CHAPTER 5

Education and Manpower Bureau

School administration of the English Schools Foundation

Audit Commission
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SCHOOL ADMINISTRATION
OF THE ENGLISH SCHOOLS FOUNDATION

Contents

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.

English Schools Foundation schools

1.4   In September 2003, the ESF operated:

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.*

(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 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.

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).*

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.*

**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 (see Chapter 4 of the Director of Audit's Report No. 43); and

    (c)   school administration of the English Schools Foundation (the subject matter of
             this report).

**Audit review of administration of
English Schools Foundation schools**

1.10   The objective of this audit review is to examine the administration of ESF
schools in the provision of educational services. The audit has focused on the following
areas:

    (a)   corporate governance of schools (see PART 2);

(b)   strategic planning (see PART 3);

(c)   budgeting and cash management (see PART 4);

(d)   financial and administrative matters (see PART 5);

(e)   procurement and energy management (see PART 6);

(f)   human resources management (see PART 7); and

(g)   other income and support (see PART 8).

1.11   A total of 15 ESF schools are covered in this audit. Due to time constraints and limited resources, Audit was unable to visit all the 15 ESF schools. Audit adopted the following approach to this audit:

(a)   selecting randomly a primary school and a secondary school for familiarisation of systems and operating procedures of ESF schools and for drawing up questionnaires;

(b)   conducting questionnaire surveys to obtain details of different school practices from the principals of the 15 ESF schools; and

(c)   selecting randomly six ESF schools (three primary and three secondary schools) for performance of audit tests covering the 2002-03 and 2003-04 (up to May 2004) school years.

1.12   In this audit report, the 15 ESF schools are referred to as School 1 through School 15. This audit review does not include the ESF Bauhinia School because it does not receive any subvention from the Government.

Overall audit observations and recommendations

1.13   The Government has been promoting school-based management (SBM) in the local education sector. Under SBM, schools are given flexibility and autonomy in managing their own operation and resources. However, self-managing schools are not entirely independent. They are part of the education system and operate within a centrally determined framework of authorities and responsibilities. The EMB has provided schools with a School Administration Guide (SAG) to facilitate them to practise SBM. This guide recommends good school administrative practices to promote effective use of school resources.

1.14   Likewise, the ESF, as the supreme governing body of ESF schools, has responsibilities for:

(a)   providing proper guidelines to help schools deal with various administrative matters; and

(b)   providing support to schools when they encounter difficulties in implementing the guidelines.

The ESF's internal audit function should ascertain whether schools have complied with the guidelines.

1.15   In this audit review, Audit identified areas where school administrative practices could be improved. Audit found that school administration guidelines provided by the ESF were generally inadequate. As a result, schools had adopted different administrative practices. Some schools had adopted good practices while some other schools had not. Examples are provided in this audit report to illustrate these different practices.

1.16   While the school administration guidelines provided by the ESF were inadequate, Audit considers that some schools could have taken more initiative to ensure propriety and to achieve value for money in their operation.

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

(a)   **fulfil its responsibilities for providing its schools with:**

(i)   **proper guidelines to help them deal with various administrative matters; and**

(ii)   **adequate support in implementing the guidelines; and**

(b)   **carry out internal audits of them to ascertain whether the guidelines have been complied with.**

Overall response from the English Schools Foundation

1.18   The **ESF** agrees with the audit recommendations. It has stated that:

(a)   the ESF does provide its schools with guidelines to deal with administrative matters but, as Audit has rightly pointed out, these need to be proper and well supported;

(b)   the revision of Schools' Circulars/Administrative Memoranda is now in place to help schools deal with various administrative matters. Its Human Resources Department will oversee the process. In fact, two school principals began work on the administrative procedures in July 2004;

(c)   it is accepted that seminars and school visits need to be more systematically programmed to provide adequate support to schools in implementing the guidelines; and

(d)   it is logical to extend the programme of internal audits to cover the audit recommendations.

Overall response from the Administration

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

(a)   he finds the audit observations and recommendations generally sound. He is also mindful of the Government's overall policy of not micro-managing any subvented bodies. With the ESF being an operationally autonomous body, the focus of the Government should be on the existence or otherwise of a sound governance structure with proper checks and balances; and

(b)   he supports most of Audit findings and is grateful to Audit for its painstaking efforts in identifying practices where efficiency savings may be possible.

Acknowledgement

1.20   Audit would like to acknowledge with gratitude the full cooperation of the staff of the ESF and the 15 ESF schools during the course of the audit review.

PART 2: CORPORATE GOVERNANCE OF SCHOOLS

2.1   This PART examines corporate governance issues of ESF schools.

Background

2.2   Good corporate governance of a school helps:

  (a)   enhance its continuous improvement and student learning outcome, through participation of key stakeholders;

  (b)   assure that it manages its resources effectively and efficiently;

  (c)   ensure that the interests of all the key stakeholders and the community are maintained and promoted; and

  (d)   promote transparency and accountability in school management.

This in turn helps inspire confidence of the stakeholders that the school operates for the benefits of the community at large.

