the ESF, is in a better position to judge whether payments exceeding the staff entitlements are made in the best interests of the ESF.**

Audit recommendations

4.32 **Audit has recommended that the ESF should:**

- (a) **ensure that the approval of the Executive Committee of the Foundation is obtained before making extra payments to ESF senior staff upon their leaving the ESF; and**
- (b) **record such approvals in the meeting minutes of the Executive Committee of the Foundation.**

Response from the English Schools Foundation

4.33 The ESF agrees with the audit recommendations in paragraph 4.32. It has stated that:

- (a) in the past, the agreement of the Chief Executive of the ESF and the Chairman/Vice-chairman of the Foundation was sought before making extra payments to ESF senior staff upon their leaving the ESF for contractual or confidentiality reasons; and
- (b) it will record the approval of the Executive Committee of the Foundation in its meeting minutes regarding extra payments to ESF senior staff upon their leaving the ESF, if this does not infringe legally binding agreements.

Response from the Administration

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

- (a) the EMB considers that the ESF needs to review the ambit of the Foundation and its Executive Committee; and
- (b) there may be a case to establish clear guidelines on the types of decisions that should be made at the Foundation level, at the Executive Committee level, and, with the explicit agreement of the Foundation and its Executive Committee, at the ESF management level.

Staff recruitment

4.35 Most ESF senior staff and teaching staff are recruited from overseas. For the recruitment of ESF teaching staff, in January of each year, individual ESF schools inform the Human Resources Department of the Foundation Office of their vacant posts in the coming school year. Based on the staff vacancy information of all ESF schools, the Human Resources Department advertises the vacant posts on ESF website, one local newspaper, and one newspaper each in the United Kingdom and in Australia. Applicants are asked to submit their applications via ESF website. Upon examination of the applications, the school principals concerned and the Educational Development Director and the School Improvement Officers of the Foundation Office then short-list the appropriate applicants for interview. ESF interview teams interview applicants in Hong Kong, the United Kingdom and Australia every year.

Audit observations

4.36 In the 2002-03 and 2003-04 ESF financial years, eight ESF interview teams travelled to the United Kingdom and Australia to conduct interviews for recruiting ESF school principals and teaching staff (see Table 5).

Table 5

**Overseas trips made by ESF interview teams
(2002-03 and 2003-04 ESF financial years)**

Interview period	Country	Number of interview-team member(s)	Staff to be recruited	Number of applicants interviewed	Total expenditure (\$)
(A) 2002-03 ESF financial year					
17.2.03 to 28.2.03	UK	13	Principals and teaching staff	157	637,200
10.3.03 to 14.3.03	Australia	12	Teaching staff	69	459,000
18.7.03	UK	2	Deputy principal	5	7,100 (Note)
Total				231	1,103,300
(B) 2003-04 ESF financial year					
20.10.03 and 21.10.03	UK	2	Teaching staff	8	36,200
15.12.03	UK	2	Principals	3	10,300 (Note)
4.1.04 and 5.1.04	UK	1	Teaching staff	3	3,500 (Note)
9.2.04 to 13.2.04	UK	11	Principals and teaching staff	138	367,700
17.2.04 to 20.2.04	Australia	8	Principals and teaching staff	41	317,300
Total				193	735,000

Source: ESF records

Note: The expenditure did not include the cost of airfares.

4.37 During Audit visits to other local international schools, Audit staff were advised that some schools recruited teaching staff based on telephone interviews or on the résumé of the applicants and their reference letters. In view of the high costs involved and the time taken by ESF senior staff (many of them were school principals) during school terms to travel overseas to interview applicants, Audit considers that the ESF should, as far as possible, conduct interviews with applicants for teaching posts by other means, such as video-conferencing. In this connection, Audit notes that, on five occasions in the 2003-04 ESF financial year, the ESF conducted interviews with overseas applicants by means of video-conferencing. However, in the same year, five ESF interview teams made five trips to conduct interviews with applicants overseas. In an interview trip between 9 February 2004 and 13 February 2004, 11 ESF staff participated (see Table 5). **Audit considers that the ESF needs to review and revise its recruitment practices.**

Audit recommendations

4.38 **Audit has recommended that the ESF should:**

- (a) **review its recruitment practices with a view to reducing recruitment costs; and**
- (b) **send the minimum number of its staff overseas to interview applicants when it is necessary to do so.**

Response from the English Schools Foundation

4.39 The ESF agrees with the audit recommendations in paragraph 4.38. It has stated that its Recruitment Working Party established in the 2003-04 ESF financial year endorsed the policy of:

- (a) reducing the number of its school principals travelling overseas to interview applicants; and
- (b) reducing the time spent overseas by its interview-team members by using more video-conference interviews (Note 21).

Note 21: *These new recruitment practices would be implemented from September 2004.*

PART 5: STAFF HOUSING BENEFITS

5.1 This PART examines the provision of housing benefits to its staff by the ESF.

Housing benefits for different groups of staff

5.2 As at 1 April 2004, insofar as staff housing benefits were concerned, ESF staff could be classified into four groups, as follows:

- (a) **22 senior staff posts.** These comprised 8 senior staff posts in the Foundation Office (Note 22), 9 principal posts in the 9 ESF primary schools and 5 principal posts in the 5 ESF secondary schools (Note 23). These staff were employed on overseas terms and were entitled to staff quarters benefits (see paras. 5.4 to 5.13);
- (b) **143 teaching staff employed on overseas terms.** These staff were employed before 1 January 2000 and were entitled to staff quarters benefits (see paras. 5.17 to 5.30);
- (c) **620 teaching staff employed on local terms.** These staff were only entitled to housing allowances (Note 24); and
- (d) **437 non-teaching staff.** These staff were employed on local terms and were entitled to neither staff quarters benefits nor housing allowances.

Note 22: *The eight senior staff posts were the Chief Executive of the ESF, the Financial Controller, the Human Resources Director, the Educational Development Director, the School Improvement Officer (Primary), the School Improvement Officer (Secondary), the Information and Communication Technology Advisor, and the Advisor for Special Educational Needs. The post of Chief Executive of the ESF had been vacant since 26 June 2003 and the posts of Educational Development Director and Advisor for Special Educational Needs since October 2003.*

Note 23: *The Head of the ESF special education school and the Head of the primary school operated by the ESF without recurrent government subsidies were only entitled to the housing benefits of ESF teaching staff.*

Note 24: *The ESF Housing Allowance Scheme was introduced in September 2001 for teaching staff employed on local terms. Under the Scheme, eligible staff are paid monthly allowances calculated as a percentage (15% for the first year of employment, 22.5% for the second year and 30% for the third and subsequent years) of the rents or mortgage interests paid by them, subject to maximum monthly amounts set by the ESF (\$3,000 for the first year of employment, \$4,500 for the second year and \$6,000 for the third and subsequent years). In the 2002-03 ESF financial year, the total housing allowances amounted to \$8 million.*

5.3 As at 1 April 2004, the ESF owned 208 staff quarters and leased 11 staff quarters (10 for senior staff and 1 for a teaching staff member). Staff residing in staff quarters paid a monthly rent at 7.5% of their salaries to the ESF.

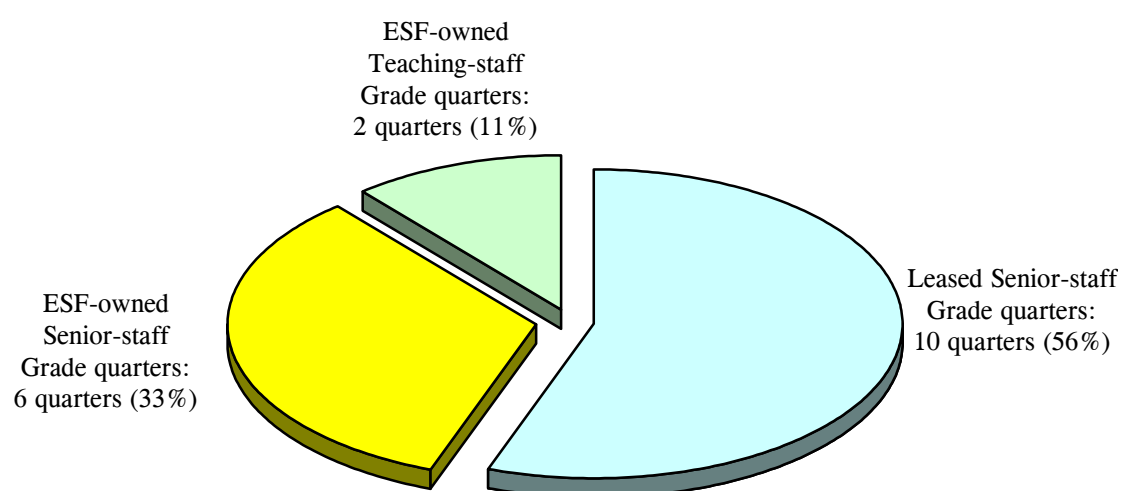
Quarters for senior staff

5.4 As at 1 April 2004:

- (a) 4 of the 22 ESF senior staff posts were vacant (Note 25);
- (b) all the 18 ESF senior staff were provided with staff quarters (see Figure 8); and
- (c) among the 208 quarters owned by the ESF, 1 was graded as the Chief Executive's quarters, 6 as Senior-staff Grade quarters and the remaining 201 as Teaching-staff Grade quarters.

Figure 8

Quarters allocated to ESF senior staff (1 April 2004)



Source: ESF records

Note 25: The four vacant posts were the Chief Executive of the ESF, the Educational Development Director, the Advisor for Special Educational Needs and the principal of an ESF primary school.

Senior Staff Rental Scheme

5.5 In the 1980s, the Executive Committee of the Foundation decided to relocate ESF senior staff from ESF-owned Teaching-staff Grade quarters to leased quarters. In 1992, the ESF introduced a Senior Staff Rental Scheme under which:

- (a) if there was no ESF-owned Senior-staff Grade quarters available, an ESF senior staff member might be allocated with a leased quarters;
- (b) the ESF set a rent entitlement rate of 90.4% on staff salaries for senior staff working on the Hong Kong Island, based on the estimated rental value of an ESF-owned quarters on the Hong Kong Island and the salary of a senior staff member. This means that an ESF senior staff member might be allocated with a leased quarters at a rent not exceeding 90.4% of his salary;
- (c) the ESF set a rent entitlement rate of 72.5% on staff salaries for senior staff working in Kowloon and the New Territories;
- (d) an ESF staff member had to pay the difference in rent if the rent of his leased quarters exceeded his entitlement; and
- (e) the ESF would review periodically the rent entitlement rates of its senior staff, with reference to changes in market-rent levels.