Governance structure of English Schools Foundation schools

2.3   Regulation 14 of the ESF (Note 10) made under section 10 of the English Schools Foundation Ordinance provides that:

  (a)   each ESF school shall have a school council;

Note 10: *Under section 10 of the English Schools Foundation Ordinance, the ESF may make regulations for matters such as the internal management, operation, administration and control of the ESF and its schools. Accordingly, the ESF has made a set of regulations (including Regulation 14) for its governance and the governance of its schools.*

(b)   the Foundation, as the supreme governing body of the ESF, delegates to the Executive Committee (Note 11) authority to administer the properties of the ESF, manage its affairs and control its finance;

(c)   the Executive Committee in turn delegates some of these powers and duties to the individual school council, which is responsible for governing the life and work of the particular school;

(d)   the school council in turn delegates the day-to-day administration of the school to the principal; and

(e)   the school council is not only the governing body of the particular school but it is also the forum where ideas, changes and problems can be discussed and difficulties resolved.

2.4   Regulation 14 of the ESF also provides for, among others:

(a)   the composition of the school council;

(b)   the appointment of school council members and their tenure;

(c)   the duties and powers of the school council; and

(d)   the frequency of school council meetings and their proceedings.

Composition of school councils

2.5   According to Regulation 14 of the ESF, the composition of councils of ESF schools comprises various key stakeholders, as shown in Table 1.

Note 11:   *The Executive Committee is the executive body of the Foundation. It administers all the affairs of the ESF other than those vested by the English Schools Foundation Ordinance in some other authority of the ESF or retained as a power of the ESF itself. The Executive Committee ensures that the provisions of the Education Ordinance and Regulations and the English Schools Foundation Ordinance and Regulations are complied with.*

Table 1

Composition of councils of ESF schools

		Number of members	
Composition		**Primary schools**	**Secondary schools**
(a)	Community representatives	1 or 2	2 or 3
(b)	Parents of students	1 or 2	2 or 3
(c)	Teachers	1 or 2	2 or 3
(d)	School management		
	(i) Chairman of the school council	1	1
	(ii) Secretary of the Foundation or his representative	1	1
	(iii) Principal of the school	1	1

Source: ESF records

2.6   Each school council has the discretion to modify its overall size by varying the number of members representing the community, parents of students and teachers. However, it must maintain the parity among these three groups.

Audit observations and recommendation

2.7   Since its inception in 1967, the ESF has been making great strides in developing a participatory governance framework in its schools. It draws together different key stakeholders in formulating the direction for school development. The formal participation of members of the community, parents of students and teachers in a school council ensures that the interests of all key stakeholders are duly considered in the management and development of a school. For instance, under this arrangement, parents of students are able to raise concerns and to give advice on the development of the school and the education of students. The principal, teachers and members of the community are able to contribute their specific expertise and experience for the betterment of the school.   Their participation in decision making also increases the transparency and accountability of school management.

2.8   Audit noted that, with the exception of one school, the composition of councils of ESF schools did not include school alumni. **There is a growing trend of school governance that alumni are invited to take part in the affairs of school councils.** With their close ties to the schools, alumni have strong commitment and are more dedicated to promote the interests of schools.

2.9   **Audit has *recommended* that ESF schools should consider inviting suitable alumni to join their councils.**

Response from the English Schools Foundation

2.10   The **ESF** has stated that:

   (a)   it recognises the value of more alumni being represented on school councils;

   (b)   work has begun in 2003-04 to develop a systematic approach to the use of such people. Although the outcomes are not yet evidenced, it wishes to increase the representation of alumni on school councils; and

   (c)   more alumni may be invited once alumni lists are complete.

Delegation of decision-making powers

2.11   The council of an ESF school is responsible for the proper management of the school. The regulations of the ESF provide, in broad terms, for the duties and powers of the school council which include the following:

   (a)   determining the courses of study to be followed in the school;

   (b)   advising on the provision of facilities for the work of the school;

   (c)   recommending to the Executive Committee a suitable candidate for the post of principal of the school;

   (d)   authorising offers of staff appointment and internal staff promotion for the school;

   (e)   making recommendations concerning any proposed termination of staff appointment;

(f)   forming such sub-committees as may be necessary; and

(g)   doing other necessary acts and things.

The school council may delegate any of its powers to its sub-committees and the day-to-day administration of the school to the principal.

2.12   Audit reviewed the practices of councils of the 15 ESF schools to ascertain whether they had clearly set out their delegated decision-making powers (i.e. what specific school matters would require their approval or what powers had been delegated to the school principals or their sub-committees). Audit noted the following:

(a)   councils of three schools (Schools 5, 8 and 14) had set out their delegated decision-making powers to the school principals. Two of these schools recorded the delegated decision-making powers in the school council meeting minutes, while the other one had not formally documented it;

(b)   councils of another three schools (Schools 11, 12 and 15) had delegated their decision-making powers to their sub-committees. For example, the council of School 11 had set up three sub-committees to manage the affairs of finance and buildings, curriculum and examinations, and human resources; and

(c)   councils of the remaining nine schools had not specifically set out their delegated decision-making powers. One school (School 7) indicated that, after discussions with its school council members, the delegation of decision-making power had been accorded priority on the council's agenda. Another school (School 2) informed Audit that, after discussion with the new Chairman of its council, the arrangement would be addressed early in the new academic year.

Audit observations and recommendations

2.13   A wide range of school matters (e.g. finance, curriculum, human resources, and school facilities) require decision making and proper planning at the appropriate level. The school council is entrusted with the responsibility of governing the school and is accountable for the overall performance of the school. Proper delegation of decision-making powers by a school council facilitates smooth running of the school.

2.14   As pointed out in paragraph 2.12(c), the councils of most ESF schools had not specifically set out their delegated decision-making powers. **These school councils need to set out and properly document such powers.** In doing so, school councils should

consider retaining control over some significant matters such as the approval of the following:

(a)   school development plans;

(b)   school budgets;

(c)   significant budget amendments or virements of funds between budgeted items;

(d)   significant changes in school plans, policies and curriculum; and

(e)   major school maintenance and improvement programmes.

2.15   **Audit has *recommended* that the ESF should request its school councils to:**

(a)   **clearly set out and document their decision-making powers (i.e. what matters and changes require their approval) and the delegation of such powers; and**

(b)   **review periodically the delegated decision-making powers.**

Response from the English Schools Foundation

2.16   The **ESF** agrees that the decision-making powers of school councils should be better articulated. The ESF has stated that:

(a)   each school council should itemise its powers of delegation;

(b)   training for council members may be required; and

(c)   a bi-annual agenda item will be initiated by ESF representative to review the delegated decision-making powers.

Participation of school councils in school activities

2.17   School council plays an increasingly important role in directing the development of a school. Whether a school can make substantial progress depends on the vigour with which the school council pursues its roles and responsibilities.

2.18   The guidance notes issued by the ESF for school council members provide that the roles of the school council should include the following:

(a)   setting the ethos and strategic direction of the school;

(b)   supporting the school in formulating and implementing its policies with respect to curriculum, staff development, school development planning, and monitoring and evaluation;

(c)   handling personnel matters such as appointment, promotion, grievances and discipline;

(d)   overseeing the maintenance or improvement programmes of the school; and

(e)   approving budget and reviewing regularly the financial performance of the school.

Audit observations and recommendations

2.19   To ascertain whether councils of ESF schools had been participating actively in school matters, Audit conducted a questionnaire survey on the extent of their participation in the following major areas (i.e. those shown in para. 2.18, except item (e), which is covered separately in PART 4) during the 2001-02, 2002-03 and 2003-04 school years:

(a)   setting out school mission and goals;

(b)   planning school development strategies;

(c)   formulating staff development policies and plans;

(d)   setting targets and priorities for curriculum development;

(e)   monitoring the progress of the school development plan;

(f)   setting criteria and procedures for handling personnel matters such as appointment, appraisal, promotion and dismissal; and

(g)   overseeing the school maintenance or improvement programmes.

The results of the questionnaire survey are shown in Figure 1.

Figure 1

**Participation of school councils in major school activities
(2001-02, 2002-03 and 2003-04 school years)**

School activity	Number of school councils

(a) Set out school mission and goals — 11 / 4

(b) Plan school development strategies — 11 / 4

(c) Formulate staff development policies/plans — 4 / 11

(d) Set targets/priorities for curriculum development — 7 / 8

(e) Monitor progress of school development plan — 13 / 2

(f) Set criteria/procedures for handling personnel matters — 9 / 6

(g) Oversee school maintenance/ improvement programmes — 13 / 2

Legend:

■ School councils participated in the activity

■ School councils did **not** participate in the activity

Source: Audit survey

2.20   Some school councils did not participate in major school activities, as recommended by the ESF in its guidance notes for school council members (see Figure 1 and para. 2.19). For instance, councils of most schools did not participate in formulating staff development policies and plans (11 councils) and in setting targets and priorities for curriculum development (8 councils).

2.21   Audit noted that councils of some ESF schools had established sub-committees to participate in the management of school matters such as finance and buildings, curriculum and examinations, and human resources (see para. 2.12(b)). In this connection, one school (School 2) informed Audit that it supported the idea that there should be greater involvement of the school council via its sub-committees in school activities, particularly in planning and setting goals for finance, staffing and curriculum development. **Audit considers that councils of ESF schools should consider setting up appropriate sub-committees to further their involvement in key decisions on significant school matters and to help fulfil their roles and responsibilities effectively.**

2.22   **Audit has *recommended* that the ESF should encourage its school councils to:**

(a)   **participate actively in the management and implementation of significant school activities; and**

(b)   **consider setting up appropriate sub-committees to further their involvement in key decisions on significant school matters.**

Response from the English Schools Foundation

2.23   The **ESF** agrees with the audit recommendations. It has stated that:

(a)   it will consider rewriting the roles of school council members;

(b)   it recognises that, by widening the role of school council members, it must meet their training needs; and

(c)   the setting up of sub-committees will be carried out using acknowledged best practice as a guide.

Frequency of school council meetings

2.24   A school council is responsible for the overall governance of a school. To discharge their duties, school council members need to attend regularly school council meetings.

2.25   Regulation 14 of the ESF provides, among others, that a school council must meet at least once in each term of the school year (i.e. at least three times a year). The ESF has advised its schools that there is no provision for any exemption from the regulation on the grounds that, for example, there is insufficient business to be conducted.

Audit observations and recommendations

2.26   Audit noted that there were variations in the frequency of council meetings among the 15 ESF schools in the 2001-02 and 2002-03 school years (see Figure 2).