In the 2003-04 ESF financial year, the rent entitlement rate for ESF senior staff working on the Hong Kong Island was 49.76% of their salaries and that for senior staff working in Kowloon and the New Territories was 33.12% of their salaries.

Audit observations

Need to accommodate staff in ESF-owned quarters

5.6 As at 1 April 2004:

- (a) the ESF leased 10 staff quarters for its senior staff (at monthly rents ranging from \$39,151 to \$75,000). The total annual rent of these 10 leased staff quarters paid by the ESF amounted to \$6.8 million (see Appendix F); and

- (b) the ESF had 13 vacant Teaching-staff Grade quarters. The estimated monthly rental values of these 13 quarters ranged from \$7,000 to \$21,000. Their estimated total annual rental value amounted to \$2.6 million (see Appendix G).

5.7 Audit considers it undesirable that the ESF leased 10 staff quarters for its senior staff at a total annual rent of \$6.8 million, while at the same time maintaining 13 vacant ESF-owned staff quarters with an estimated total annual rental value of \$2.6 million. (In addition, as at 1 April 2004, the ESF leased a staff quarters for one of its teaching staff at an annual rent of \$288,000.) **In order to make better use of ESF quarters, Audit considers that the ESF should, as far as possible, accommodate eligible staff in ESF-owned staff quarters, instead of leasing quarters for them. If there are still surplus quarters available after the allocation, the ESF should, as far as possible, lease them to ineligible staff and people other than ESF staff (i.e. outsiders). This will help generate rental income for the ESF.**

5.8 As at 1 April 2004, the ESF had 13 vacant ESF-owned Teaching-staff Grade quarters, and leased another 43 ESF-owned Teaching-staff Grade quarters to 30 ineligible staff (see para. 5.23) and 13 outsiders. Judging from the location, the estimated rental value and the number of bedrooms of the 56 ESF-owned Teaching-staff Grade quarters which were vacant or leased to ineligible staff/outside (see Appendices G and H), the ESF may consider selecting appropriate ESF-owned quarters (which are vacant or leased to ineligible staff/outside) for use as Senior-staff Grade quarters. As shown in Appendix F, the ESF had allocated two of its owned Teaching-staff Grade quarters to two senior staff. If justified, the ESF may consider converting two adjacent ESF-owned staff quarters into a single unit for allocation to a senior staff member. Audit notes that the ESF had made similar conversions to some of its staff quarters (Note 26).

Rents of leased senior staff quarters exceeding entitlements

5.9 As at 1 April 2004, of the 18 ESF senior staff, 10 were allocated with leased quarters and 8 with ESF-owned quarters (see Appendix F). For these 10 leased quarters, Audit notes that the monthly rents (including rates and management fees) of 5 quarters paid by the ESF exceeded the corresponding staff entitlements (see Table 6).

Note 26: *In the past years, in order to provide appropriate staff quarters for staff with families of different sizes, the ESF had converted some of its owned adjacent staff quarters by changing two adjacent quarters of similar size into two quarters of different sizes.*

Table 6
Monthly rents of ESF-leased quarters
for senior staff exceeding their entitlements
(1 April 2004)

Staff	Monthly rent entitlement (on date of commencement of tenancy agreement)	Monthly rent paid by the ESF	Monthly rates and management fee paid by the ESF	Monthly rent (excluding rates and management fee) exceeded entitlement by	Monthly rent (including rates and management fee) exceeded entitlement by
	(a)	(b)	(c)	(d) = (b) - (a)	(e) = (b) + (c) - (a)
	(\$)	(\$)	(\$)	(\$)	(\$)
D	50,027 (25.1.2003)	60,000	10,374	9,973	20,347
E	41,215 (1.9.2003)	45,000 (Note)	N/A	N/A	3,785
F	36,796 (1.5.2002)	40,000 (Note)	N/A	N/A	3,204
G	67,879 (22.9.2002)	60,000	10,457	(7,879)	2,578
H	74,558 (9.10.2002)	75,000 (Note)	N/A	N/A	442
				Total	30,356

Source: ESF records

Note: The monthly rent included rates and management fee.

5.10 Regarding the ESF-leased quarters for Staff D (see Table 6), Audit notes that, in October 2002, the Chief Executive of the ESF authorised an increase of Staff D's monthly rent entitlement from \$50,027 to \$60,000. **Audit considers that the ESF should as far as possible comply with its rules and regulations on providing staff quarters benefits to its staff. In the event that there is a need to provide such benefits to a senior staff member exceeding his entitlement, the ESF should seek the approval of the Executive Committee of the Foundation with justifications.**

5.11 In response to Audit enquiries, the ESF said that it was ESF practice that, so long as the monthly rent (excluding rates and management fee) of an ESF-leased quarters did not exceed the rent entitlement of the senior staff member concerned, the ESF would:

- (a) pay the rent of the quarters; and
- (b) pay the rates and management fee of the quarters (without a specified maximum amount), irrespective of the rent entitlement of the staff member.

5.12 Audit could not find records of approval on ESF practice mentioned in paragraph 5.11. Normally, an organisation would specify a maximum monthly rent entitlement for a staff member to rent a quarters such that the total monthly rental cost (including rent, rates and management fee) would not exceed the entitlement. Regarding the practice of the ESF, if rates and management fees were to be met from ESF staff rent entitlements, the total monthly rental costs (including rates and management fees) paid by the ESF for the five ESF-leased quarters stated in Table 6 in paragraph 5.9 would exceed the total staff entitlements by \$30,356. **Audit considers that the ESF needs to seek the approval of the Executive Committee of the Foundation on its practice on staff rent entitlements.**

5.13 In 1992, upon the introduction of the Senior Staff Rental Scheme, the rent entitlement rates of ESF senior staff were set at 90.4% and 72.5% of their salaries (see para. 5.5(b) and (c)). In the 2003-04 ESF financial year, the rent entitlement rates were adjusted to 49.76% and 33.12% of staff salaries (see para. 5.5), with reference to changes in market-rent levels. **As it has been 12 years since the ESF introduced the Scheme, Audit considers that the ESF needs to conduct a comprehensive review of this issue with reference to the housing benefits provided by other local educational institutions for their senior staff.**

Audit recommendations

5.14 **Audit has *recommended* that the ESF should:**

- (a) **as far as possible accommodate eligible staff in the staff quarters it owns, instead of leasing quarters for them;**
- (b) **lease the vacant staff quarters to its staff and outsiders to generate rental income;**
- (c) **select those appropriate ESF-owned Teaching-staff Grade quarters for re-grading as Senior-staff Grade quarters for allocation to its senior staff;**
- (d) **consider converting two adjacent Teaching-staff Grade quarters into one Senior-staff Grade quarters for allocation to a senior staff member if it is justified to do so;**
- (e) **seek and record the approval of the Executive Committee of the Foundation if there is a need for the ESF to lease a staff quarters for a senior staff member exceeding his rent entitlement;**
- (f) **seek the approval of the Executive Committee of the Foundation for paying the rates and management fees of ESF-leased quarters for its senior staff, irrespective of their rent entitlements; and**
- (g) **conduct a review of the rental-value level of staff quarters for its senior staff with reference to the housing benefits provided by other local educational institutions.**

Response from the English Schools Foundation

5.15 The **ESF** agrees with the audit recommendations in paragraph 5.14. It has stated that:

- (a) it has taken action in respect of the audit recommendations in paragraph 5.14(a), (b) and (c). In the 2004-05 ESF financial year, three newly-appointed principals, whose predecessors were previously accommodated in ESF-leased quarters, have been allocated with ESF-owned quarters;

- (b) it will examine the technical and structural feasibility of the audit recommendation in paragraph 5.14(d);
- (c) the Executive Committee of the Foundation will consider the audit recommendation in paragraph 5.14(e). In the past, the authority to approve leasing a staff quarters for a senior staff member exceeding his rent entitlement was delegated to the Chief Executive of the ESF; and
- (d) it will take action in respect of the audit recommendations in paragraph 5.14(f) and (g).

Response from the Administration

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

- (a) the EMB accepts that the Executive Committee of the Foundation should not be overburdened by minor staff management issues;
- (b) in order to forestall abuse, the EMB considers that the ESF should define the administrative and financial authority to be exercised by the Headquarters senior staff; and
- (c) the ESF should keep proper documentation of the reasons for decisions to ensure consistency, transparency and accountability.

Quarters for teaching staff on overseas terms of employment

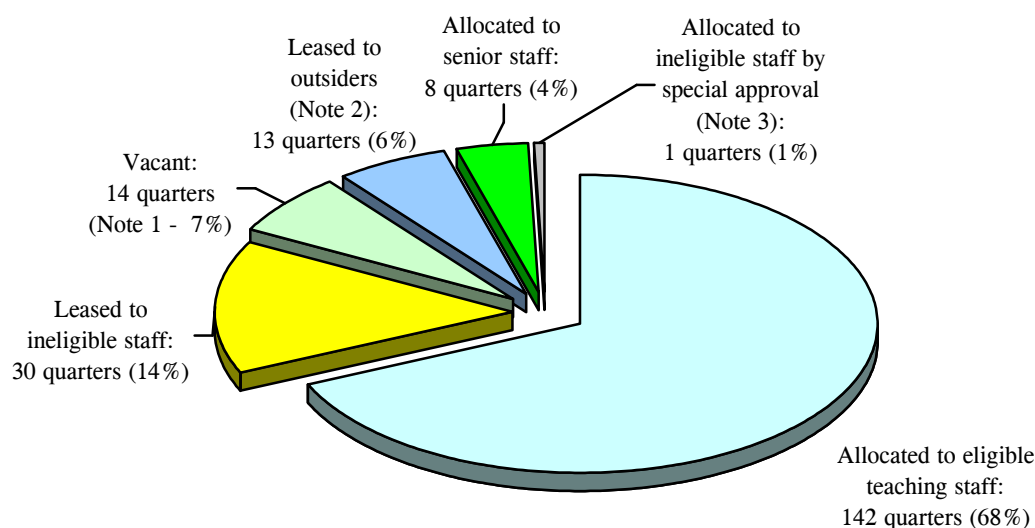
5.17 As at 1 April 2004, the ESF had 143 teaching staff employed on overseas terms, who were entitled to staff quarters benefits. Of these staff, 142 were allocated with ESF-owned staff quarters and one with an ESF-leased staff quarters.

Audit observations

Surplus staff quarters

5.18 As at 1 April 2004, the ESF owned 208 staff quarters (see Figure 9).

Figure 9
Use of ESF-owned staff quarters
(1 April 2004)



Source: ESF records

Note 1: These included one quarters for the Chief Executive of the ESF and 13 Teaching-staff Grade quarters (see para. 5.6(b)).

Note 2: The ESF let quarters to outsiders through estate agents.

Note 3: In May 1992, the Executive Committee of the Foundation granted a special approval for a non-teaching staff member employed on local terms to reside in a staff quarters without paying a rent at 7.5% of his salary. This was in recognition of his performing frequent extraneous duties.

5.19 ESF teaching staff employed on local terms are not eligible for staff quarters benefits. As at 1 April 2004, of the 763 ESF teaching staff, 620 (81%) were employed on local terms and 143 (19%) on overseas terms. The normal retirement age of ESF teaching staff is 60. Audit estimates that, as a result of impending staff retirement, of the 143 teaching staff eligible for staff quarters benefits as at 1 April 2004, the number of such staff will decrease to 90 by 1 September 2010, and to 28 by 1 September 2020. The last eligible teaching staff member would have left the ESF by the 2030-31 school year (Note 27).

Note 27: *Audit estimates were based on the age of the teaching staff eligible for staff quarters benefits, and their normal retirement age of 60 or the dates of their leaving the ESF as indicated by them.*

5.20 As at 1 April 2004, the ESF had 56 surplus ESF-owned Teaching-staff Grade staff quarters, of which 30 (54%) were leased to ineligible staff, 13 (23%) were leased to outsiders and 13 (23%) were vacant (see Figure 9 in para. 5.18). Due to the retirement of teaching staff eligible for staff quarters benefits over the next 27 years (see para. 5.19), the number of surplus ESF-owned staff quarters is expected to increase from 56 in April 2004 to 199 in the 2030-31 school year, if the ESF does not take action to reduce its surplus quarters.

5.21 At present, the ESF leases some of the surplus quarters to ineligible staff and outsiders to generate rental income. Audit considers that, as an educational institution, it may not be appropriate for the ESF to maintain a large number of quarters for leasing in the long term. This activity requires substantial staff resources and may not be in line with the object of the ESF. **In view of the expected increase of surplus staff quarters in the coming years, Audit considers that the ESF needs to formulate a plan for disposing of its surplus staff quarters.**

5.22 Audit notes that, of the 208 ESF-owned staff quarters as at 1 April 2004, 92 quarters (87 at the Braemar Heights and 5 at the Beacon Hill School) had non-assignment clauses in the government leases which prohibited the ESF from selling them in the market. **If the ESF wishes to sell these quarters, it needs to negotiate with the Government on removing the non-assignment clauses.**

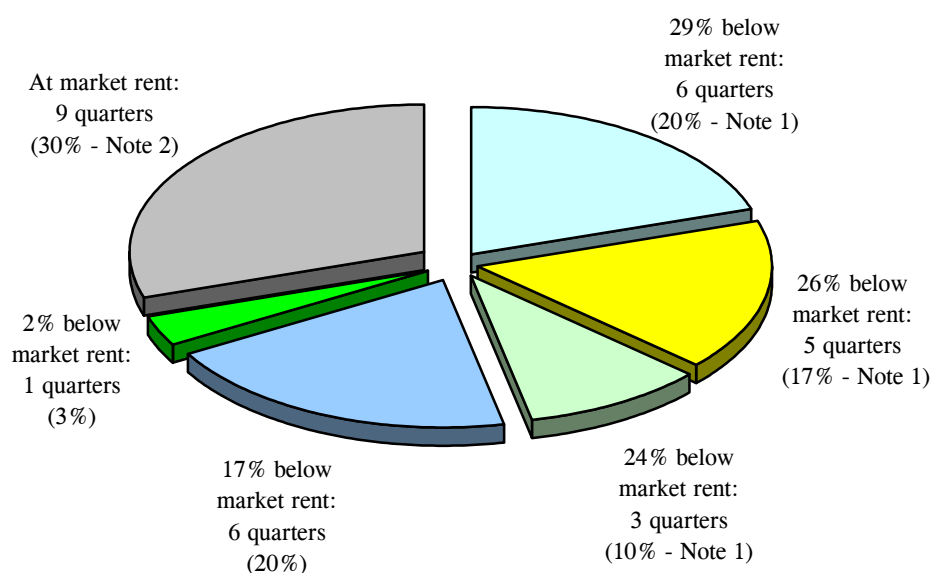
Leasing of surplus staff quarters to ineligible staff

5.23 As shown in Figure 9 in paragraph 5.18, in order to utilise its surplus staff quarters, as at 1 April 2004, the ESF leased 30 of these quarters to ineligible staff. Based on the rents of properties of similar location, size and conditions as reported by leading estate agents, Audit estimates that:

- (a) of these 30 quarters, 9 (30%) were let at market rent, while the others were let below market rent; and
- (b) the difference between the market rent and the actual rent received from ineligible ESF staff amounted to \$1.1 million a year (see Appendix H and Figure 10).

Figure 10

**Rents of ESF staff quarters leased to ineligible staff
(1 April 2004)**



Source: ESF records and Audit estimates

Note 1: Of these 14 (6 + 5 + 3) staff quarters, 11 were located at the Braemar Heights (see Appendix H). The lease conditions of these staff quarters prohibited the ESF from leasing the quarters to people other than ESF staff.

Note 2: These included three quarters located at the Beacon Hill School which did not have comparable market rents (see Appendix H).

5.24 In June 2003, in response to EMB enquiries, the ESF said that there were justifications for leasing its surplus staff quarters to ineligible staff instead of to outsiders because this arrangement:

- (a) helped save the agency fees paid to estate agents;

- (b) would give the ESF more control over the tenant composition of its staff quarters; and
- (c) would give the ESF greater certainty on receipt of rental income.

5.25 Audit notes that, pending their disposal in the longer term, there are benefits for letting ESF surplus staff quarters to ineligible staff, compared to letting such quarters to outsiders (see para. 5.24). It is therefore justified for the ESF to give a discount on the market rents of its staff quarters let to ineligible staff. Audit also notes that it is ESF policy to let its staff quarters to ineligible staff at market rent. The ESF determined the market rents of these quarters by reference to one or more of the following factors:

- (a) rents of its staff quarters of similar location, size and conditions let to ineligible staff;
- (b) rents of properties of similar location, size and conditions as reported by leading estate agents; and
- (c) advice given by leading estate agents.

5.26 **Audit considers that there is room for improvement for the ESF in determining the rental values of its staff quarters for letting to ineligible staff.** In order to obtain fair market rental values of these quarters, the ESF needs to seek and properly document rental-value advice obtained from appropriate professionals.

Sale of surplus quarters

5.27 In 1993, the consultants commissioned by the ESF recommended that, owing to high maintenance costs, the ESF should dispose of some of its old properties and replace them by newer properties. In its three financial years 2001-02 to 2003-04, the ESF sold six of its staff quarters (Note 28 — see Appendix I).

Note 28: *Of the six staff quarters, four were sold through estate agents and the remaining two (adjacent units) were sold to a buyer directly.*

5.28 Regarding the sale of four staff quarters in June and July 2002, Audit could not find records showing that prior approval had been given by the Executive Committee of the Foundation or by the Chairman or the Vice-chairman of the Executive Committee before signing of the sales agreement by ESF staff. In a memorandum to the Financial Controller and the Human Resources Director of the Foundation Office in August 2002, the Secretary of the Foundation said that:

- (a) all purchases and sales of ESF properties should have the prior approval from the Chairman, the Vice-chairman, the Treasurer and the Secretary of the Foundation; and
- (b) it appeared that no such approval had been given in recent sales of some properties. This should not recur in future.

5.29 In November 2003, the Executive Committee of the Foundation agreed that sales of ESF properties needed the approval from any one of the Chairman, the Vice-chairman and the Treasurer of the Foundation. Subsequently, approval had been obtained from either the Chairman or the Vice-chairman of the Foundation before the sales of the two ESF staff quarters in December 2003 and January 2004.

5.30 **Audit considers that staff quarters are valuable assets of the ESF. In order to enhance accountability, Audit shares the views of the Secretary of the Foundation (see para. 5.28(a)) that sales of ESF properties should have the prior approval from the key members of the Executive Committee of the Foundation.**

Audit recommendations

5.31 **Audit has *recommended* that the ESF should:**

- (a) **formulate a plan for disposing of its surplus staff quarters;**
- (b) **negotiate with the Government on removing the non-assignment clauses in the government leases of its staff quarters at the Braemar Heights and at the Beacon Hill School;**
- (c) **seek and document professional advice obtained on the market rental values of its staff quarters for letting to ineligible staff; and**

- (d) **obtain the prior approval from the Executive Committee of the Foundation before selling its staff quarters.**

Response from the English Schools Foundation

5.32 The **ESF** has stated that:

- (a) the Executive Committee of the Foundation will review carefully the audit recommendation in paragraph 5.31(a), having regard to the long-term needs of the ESF and the financial security conferred by the ownership of such fixed assets;
- (b) it agrees with the audit recommendation in paragraph 5.31(b). The Government would need to cooperate on this recommendation. The Beacon Hill School flats need careful consideration because of security, health and safety issues;
- (c) regarding the audit recommendation in paragraph 5.31(c), it is ESF practice to seek professional advice when benchmarking market rental values of its staff quarters for letting to ineligible staff. It accepts that such advice should be in writing, filed and retained; and
- (d) it agrees with the audit recommendation in paragraph 5.31(d). The sale of staff quarters had been sanctioned by the Executive Committee of the Foundation in 1994, following its endorsement of the report of a consultancy study on the issue. All sales of staff quarters will require the approval of the Executive Committee of the Foundation in future.