Figure 2

Frequency of school council meetings

(A) 2001-02 school year
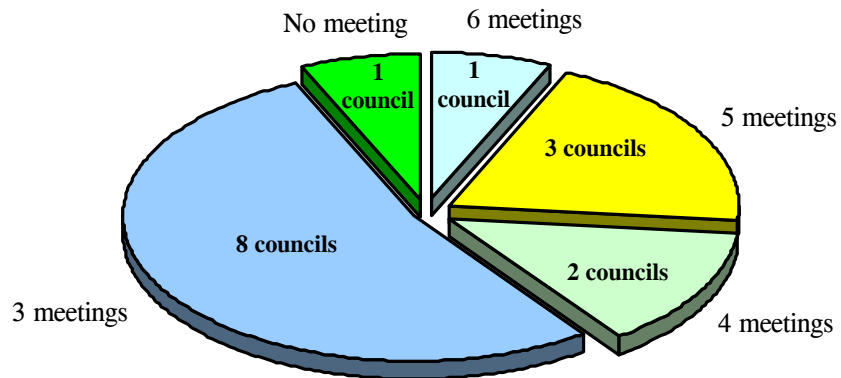
(B) 2002-03 school year
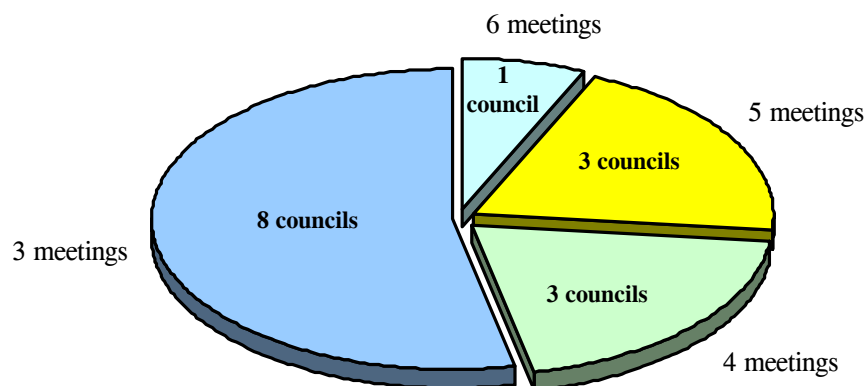
Source: School records

2.27   As shown in Figure 2, in the 2001-02 and 2002-03 school years, some school councils held more meetings than others. The maximum number of meetings held by one school council was six in a year. Councils of eight schools held meetings three times a year, which was in accordance with the minimum requirement set under Regulation 14 of the ESF. **To effectively participate in the affairs of the schools and fulfil the wide spectrum of their responsibilities (Note 12), in Audit's view, councils of some schools might need to consider holding more meetings than the minimum requirement.**

2.28   Regulation 14 of the ESF requires that each school council must meet at least three times a year. Audit noted that the council of one school (School 1) did not hold any meetings during the 23-month period 13 December 2000 to 13 November 2002 when the post of Chairman was vacant (Note 13). Audit considers that this situation was unsatisfactory because the school council had not been actively fulfilling its roles for a long period. While awaiting the appointment of a new Chairman, the other school council members could have convened meetings to discuss school affairs. In this connection, Audit noted that the council of another school (School 15), while facing the same problem of finding a new Chairman, continued to hold regular meetings.

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

(a)   **remind its school councils that they have to hold at least three meetings a year so as to comply with the minimum requirement under Regulation 14 of the ESF; and**

(b)   **encourage the councils of all ESF schools to hold more meetings than the minimum requirement under Regulation 14 of the ESF if this will help them better fulfil their roles and responsibilities.**

Note 12:   *According to Audit research, many school councils in Australia and New Zealand meet about eight times a year. These school councils are key drivers of school-based management and play an integral role in the strategic planning, policy setting and monitoring of the outcomes of the schools. In the United Kingdom, some school councils meet about six times a year while the minimum requirement is three times.*

Note 13:   *The poor practice of that school was corrected in October 2002. School council meeting was resumed on 14 November 2002.*

Response from the English Schools Foundation

2.30   The **ESF** agrees with the audit recommendations. It has stated that:

    (a)   it will issue letters to school councils reminding them of the minimum requirement for meetings; and

    (b)   it will encourage school councils to meet six times a year and to set up sub-committees to help fulfil their roles and responsibilities.

Declaration of conflict of interest

2.31   The ESF has issued guidance notes to school council members to advise them on the circumstances under which a member should refrain from taking part in making a decision on matters which might conflict with his interest. A council member, who has any direct or indirect pecuniary, family or other interest in a matter, should either before or during the council meeting at which such a matter is discussed:

    (a)   disclose his interest to the council;

    (b)   physically withdraw from that part of the meeting at which the matter is discussed; or

    (c)   remain but take no part in the discussion and voting related to the matter.

Audit observations and recommendations

2.32   **Notwithstanding the guidance notes issued by the ESF, Audit noted that 12 schools did not require council members to declare their personal interests, financial or otherwise, which might conflict with their roles. For the three schools which had required council members to declare their interests, the declarations were not documented.**

2.33   **Audit has *recommended* that the ESF should urge its schools to:**

(a)   **establish proper procedures to require council members to declare any interest which might conflict with their roles; and**

(b)   **properly document (e.g. on a standard form or in the meeting minutes) the declarations of conflict of interest made by council members.**

Response from the English Schools Foundation

2.34   The **ESF** agrees with the audit recommendations. It has stated that declaration registers will be prepared to record the interests of school council members.