Response from the Administration

5.33 The **Secretary for Education and Manpower** considers that the ESF might contract out to private service providers its function on leasing ESF properties.

PART 6: STAFF MEDICAL BENEFITS

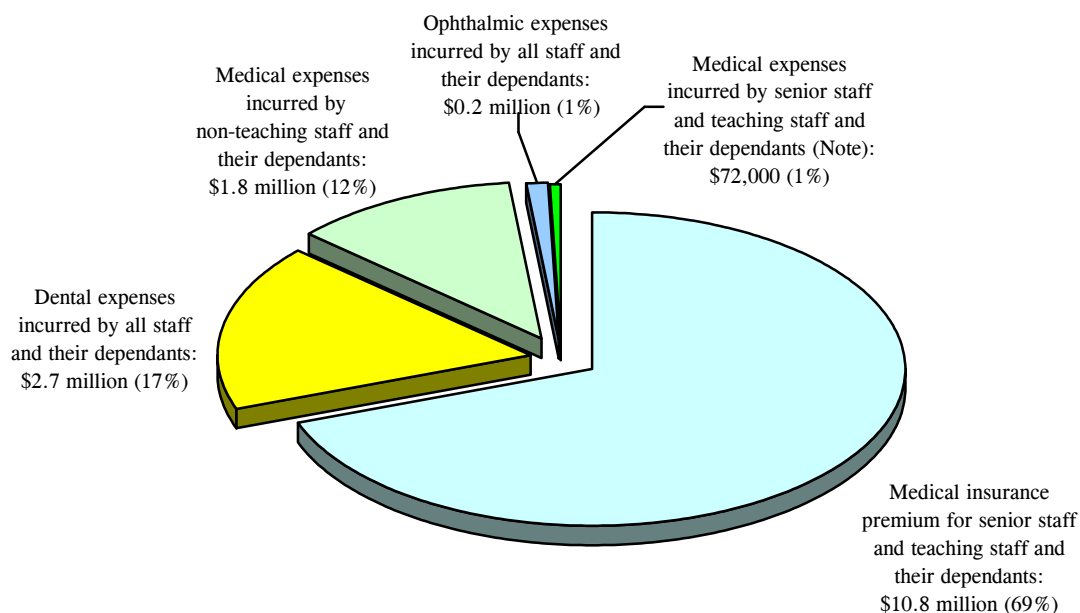
6.1 This PART examines the provision of medical benefits to ESF staff.

English Schools Foundation staff medical benefits

6.2 The ESF provides medical benefits to most of its staff (Note 29) and their dependants. The benefits cover expenses relating to medical consultations, medication, hospitalisation and dentistry. The total expenditure on staff medical benefits in the 2002-03 ESF financial year amounted to \$15.6 million (see Figure 11).

Figure 11

ESF expenditure on staff medical benefits (2002-03 ESF financial year)



Source: ESF records

Note: The ESF reimbursed some medical expenses (not covered by its medical insurance scheme) incurred by its senior staff and teaching staff and their dependants.

Note 29: The ESF does not provide medical benefits to its part-time and temporary staff.

Audit observations

Medical scheme for ESF senior staff and teaching staff and their dependants

6.3 Since 1 March 2002, the ESF has entered into an agreement with a medical insurance company to provide a medical scheme for its senior staff and teaching staff and their dependants. The scheme covered medical expenses relating to medical consultations, medication and hospitalisation. The total insurance premium of the scheme in the 2002-03 ESF financial year amounted to \$10.8 million. The annual insurance premium for each ESF staff member and each of their dependants and the insurance coverage are shown in Appendix J.

Medical scheme for ESF non-teaching staff and their dependants

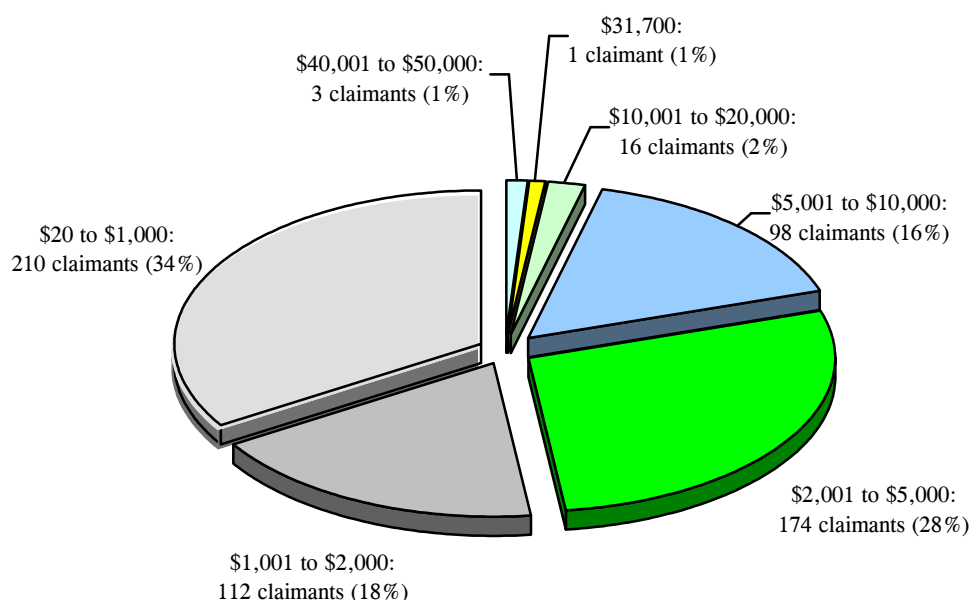
6.4 Regarding medical benefits for its non-teaching staff and their dependants, the ESF ran an in-house medical scheme for reimbursing medical expenses incurred by them subject to the following maximum amounts for each person:

- (a) \$6,360 a year for general consultations and medication;
- (b) \$2,860 a year for specialist consultations and medication;
- (c) \$2,320 a year for laboratory tests;
- (d) \$26,820 a year for surgical operations; and
- (e) \$1,280 a day for hospitalisation (with no specification on the maximum number of days of hospitalisation in a year).

6.5 As at 1 October 2002, there were 390 non-teaching staff who were entitled to medical benefits. In the 2002-03 ESF financial year, a total of 614 claimants (non-teaching staff and their dependants) were reimbursed medical expenses amounting to \$1.8 million (see Figure 12).

Figure 12

**Medical expenses reimbursed to non-teaching staff and their dependants
(2002-03 ESF financial year)**



Source: ESF records

6.6 Audit considers that ESF arrangement for running an in-house medical scheme for its non-teaching staff and their dependants is undesirable because:

- (a) the staff of the Foundation Office did not have the medical expertise to assess whether the medical claims submitted were reasonable;
- (b) every year ESF non-teaching staff submitted a large number of claims (about 3,500 in the 2002-03 ESF financial year) for reimbursement of medical expenses. This arrangement required substantial staff resources of the Foundation Office to process the claims and reimburse the medical expenses; and
- (c) some ESF non-teaching staff may prefer to have the medical conditions and some sensitive personal information of theirs and their dependants only made known to staff of an insurance company, instead of their colleagues in the Foundation Office.

The ESF should outsource its medical scheme for its non-teaching staff and their dependants.

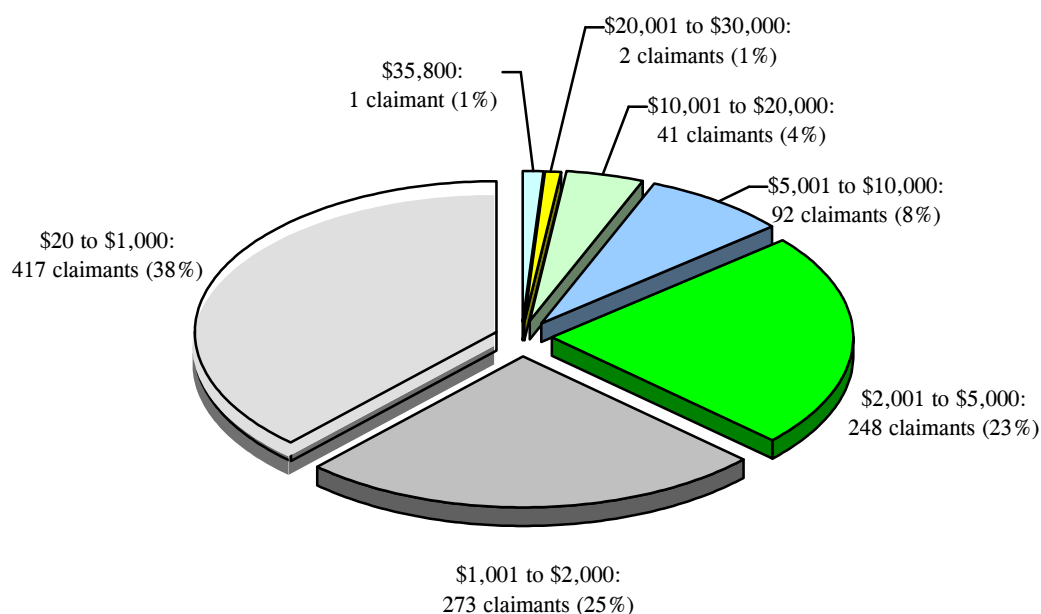
Reimbursement of dental expenses of all ESF staff and their dependants

6.7 The ESF ran an in-house dental scheme for all its staff and their dependants. For ESF senior staff and teaching staff and their dependants, the ESF did not set an annual maximum amount of reimbursable dental expenses for each person (Note 30). Regarding non-teaching staff and their dependants, each of them could be reimbursed dental expenses up to \$3,480 a year.

6.8 In the 2002-03 ESF financial year, a total of 1,074 claimants (ESF staff and their dependants) were reimbursed dental expenses amounting to \$2.7 million (see Figure 13).

Figure 13

Dental expenses reimbursed to ESF staff and their dependants (2002-03 ESF financial year)



Source: ESF records

Note 30: The ESF set standard rates for some dental treatments. Costs of dental treatments exceeding the standard rates had to be borne by the staff concerned.

6.9 In the 2002-03 ESF financial year, a dependant of a teaching staff member was reimbursed \$35,800 dental expenses and another teaching staff member was reimbursed \$25,100. Audit considers that the ESF dental scheme for its senior staff and teaching staff and their dependants without specifying an annual maximum amount for each person is undesirable because ESF financial commitments in this area could become very high and out of control. **The ESF needs to set an annual maximum amount of reimbursable dental expenses for each eligible person.**

6.10 For similar reasons stated in paragraph 6.6 (regarding ESF medical scheme for its non-teaching staff and their dependants), **Audit considers that there are merits for the ESF to outsource its dental scheme for all its staff and their dependants to a medical insurance company.** A dental scheme operated by a medical insurance company normally imposes an annual maximum amount for each eligible person.

Reimbursement of medical expenses exceeding entitlement

6.11 According to ESF internal guidelines, ESF staff should not receive treatment in three hospitals, including Hospital A, unless the treatment was unavailable in other hospitals. In such circumstances, prior written confirmations from the doctors concerned and approvals from the Foundation Office are required.

6.12 In mid-2001, an ESF senior staff member was admitted to Hospital A for medical treatment. This staff member was entitled to receive treatment in a second-class ward. However, he stayed in a first-class ward throughout his hospitalisation. The total cost of the hospitalisation paid by the ESF was \$382,698, which was \$52,051 higher than the cost of \$330,647, had the staff member stayed in a second-class ward of Hospital A. In September 2001, the ESF deducted \$9,694 from this staff member's salary to recover part of the cost difference between the first-class ward and the second-class ward.

6.13 Audit could not find:

- (a) any doctor's written confirmation or written approval from the Foundation Office for this ESF senior staff member to receive medical treatment in Hospital A; and
- (b) records of approval for the ESF to pay the additional cost of \$42,357 (\$52,051 – \$9,694) in respect of this staff member staying in a first-class ward.

Audit considers that the ESF should ensure that proper approval for a staff member to receive medical benefits exceeding his entitlement should always be obtained and such approval should be recorded.

Audit recommendations

6.14 Audit has *recommended* that the ESF should:

- (a) engage a medical insurance company to provide a medical scheme for its non-teaching staff and their dependants, with reference to similar schemes of other local educational institutions;**
- (b) set an annual maximum amount of reimbursable dental expenses for each member of ESF senior staff and teaching staff and each of their dependants;**
- (c) engage a medical insurance company to provide a dental scheme for all ESF staff and their dependants, with reference to similar schemes of other local educational institutions; and**
- (d) seek and record the approval of the Executive Committee of the Foundation if the medical benefits received by an ESF staff member exceed his entitlement.**

Response from the English Schools Foundation

6.15 The ESF has stated that:

- (a) in the 2003-04 ESF financial year, it took action in respect of the audit recommendation in paragraph 6.14(a). However, ESF staff did not favour the proposed scheme. It will reconsider the audit recommendation;**
- (b) it accepts in principle the audit recommendation in paragraph 6.14(b). Presently, reimbursement of dental expenses only covers basic dental treatment. By setting a maximum amount of reimbursable dental expenses for each eligible person, ESF staff could be encouraged to claim the maximum amount of expenses;**

- (c) the audit recommendation in paragraph 6.14(c) was reviewed when the medical scheme was outsourced in 2001. At that time, the level of cover provided by a medical insurance company, when compared with the insurance premium, was not considered to be value for money. It will re-examine the audit recommendation; and
- (d) it agrees in principle with the audit recommendation in paragraph 6.14(d). The event mentioned in paragraphs 6.12 and 6.13 was an isolated and unique case, with the agreement being given by the then Chief Executive of the ESF. The Executive Committee of the Foundation has stated that it would consider similar events on a case-by-case basis in future. Some cases involve emergency treatment and there may not be sufficient time for contacting all Executive Committee members before the treatment. Therefore, there needs to be some means of delegating authority for such cases.

Response from the Administration

6.16 The **Secretary for Education and Manpower** considers that the ESF might contract out to private service providers its function on administration of staff medical and dental schemes.

PART 7: ENTERTAINMENT EXPENSES

7.1 This PART examines ESF arrangements for reimbursing entertainment expenses incurred by its staff.

Individual budgets for reimbursement of entertainment expenses

7.2 In the 2002-03 ESF financial year:

- (a) with the exception of the Information and Communication Technology Advisor and the Advisor for Special Educational Needs, the other six senior staff of the ESF Foundation Office and the principals of the 14 ESF schools each had an annual budget ranging from \$10,654 to \$28,411 for reimbursement of entertainment expenses;
- (b) the Head of the ESF special education school and the Head of the primary school operated by the ESF without recurrent government subsidies each had an annual budget of \$8,288 for reimbursement of entertainment expenses; and
- (c) the total annual budget for reimbursement of entertainment expenses of these 22 ESF staff amounted to \$373,274 (see Appendix K).

Audit observations

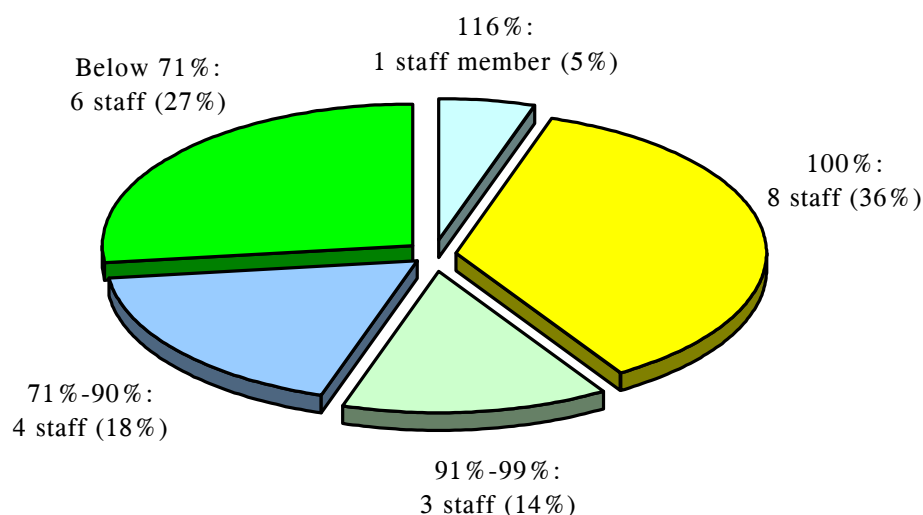
Arrangements for reimbursing entertainment expenses

7.3 In the 2002-03 ESF financial year, with the exception of the Financial Controller (who had, at his own initiative, waived his budget for reimbursement of entertainment expenses since 1 September 1991), a total of 22 ESF staff (Note 31) were reimbursed entertainment expenses amounting to \$291,639 (incurred in 191 events). Audit notes that most of the 22 ESF staff used up all, or a large portion of, their budgets for entertainment expenses (see Figure 14).

Note 31: *In the 2002-03 ESF financial year, an ESF senior staff member retired and was succeeded by another senior staff member. Therefore, there were 22 ESF staff eligible for reimbursement of entertainment expenses (6 senior staff of the Foundation Office, 14 ESF school principals and 2 school heads — see paras. 7.2(a) and (b), and 7.3).*

Figure 14

**Utilisation of staff budgets for entertainment expenses
(2002-03 ESF financial year — Note)**



Source: ESF records

Note: A staff member's utilisation of his budget for entertainment expenses in a year is calculated by:

$$\frac{\text{Entertainment expenses reimbursed}}{\text{Budget for reimbursement of entertainment expenses}} \times 100\%$$

7.4 As shown in Figure 14, in the 2002-03 ESF financial year:

- (a) 8 ESF staff (36 % of all the 22 staff) fully used up their budgets for entertainment expenses; and
- (b) a staff member was reimbursed entertainment expenses exceeding his annual budget by 16 %.

7.5 **Audit considers that ESF arrangements for reimbursing entertainment expenses incurred by its staff (see paras. 7.3 and 7.4) were undesirable because:**

- (a) **as an educational institution, the ESF might not need to incur large expenses for entertainment; and**
- (b) **the arrangement for setting annual budgets for entertainment expenses for some ESF staff indirectly encouraged them to fully use up their budgets (see Figure 14 in para. 7.3) without due regard to essential needs.**

Guidelines on claims for reimbursement of entertainment expenses

7.6 On 14 August 2001, the ESF issued a circular to its staff setting out the conditions under which ESF staff might submit claims for reimbursement of entertainment expenses. The conditions included:

- (a) eligible staff who, as part of their duties, offered hospitality to junior staff members, school council members or other visitors connected with their work for the ESF might be reimbursed for a part of their expenditure in accordance with the procedures and within the budgets prescribed; and
- (b) staff should submit a claim form (Note 32) and enclose with it a receipt for the expenses for which the reimbursement was claimed.

7.7 Audit examination of the claim forms for reimbursement of entertainment expenses submitted by the 22 ESF staff (who had a budget for reimbursement of entertainment expenses — see para. 7.3) in the 2002-03 ESF financial year revealed that most of them were related to staff functions. In that financial year, of the total \$291,639 entertainment expenses reimbursed to the 22 eligible staff, Audit found that \$225,832 (77%) were related to 124 staff functions. Some examples of the expenditure incurred in such staff functions are shown in Appendix L.

7.8 For illustration (as shown in Appendix L), at a dinner function held on 3 December 2002 which was attended by eight ESF staff, the expenditure was \$1,000 per participant. Audit considers that there is a need for the ESF to set guidelines on the maximum amount allowed for each participant. Audit examination of the claim forms submitted in the 2002-03 ESF financial year revealed that they only included the names of the participants but not the purposes of the function.