General response from the Administration on corporate governance of schools

2.35   The **Secretary for Education and Manpower** has said that governance of schools can be looked at from two perspectives: at the school level and oversight by the ESF Headquarters (i.e. relationship between schools and the ESF Headquarters), as follows:

Governance at the school level

(a)   comprising representatives of different stakeholders, a school council is expected to take overall charge of, and guide, a school's development so that the school's operation revolves around the school's mission to provide a sound education to the students. He notes with concern Audit findings that some school councils might not have been discharging the functions expected of them (paras. 2.11 to 2.14, 2.17 to 2.21 and 2.24 to 2.28). He would urge the ESF to review and improve, as a matter of urgency, the operation of the school councils;

Oversight by the ESF Headquarters

(b)   every school is a different ecosystem. A school is the best judge of its teaching and learning needs and development priorities. Therefore, his view is that the ESF Headquarters should focus on strategic oversight — putting in place guidelines on good practices as well as mechanisms for service quality and value

for money audits. This is, in fact, the practice adopted by a number of generally well-managed and established school-sponsoring bodies in the aided sector. Save for major decisions such as recruitment of school principals or issues of political significance or affecting important policies of general application, the education offices of these school-sponsoring bodies devolve substantial operational responsibilities to schools, while using information management systems to maintain a broad overview of schools' development plans, resources, and students' performance. Given the presence of a clear salary structure, unless controversies arise, they see little need for getting involved in computing teachers' pay and salaries. As a result, a lean Headquarters structure is possible without undermining the operating standards and professional autonomy of schools. This also helps promote cost-efficiency and accountability with management decisions made at the level appropriate to the nature of the decisions. While accepting that the practice in the aided sector may not be all directly applicable to the ESF, he believes that there is little downside for the ESF to draw reference from such practices as part of its governance and management review; and

(c)   given Audit findings, he is concerned that the ESF Headquarters may not have given sufficient (or sufficiently clear) guidelines to ESF schools. The incidents relating to widespread non-declaration of interests by council members (para. 2.32) and the absence of any council meetings by a school in 23 months (para. 2.28) also suggest that the ESF Headquarters may not have taken the enforcement of guidelines as seriously as it should have. He would urge the ESF to review and, where appropriate, re-structure the relationship between the Headquarters and schools so that the right balance of school autonomy and Headquarters oversight is in place.

PART 3:   STRATEGIC PLANNING

3.1   This PART examines the strategic planning arrangements of ESF schools.

Importance of strategic planning

3.2   To meet the challenges of a changing environment and new demands, a school needs to regularly review its position and direction and to develop a strategic plan for establishing what it intends to achieve over a period of time.   The process of developing a strategic plan will provide a school with the opportunities to consider ways to build upon its achievements and to identify strategies to meet new challenges ahead.

3.3   Since 1994, it has been the ESF's policy that each of its schools produces a development plan. The ESF has not specified how the development plan is to be prepared. Schools have been adopting various approaches in developing their plans.

Participation of stakeholders in the planning process

3.4   Getting stakeholders of a school community involved in formulating a school development plan not only ensures that the stakeholders have the opportunities to provide valuable inputs to the planning process, but also helps foster greater commitment and support for the plan.

3.5   Audit reviewed the extent of participation of stakeholders (namely the school council, staff, parents of students, students, and the ESF) in the planning processes of the 15 ESF schools.   Audit found that some schools held broad consultations with their stakeholders in developing their plans, as shown in Example 1.

Example 1

Participation of stakeholders in the development of school plan
(School 8)

The school has produced development plans since 1992. The plan is a four-year plan, with a two-year action phase. Each new two-year action phase is preceded by a whole school review involving school council members, teachers, non-teaching staff, parents of students, students, and the ESF. In the review, the school solicits views from the stakeholders to enable it to build a development plan which is appropriate and valid for all aspects of school progress and growth.

To enable the school development plan to be shared as widely as possible with staff, each year a review meeting is held in March. Evaluations, developments and adjustments are considered in March/April. The plan is also regularly shared with the school council, the parent-teacher association, parents of students, and the ESF. To coordinate plans and support each other, the school also provides copies of its plan to partner ESF schools.

Source: School records

3.6   However, Audit noted that quite a number of schools had not consulted their councils (4 schools), non-teaching staff (8 schools), parents of students (7 schools), students (8 schools), and the ESF (4 schools) in the development of their plans.

Audit observations and recommendations

3.7   **Audit considers that a school should ensure adequate participation and consultation of stakeholders in developing its plan.** The planning process should involve not only the senior management team but also school council members and staff and, where possible, parents of students and students. They are essential elements of a school community and should be given opportunities to express their views and to contribute to the school development. A school should, in particular, always seek the active involvement of its council in the planning process as the council plays an important role in setting out its mission and goals and in planning its development strategies.

3.8   **Audit has *recommended* that the ESF should require its schools which had not widely consulted their stakeholders in the school planning process to:**

(a)   **seek the participation of various stakeholders, especially their councils, in the development of their plans; and**

(b)   **share their development plans as widely as possible with the stakeholders with a view to gaining the stakeholders' support.**

Response from the English Schools Foundation

3.9   The **ESF** agrees with the audit recommendations. It has stated that guidance on school development planning will be produced by a working group to assist schools in the planning process.

Time span of school development plan

3.10   A school's development plan is a blueprint for school development, setting out its mission, goals, and strategies for improving student achievement in the school. It is a good course of action for a school to take a longer-term view of its direction and improvement needed to achieve its mission and goals.

3.11   Audit analysis of the time span of the latest development plans of the 15 ESF schools indicated that:

(a)   10 schools produced plans covering not less than three years ahead;

(b)   3 schools produced plans covering one year; and

(c)   2 schools produced plans covering two years.

3.12   Audit also found that different schools had different planning cycles. For example, while two schools had developed plans for a three-year period, School 7's planning cycle covered the 2003-04 to 2005-06 school years and School 9's planning cycle covered the 2002-03 to 2004-05 school years. These two schools' planning cycles were inconsistent with that of the ESF covering the 2002-03 to 2006-07 school years.

Audit observations and recommendations

3.13   **Audit considers that a school should develop a longer-term development plan covering say, three to five years. Such a plan will help a school anticipate potential problems and identify solutions and enable it to adopt strategies to meet its challenges.**   A school may also use the longer-term development plan as a basis for formulating its more detailed short-term action plans (e.g. annual school plan) and making adjustments and enhancements in the course of its annual review. A typical case of a school producing a long-term development plan is shown in Example 2.

Example 2

Long-term strategic plan incorporating short-term action plans
(School 8)

The school developed a four-year development plan. The plan had a two-year action phase followed by a two-year medium-term phase. The first-year part of the action plan was very detailed. Its second-year part was less so. The action plan would be adjusted after the first year and then rolled forward to the second year. At the end of each two-year cycle, medium-term items would be reviewed and brought forward to form part of the next two-year action phase of the development plan.

Source: School records

3.14   **Audit considers that the ESF and its schools should adopt a consistent planning cycle for their development plans, in order to integrate their planning activities to achieve goal congruence.**   In fact, the principal of one school (School 8) had advised Audit his concern that inconsistencies in the planning cycles would render it difficult for the ESF and its schools to work out a coherent strategy for enhancing the whole of the ESF's service. He suggested the adoption of a uniform planning cycle.

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

(a)   **require its schools to produce a longer-term development plan (covering say, three to five years) which incorporates detailed short-term action plans; and**

(b)   **consider adopting a uniform planning cycle for its development plan and those of its schools.**

Response from the English Schools Foundation

3.16   The **ESF** agrees with the audit recommendations. It has stated that:

(a)   school development plans will be aligned with the ESF education development plan; and

(b)   the draft ESF education development plan has already, in its procedures, adopted a uniform planning cycle.

Content of school development plan

3.17   A school development plan is usually drawn up to suit its particular circumstances. Hence, it may not be appropriate for schools to use a standardised planning format. Nevertheless, a school development plan should aim at covering all significant aspects of school activities.

3.18   Audit review of the latest development plans of the 15 ESF schools indicated that:

(a)   most schools had put in considerable thoughts and efforts in developing their plans. There were many innovative approaches to planning; and

(b)   their contents varied among schools.   Some schools produced a very comprehensive development plan covering many significant aspects of school activities. The practice of one such school is shown in Example 3.

Example 3

A comprehensive school development plan
(School 2)

The school developed a three-year development plan. The plan set out the mission, aims and strategies of the school and included a comprehensive range of planned activities of the school. Its contents included:

(a) the mission of the ESF;

(b) the mission and aims of the school;

(c) partnership with parents of students;

(d) the aims of the school development plan;

(e) school roll and staff list;

(f) organisation of classes;

(g) identification and assessment of students with special educational needs and provision of learning support;

(h) school management structures together with detailed responsibilities of the key personnel (i.e. principal, deputy principals, year group coordinators and curriculum managers) for the management, monitoring and implementation of various school programmes;

(i) school policy on staff development, and education and training programmes for in-service staff;

(j) the planning cycle of school development and the whole school review process, including an assessment of outside influences, demand change, present situation, and school needs;

(k) focus areas for development;

(l) development plans for curriculum and other school activities together with details of the actions to be taken, target completion dates, success criteria, and performance indicators; and

(m) financial plans and budgets for the whole school together with detailed breakdown of financial provisions for curriculum and training programmes for in-service staff.

Source: School records

3.19   On the other hand, Audit noted that some schools produced development plans focusing only on certain areas of school activities.   The practice of one such school is shown in Example 4.

Example 4

A less comprehensive school development plan
(School 14)

The school developed a five-year development plan. The plan set out plans for various curriculum departments and other school programmes (e.g. pastoral care and staff development), with details of the following:

(a)   objective of the programme;

(b)   the actions to be taken;

(c)   success indicators;

(d)   target completion dates;

(e)   persons responsible for implementing, monitoring and evaluating the programme; and

(f)   resources and costs required.

Remarks: *The principal of the school informed Audit that some other elements mentioned in Example 3 had been covered in separate documents, namely the Staff Handbook and the Policies Handbook.*

Source: School records

Audit observations and recommendation

3.20   **A school development plan serves as an important reference document for the whole school community.   It should be properly prepared to reflect the characteristics, needs, aims and priorities of the school, like the one prepared by the school in Example 3.** Audit considers that a good development plan should include the following significant aspects of school activities:

    (a)   vision, mission, aims and objectives of the school;

    (b)   external influences and challenges faced by the school;

    (c)   a review of the school's strengths and weaknesses to date;

    (d)   the programme of activities through which the school's aims and objectives will be achieved;

    (e)   priority development areas;

    (f)   staff profiles and development needs;

    (g)   pupils' profiles and needs;

    (h)   resource and budget allocation;

    (i)   procedures and criteria for assessing performance; and

    (j)   persons responsible for implementing, monitoring and evaluating the programmes.

3.21   Audit noted that some ESF schools might have covered the significant aspects (see para. 3.20) in separate planning documents. **Nevertheless, Audit considers that good strategic planning should consolidate all plans for a school's activities into one single document so as to achieve a more structured and coherent approach.**

3.22   **Audit has *recommended* that the ESF should issue good practice guides to its schools to help them ensure that all significant aspects of school activities are included in their development plans.**

Response from the English Schools Foundation

3.23   The **ESF** agrees with the audit recommendation.

Response from the Administration

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

(a) the crux of the quality question is "what is the best for the students"; and

(b) medium and year-on-year strategic planning is needed, especially with respect to items (g) to (m) of Example 3 in paragraph 3.18.