Note 32: *Information required to be filled in the claim form included the date of entertainment, the names of the guests entertained, and a brief description of the function.*

7.9 **Audit considers that reimbursement of entertainment expenses incurred by ESF staff should be on a need basis, instead of tying it to some staff posts. The ESF needs to establish a new system of reimbursing entertainment expenses incurred by designated staff strictly on a need basis.**

7.10 On 8 March 2004, the Executive Committee of the Foundation decided that the ESF should not reimburse entertainment expenses in relation to staff functions. On 28 May 2004, the ESF issued a circular setting out a revised policy on the reimbursement of entertainment expenses. On 15 June 2004, the Executive Committee of the Foundation decided that the revised policy on reimbursement of entertainment expenses would take effect from September 2004. In the circular, it was stated, among other things, that claims for reimbursement of entertainment expenses:

- (a) relating to entertaining ESF staff only, including groups of staff on special occasions such as Christmas or at the end of an academic year, would not be approved;
- (b) relating to home entertainment would not be approved; and
- (c) needed to be supported by a list of guests (with full name and capacity) participating in each function (with the purposes of the function stated).

7.11 Audit considers that a public organisation normally only incurs expenses to entertain its visiting guests, but not its own staff. Expenses incurred relating to staff functions (such as long-service award ceremonies) are normally met from a staff welfare fund set up for the purpose. **Audit agrees with the revised ESF policy on reimbursement of entertainment expenses (promulgated in late May 2004 — see para. 7.10) which prohibits reimbursement of entertainment expenses relating to staff functions. Audit considers that the ESF should, in future, strictly enforce the revised policy on reimbursement of entertainment expenses, as decided by the Executive Committee of the Foundation in March 2004 (see para. 7.10).**

7.12 Audit notes that, in May 2004, the ESF issued a circular which required its staff to enclose a list of the participants and state the purposes of the entertainment function when submitting a claim for reimbursement of entertainment expenses. **Audit considers that, in order to facilitate the staff of the Foundation Office to process and approve claims for reimbursement of entertainment expenses, the ESF should strictly require its staff to provide the necessary information in their claim submissions.**

Audit recommendations

7.13 **Audit has recommended that the ESF should:**

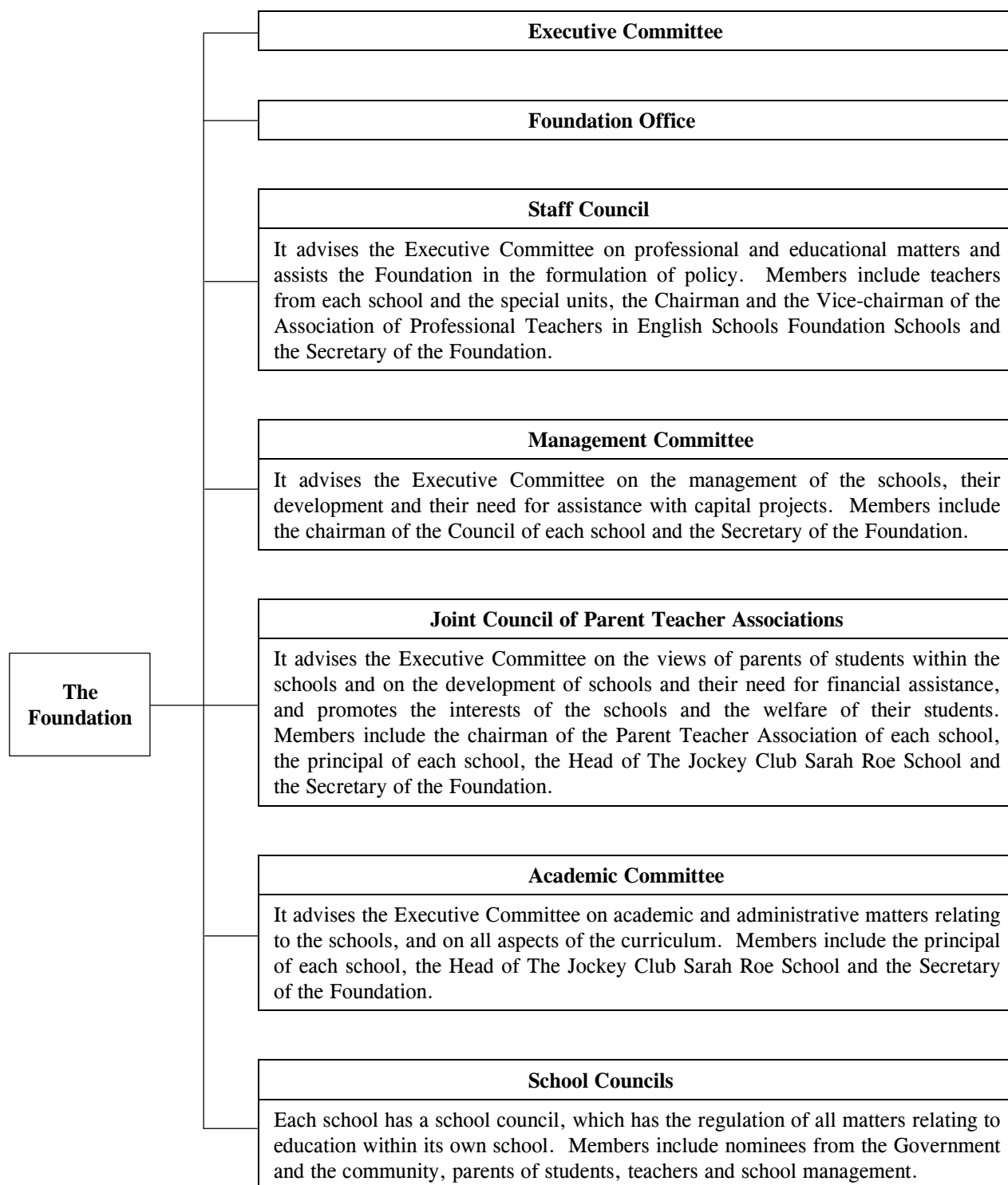
- (a) **abolish the existing arrangement for setting annual individual budgets for entertainment expenses for some ESF staff;**
- (b) **set up a new system so that only designated staff of the ESF may submit claims for reimbursement of entertainment expenses on a need basis;**
- (c) **strictly enforce its revised policy on reimbursement of entertainment expenses which prohibits reimbursement of entertainment expenses relating to staff functions;**
- (d) **set up a staff welfare fund to meet the expenses of staff functions;**
- (e) **set a maximum limit on reimbursable entertainment expenses allowed for each participant in each function; and**
- (f) **strictly enforce its revised policy on reimbursement of entertainment expenses which requires ESF staff submitting claims to clearly state:**
 - (i) **the name of each ESF participant and his capacity;**
 - (ii) **for guests, their names and the organisations they represent; and**
 - (iii) **the purpose of the function.**

Response from the English Schools Foundation

7.14 The **ESF** has stated that:

- (a) the Executive Committee of the Foundation will consider the audit recommendations in paragraph 7.13(a), (b) and (d) as part of a further review of entertainment expenses. The present ESF arrangement for setting annual individual budgets for entertainment expenses only applies to 22 ESF designated staff out of a total of 1,218 ESF staff;
- (b) it agrees with, and has implemented, the audit recommendations in paragraph 7.13(c) and (f); and
- (c) it agrees in principle with the audit recommendation in paragraph 7.13(e). The Executive Committee of the Foundation will consider the appropriate maximum limit on reimbursable entertainment expenses allowed for each participant in each function.

Organisation of the Foundation



Source: ESF records

Membership of the Foundation

(A) Government and Community

- (i) two persons nominated by the Legislative Council;
- (ii) the Chief Secretary for Administration or his appointed representative;
- (iii) the Permanent Secretary for Education and Manpower or her appointed representative;
- (iv) two persons nominated by the Permanent Secretary for Education and Manpower as advisers;
- (v) three persons appointed by the Executive Committee to represent the interests of professional groups;
- (vi) three persons nominated by the Hong Kong General Chamber of Commerce;
- (vii) the Vice-Chancellor of the University of Hong Kong or his appointed representative;
- (viii) the Vice-Chancellor of the Chinese University of Hong Kong or his appointed representative;
- (ix) the President of the Hong Kong Polytechnic University or his appointed representative;
- (x) the President of the City University of Hong Kong or his appointed representative;
- (xi) the Bishop of Victoria, Hong Kong, or his appointed representative;
- (xii) the Roman Catholic Bishop of Hong Kong or his appointed representative;
- (xiii) one person appointed by the Ministers of the Union Church, Hong Kong, the Kowloon Union Church and the English Methodist Church jointly;
- (xiv) one person nominated by the Association of Expatriate Civil Servants of Hong Kong;
- (xv) one person nominated by the Senior Non-Expatriate Officers Association;
- (xvi) such persons, or representatives of organisations, as shall be appointed by the Foundation to be permanent members of the Foundation; and
- (xvii) such other persons, not exceeding six in number at any one time, as may be co-opted by the Foundation from time to time. Such persons may be selected to represent national, business or professional groups, or persons with special knowledge of education, not otherwise included among members of the Foundation.

(B) Parents

- (i) three persons, who shall be parents of students at the school, nominated by the Parent Teacher Association of each secondary school of the ESF;
- (ii) two persons, who shall be parents of students at the school, nominated by the Parent Teacher Association of each primary school of the ESF; and
- (iii) two persons, who shall be parents of students in any of the special units managed by the ESF, nominated by the Joint Council of Parent Teacher Associations.

(C) Teachers

- (i) three persons, who shall be teachers at the school, nominated by the teaching staff of each secondary school of the ESF;
- (ii) two persons, who shall be teachers at the school, nominated by the teaching staff of each primary school of the ESF;
- (iii) two persons, who shall be teachers in special units, nominated by the teaching staff of the special units jointly; and
- (iv) the Chairman and the Vice-chairman of the Association of Professional Teachers in English Schools Foundation Schools.

(D) School Management

- (i) the principal of each secondary school of the ESF;
- (ii) the principal of each primary school of the ESF;
- (iii) the Head of The Jockey Club Sarah Roe School;
- (iv) the Chairman of the Council of each secondary school of the ESF;
- (v) the Chairman of the Council of each primary school of the ESF;
- (vi) the Chairman of the Council for The Jockey Club Sarah Roe School;
- (vii) the Chairman and the Vice-chairman of the Association of the Non-Teaching Staff in English Schools Foundation Schools;
- (viii) the person appointed by the Executive Committee as Secretary of the Foundation; and
- (ix) the person appointed by the Executive Committee as Treasurer of the Foundation.