Evaluation of school programmes

3.25 Evaluation of school programmes is an integral part of the planning process. It provides essential information about school performance and helps the school plan future courses of action to further raise the standards achieved.

3.26 Audit ascertained whether ESF schools had properly evaluated their programmes against their development plans. Audit noted that, in developing school plans, all the 15 ESF schools had set out the criteria for assessing the performance of school programmes and the persons responsible for implementing, monitoring and evaluating the programmes. Most schools had conducted the evaluations. However, three schools had not carried out any evaluation of their programmes. One of these schools (School 12) informed Audit that an evaluation had been conducted for its previous plan, albeit none for its current plan.

Audit observations and recommendations

3.27 **Audit considers that a school should regularly evaluate its programmes to ensure that good progress has been made in accordance with its development plan.** Evidence of progress against pre-determined success criteria can be gathered through discussions, interviews, questionnaires, assessment of students' work, observations, and independent evaluation reports. Based on the evidence collected, the school could draw conclusion on the success of its programmes and make recommendations accordingly.

3.28 **Audit has *recommended* that the ESF should require its schools which had not evaluated their programmes against their development plans to:**

(a) **conduct evaluations so as to assess how well they have been performing; and**

(b) **make use of the evaluation results to help plan future courses of action to further raise the standards achieved.**

Response from the English Schools Foundation

3.29   The **ESF** agrees with the audit recommendations. It has stated that:

(a)   a revised evaluation strategy was drafted in August 2004. Since then, procedures for performing school reviews have been written to ensure that schools conduct evaluations of their programmes against their current development plans. These evaluations also examine the impact of school development plans on students' standards of achievement; and

(b)   it is ESF practice to draw up action plans through the process of school self-evaluations and school reviews. Examples of this can be found in three schools.

Response from the Administration

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

(a)   he agrees that critical evaluation of school programmes, with valid indicators, constitutes an important part of the strategic planning process. This is, in fact, also the essence of the schools self-evaluation framework applicable to public sector schools that the EMB introduced last year; and

(b)   apart from self-evaluation, periodic external validation is also a necessary ingredient of a holistic quality assurance mechanism. Complementing the schools' self-evaluation will be external school validation conducted at four-yearly intervals. He acknowledges that this may not be applicable to ESF schools, most of which practise British curriculum. Consideration may be given to inviting the relevant authorities (e.g. the Office for Standards in Education of the United Kingdom and/or the European Council of International Schools) to conduct regular, periodic external evaluation of ESF schools.

Survey on the views of stakeholders

3.31   As part of a continuous self-improvement process, it is desirable for a school to regularly collect feedback from its stakeholders regarding their satisfaction levels, needs, concerns, and expectations. This will help a school devise policies and plans to align itself with the needs and expectations of its stakeholders.

3.32   Audit reviewed whether the 15 ESF schools had a system in place to gather the views of their stakeholders. Audit noted that:

(a)   all schools regularly conducted opinion surveys, or held meetings or discussions, to collect the views of their stakeholders regarding their satisfaction levels and ways to improve school operation and performance. The frequency of the opinion surveys varied from once every year to once every three years; and

(b)   the stakeholders included school councils, teaching staff, non-teaching staff, parents of students, students, and the ESF. However, some schools had not sought the views from some stakeholders (see Figure 3).

Figure 3

Schools which sought stakeholders' views

Stakeholder	Number of schools	
(a) School council	10	5
(b) Teaching staff	13	2
(c) Non-teaching staff	7	8
(d) Parents of students	13	2
(e) Students	9	6
(f) ESF	7	8
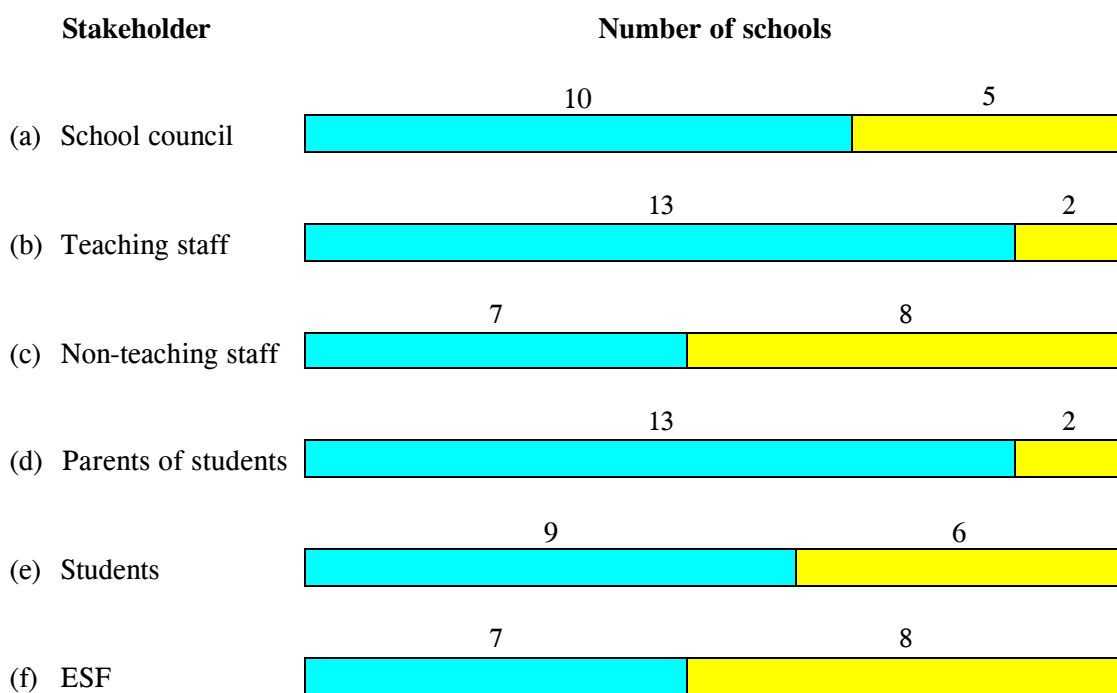
Legend: ▢ Schools had sought the views of stakeholders