Source: Regulations of the English Schools Foundation

Current assets and current liabilities of the ESF
(31.8.2001, 31.8.2002 and 31.8.2003)

	As at 31.8.2001	As at 31.8.2002	As at 31.8.2003
	(\$ million)	(\$ million)	(\$ million)
Current assets			
Cash and bank deposits	33	15	17
Others	12	14	14
	<u> </u>	<u> </u>	<u> </u>
Total current assets (A)	<u>45</u>	<u>29</u>	<u>31</u>
 Current liabilities			
Bank overdraft	0	18	99
Accounts payable and funds held	23	28	88
School fees received in advance	69	70	64
Provision to meet staff conditions of service	73	85	63
Accruals for major repairs	52	35	26
Government hardship allowance (Note)	11	11	11
Others	3	5	4
	<u> </u>	<u> </u>	<u> </u>
Total current liabilities (B)	<u>231</u>	<u>252</u>	<u>355</u>
 Net current liabilities	<u>186</u>	<u>223</u>	<u>324</u>
(C) = (B) - (A)			

Source: ESF audited financial statements

Note: The Government provided hardship allowances for the relief of hardship of ESF students. The balance represented the amount of such allowances not yet utilised.

**Salary scales of ESF senior staff
(1 April 2004)**

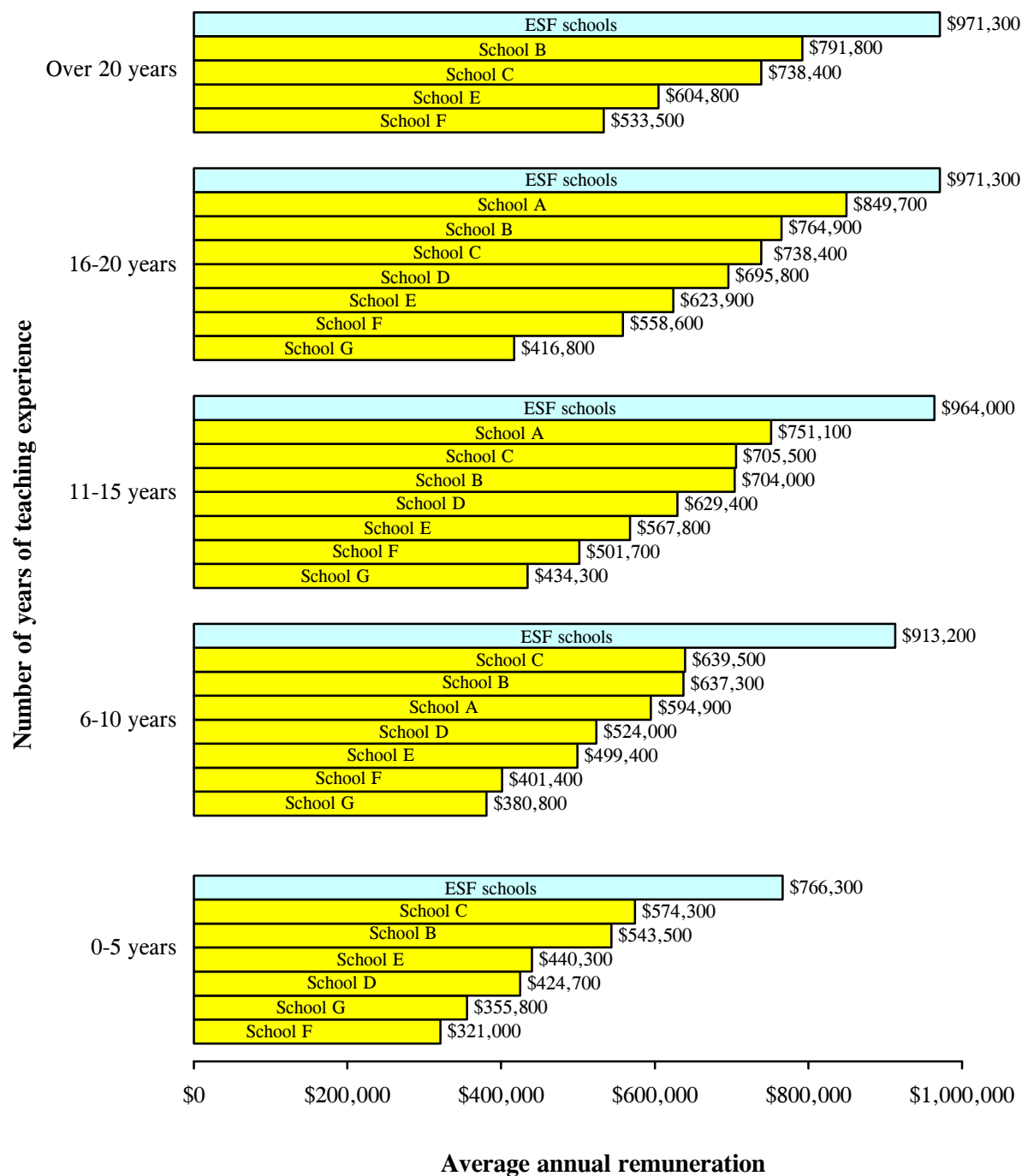
	Monthly salary range (Note)	Number of posts
	(\$)	
Chief Executive of the ESF	142,383 – 150,899	1
Financial Controller	113,906 – 120,719	1
Human Resources Director	113,906 – 120,719	1
Educational Development Director	113,906 – 120,719	1
School Improvement Officer	88,004 – 98,084	2
School principal	78,680 – 114,928	14
Information and Communication Technology Advisor	71,720	1
Advisor for Special Educational Needs	63,136	1
	Total	<u>22</u>

Source: ESF records

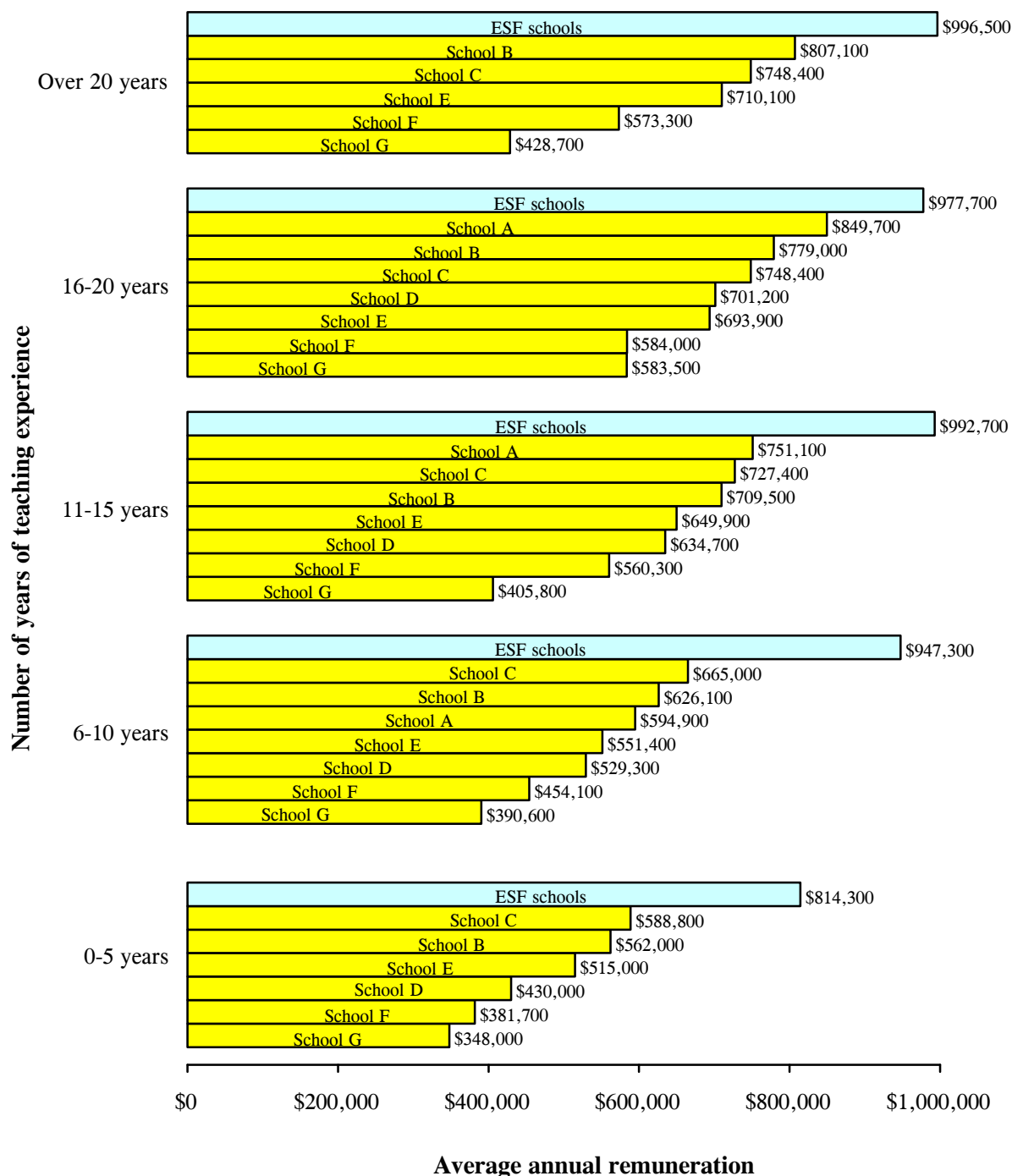
Note: The salaries of existing ESF senior staff would be subject to a salary reduction of 4.42% upon renewal of their contracts with effect from 1 September 2004.

**Estimated average annual remuneration per
teaching staff member of ESF schools and of seven local international schools
(2003-04 school year)**

(A) Primary schools



(B) Secondary schools



Source: Audit survey and estimates

**Actual monthly rents/estimated monthly rental values of ESF quarters for senior staff
(1 April 2004)**

Location	Number of bedrooms	Actual monthly rent (\$)	Estimated monthly rental value (Note) (\$)
(A) Leased Senior-staff Grade quarters			
1. Discovery Bay	4	75,000	–
2. Repulse Bay	2	70,457	–
3. Tai Tam	4	70,374	–
4. Tai Tam	3	67,926	–
5. Repulse Bay	4	65,000	–
6. The Peak	3	49,865	–
7. Central	2	46,000	–
8. Jardine's Lookout	3	45,000	–
9. Sha Tin	3	40,000	–
10. Tai Tam	2	39,151	–
(B) ESF-owned Senior-staff Grade quarters			
1. Shouson Hill	4	–	50,500
2. Shouson Hill	4	–	50,500
3. Shouson Hill	4	–	50,500
4. Sai Kung	4	–	30,000
5. Sai Kung	4	–	28,000
6. Sai Kung	4	–	28,000
(C) ESF-owned Teaching-staff Grade quarters			
1. Chung Hom Kok	3	–	38,000
2. Chung Hom Kok	3	–	30,000
Monthly total		568,773	305,500
Annual total		6,825,276	3,666,000
		Say \$6.8 million	\$3.7 million

Source: ESF records and Audit estimates

Note: Audit estimates were based on the rents of properties of similar location, size and conditions as reported by leading estate agents.

**Estimated monthly rental values of
vacant ESF-owned Teaching-staff Grade quarters
(1 April 2004)**

Location	Number of bedroom(s)	Estimated monthly rental value (Note 1) (\$)
1. Chung Hom Kok	2	21,000
2. Chung Hom Kok	2	21,000
3. Chung Hom Kok	2	21,000
4. Kowloon Tong	3	20,500
5. Sha Tin	3	18,000
6. Sha Tin	3	17,000
7. Braemar Heights, North Point	2	17,000
8. Braemar Heights, North Point	2	17,000
9. Braemar Heights, North Point	2	17,000
10. Braemar Heights, North Point	2	17,000
11. Mid-levels	1	12,000
12. Beacon Hill School, Kowloon Tong	1	9,000 (Note 2)
13. Beacon Hill School, Kowloon Tong	1	7,000 (Note 2)
Monthly total		214,500
Annual total		2,574,000
		Say \$2.6 million

Source: ESF records and Audit estimates

Note 1: Audit estimates were based on the rents of properties of similar location, size and conditions as reported by leading estate agents.

Note 2: The vacant staff quarters were located in the school premises of the Beacon Hill School. Therefore, there were no comparable market rents for such quarters. The rental values of these vacant quarters are based on the actual rents of other ESF quarters at the Beacon Hill School.

Appendix H
(paras. 5.8 and 5.23(b) refer)

**Actual monthly rents and estimated monthly rental values
of ESF-owned Teaching-staff Grade quarters leased to ineligible staff (Note 1)
(1 April 2004)**

Location	Number of bedroom(s)	Actual monthly rent	Estimated monthly rental value (Note 2)	Actual monthly rent less than estimated monthly rental value by	
		(a)	(b)	(c) = (b) - (a)	(d) = $\frac{(c)}{(b)} \times 100\%$
		(\$)	(\$)	(\$)	(%)
1. Chung Hom Kok	2	15,000	21,000	6,000	29 %
2. Chung Hom Kok	2	15,000	21,000	6,000	29 %
3. Chung Hom Kok	2	15,000	21,000	6,000	29 %
4. Braemar Heights, North Point	2	12,000	17,000	5,000	29 %
5. Braemar Heights, North Point	2	12,000	17,000	5,000	29 %
6. Braemar Heights, North Point	2	12,000	17,000	5,000	29 %
7. Braemar Heights, North Point	3	17,000	23,000	6,000	26 %
8. Braemar Heights, North Point	3	17,000	23,000	6,000	26 %
9. Braemar Heights, North Point	3	17,000	23,000	6,000	26 %
10. Braemar Heights, North Point	3	17,000	23,000	6,000	26 %
11. Braemar Heights, North Point	3	17,000	23,000	6,000	26 %
12. Braemar Heights, North Point	2	13,000	17,000	4,000	24 %
13. Braemar Heights, North Point	2	13,000	17,000	4,000	24 %
14. Braemar Heights, North Point	3	17,500	23,000	5,500	24 %
15. Mid-levels	1	10,000	12,000	2,000	17 %
16. Mid-levels	1	10,000	12,000	2,000	17 %
17. Mid-levels	1	10,000	12,000	2,000	17 %

Appendix H
(Cont'd)
(paras. 5.8 and 5.23(b) refer)

Location	Number of bedroom(s)	Actual monthly rent	Estimated monthly rental value (Note 2)	Actual monthly rent less than estimated monthly rental value by	
		(a)	(b)	(c) = (b) - (a)	(d) = $\frac{(c)}{(b)} \times 100\%$
		(\$)	(\$)	(\$)	(%)
18. Mid-levels	1	10,000	12,000	2,000	17 %
19. Mid-levels	1	10,000	12,000	2,000	17 %
20. Mid-levels	1	10,000	12,000	2,000	17 %
21. Mid-levels	3	23,500	24,000	500	2 %
22. Beacon Hill School, Kowloon Tong	1	7,000	N/A (Note 3)	–	–
23. Beacon Hill School, Kowloon Tong	2	10,000	N/A (Note 3)	–	–
24. Beacon Hill School, Kowloon Tong	1	7,000	N/A (Note 3)	–	–
25. Sha Tin	3	18,000	18,000	–	–
26. Mid-levels	3	24,000	24,000	–	–
27. Sha Tin	3	18,000	18,000	–	–
28. Sha Tin	3	18,000	18,000	–	–
29. Sha Tin	3	18,000	18,000	–	–
30. Mid-levels	3	24,000	24,000	–	–
Total for a month				89,000	
Total for a year (\$89,000 × 12)				1,068,000	
				Say \$1.1 million	

Source: ESF records and Audit estimates

Note 1: For simplicity, the monthly rents of 13 ESF-owned staff quarters leased to outsiders are not shown.

Note 2: Audit estimates were based on the rents of properties of similar location, size and conditions as reported by leading estate agents.

Note 3: The staff quarters were located in the school premises of the Beacon Hill School. Therefore, there were no comparable market rents for such quarters. The ESF set rents for these quarters based on the rents for other similar ESF quarters.

Appendix I
(para. 5.27 refers)

**Sale of ESF quarters
(2001-02 to 2003-04 ESF financial years)**

Date of signing sales agreement		Location of property	Sales agreement signed by	Sale amount
				(\$ million)
(1)	11.6.2002	Sai Kung	Human Resources Manager	4.3
(2)	21.6.2002	Sai Kung	Human Resources Manager	4.3
(3)	9.7.2002	Mid-levels (Note)	Secretary of the Foundation	10.3
(4)	5.12.2003	Sai Kung	Acting Secretary of the Foundation	5.1
(5)	5.1.2004	Sai Kung	Acting Secretary of the Foundation	5.3
Total				<u>29.3</u>

Source: ESF records

Note: Two adjacent units were sold to a buyer together.

Appendix J
(para. 6.3 refers)

**Medical scheme for ESF senior staff and teaching staff and their dependants
(1 March 2003 to 29 February 2004 — Note)**

	Annual insurance premium (\$)	Maximum coverage of medical expenses a year		
		Hospitalisation (\$)	Laboratory tests and prescribed medication (\$)	Medical consultations and medication
A staff member joining ESF medical scheme before 1 September 1990	10,896	1,400,000	5,000	\$200 for each general consultation (including medication) and \$400 for each specialist consultation (including medication), subject to a maximum of 50 consultations
A dependant of a staff member who joined ESF medical scheme before 1 September 1990	11,260	1,400,000	5,000	
A staff member joining ESF medical scheme on or after 1 September 1990	8,500	1,250,000	5,000	
A dependant of a staff member who joined ESF medical scheme on or after 1 September 1990	9,264	1,250,000	5,000	

Source: ESF records

Note: This was the period covered by the ESF medical insurance scheme.

Appendix K
(para. 7.2 refers)

**ESF staff's annual budgets for reimbursement of entertainment expenses
(2002-03 ESF financial year)**

	Number of posts	Annual budget per post	Total annual budget
	(a)	(b)	(c) = (a) × (b)
		(\$)	(\$)
Chief Executive of the ESF	1	28,411	28,411
Financial Controller (Note 1)	1	21,310	21,310
Human Resources Director	1	21,310	21,310
Education Officer (Primary — Note 2)	1	21,310	21,310
Education Officer (Secondary — Note 2)	1	21,310	21,310
Assistant Education Officer (Primary — Note 2)	1	15,982	15,982
School principals of ESF schools	14	10,654 to 21,310	227,065
Head of the ESF special education school	1	8,288	8,288
Head of the primary school operated by the ESF without recurrent government subsidies	1	8,288	8,288
Total	22		373,274

Source: ESF records

Note 1: Since 1 September 1991, the incumbent Financial Controller has waived his budget for reimbursement of entertainment expenses.

Note 2: In October 2003, the three posts were retitled (see para. 4.6(a) and (b)).

Appendix L
(paras. 7.7 and 7.8 refer)

**Examples of approved claims for reimbursement
of entertainment expenses relating to staff functions
(2002-03 ESF financial year)**

Date	Nature of function	Number of ESF staff participants	Total expenditure	Expenditure per participant
		(a)	(b)	(c) = (b) ÷ (a)
			(\$)	(\$)
3.12.2002	Dinner	8	8,000	1,000
3.2.2003	Dinner	2	1,651	826
15.2.2003	Dinner	2	1,607	804
24.1.2003	Dinner	3	2,213	738
10.1.2003	Dinner	4	2,895	724
5.12.2002	Lunch	2	1,332	666
27.9.2002	Dinner	3	1,932	644
5.9.2002	Dinner	3	1,720	573
18.11.2002	Lunch	2	1,144	572
30.9.2002	Dinner	2	1,113	557

Source: ESF records

Remarks: These examples are arranged in descending order of expenditure per participant.

Acronyms and abbreviations

Audit	Audit Commission
EMB	Education and Manpower Bureau
ESF	English Schools Foundation
UGC	University Grants Committee
VFM	Value for Money