▢ Schools had **not** sought the views of stakeholders

Source: Audit survey

Audit observations and recommendations

3.33   **Stakeholders' views help ensure continuous improvement of schools.   For those schools which had not regularly sought the views of stakeholders regarding their needs and expectations, Audit has *recommended* that the ESF should request them:**

(a)   **to put in place such a system; and**

(b)   **to take appropriate action to further improve their performance, based on the feedback from their stakeholders.**

Response from the English Schools Foundation

3.34   The **ESF** agrees with the audit recommendations. It has stated that:

(a)   a revised self-evaluation strategy will be drafted to ensure that schools seek the views from stakeholders regarding their needs and expectations; and

(b)   with the revised self-evaluation strategy, schools will feed the views of the stakeholders into their school development plans.   Much of this has already occurred, albeit without ESF-wide guidelines.

PART 4: BUDGETING AND CASH MANAGEMENT

4.1   This PART examines the budgeting and cash management of ESF schools.

School budgets

4.2   ESF schools receive funds mainly from three sources, namely:

(a)   capitation allowance from the ESF;

(b)   income from rental of school premises and facilities; and

(c)   donations.

Each school estimates the income from these sources and prepares an annual budget for income and expenditure. In the 2003-04 school year, the average annual budgets managed by ESF schools ranged from $2.2 million (for a primary school) to $6.7 million (for a secondary school).

4.3   Budgeting is an essential aspect of financial management. It serves to match school activities with available resources. If done properly, it allows a school to plan and control the use of its resources effectively.

Procedures for budgetary planning and control

4.4   Audit noted that, of the 15 ESF schools, 8 had developed formal procedures for budgetary planning and control, while the other 7 had not. The extent of the procedures varied among schools. Some schools developed more comprehensive procedures for budgetary planning and control (see Example 5).

Example 5

Comprehensive budgetary planning and control procedures of a school
(School 12)

The budgetary planning and control procedures of the school set out details of the following elements for the guidance of its staff:

(a)   schedule for budget submission;

(b)   responsibility of staff member in charge of each budget area;

(c)   setting of budgets for recurrent, capital and information and communication technology expenditure;

(d)   bidding for budget;

(e)   forms to be used in the budgeting process (e.g. budget request form);

(f)   interviews with senior management team regarding the budget proposals;

(g)   finalisation of school budget and resource allocation;

(h)   procedures for incurring expenses by budget holders;

(i)   recording of expenses and production of monthly statement;

(j)   meeting of finance committee to review expenditure; and

(k)   request for an increase in budget.

Source: School records

4.5   On the other hand, Audit noted that the budgetary planning and control procedures of some other schools included just a few elements (see Example 6).

Example 6

**Less detailed budgetary planning and control procedures of a school
(School 14)**

The budgetary planning and control procedures of the school briefly set out the following elements:

    (a)   availability of finance;

    (b)   fixing of departmental budgets by the principal; and

    (c)   the ways in which budget holders should manage their funds.

Source: School records

Audit observations and recommendations

4.6 **To facilitate schools to manage their financial resources properly, Audit considers that it is a good practice for them to establish formal budgetary planning and control procedures.** In this respect, a useful point of reference is the SAG published and updated regularly by the EMB. All aided primary and secondary schools in Hong Kong are expected to follow this guide. According to the SAG, the key procedures for budgetary planning and control might include the following elements:

    (a)   identification of school goals;

    (b)   determination of policies and priorities;

    (c)   identification of programme budgets;

    (d)   estimation of resources required;

    (e)   estimation of resources available;

    (f)   examination of expenditure trends and past performance;

(g)   allocation of resources, including provision of contingency;

(h)   approval of school budget;

(i)   informing staff with financial responsibilities of their approved programme budgets and any constraints imposed;

(j)   informing stakeholders of the approved budget;

(k)   monitoring of the school budget; and

(l)   review and amendment of the budget.

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

(a)   **issue guidelines to assist its schools in developing formal procedures for budgetary planning and control; and**

(b)   **in preparing the guidelines, take into consideration the key procedures as outlined in the SAG.**

Response from the English Schools Foundation

4.8   The **ESF** agrees with the audit recommendations. It has stated that:

(a)   although no uniform models may be possible because of the unique circumstances of each school, it will issue formal guidelines to assist schools in budgetary planning and control; and

(b)   all school councils will need a finance sub-committee to deal with budgetary matters.

Linkage between budget and development plan

4.9   Audit review of the latest development plans of the 15 ESF schools indicated that most schools did not provide a clear linkage of their budgets to their development plans. For instance, the plans of four schools did not show the resources required (see Example 7).

Example 7

**Resources required not shown in school development plan
(School 4)**

The development plan of the school identified various aspects of its curricula or activities which needed to be revisited, evaluated and developed in the coming two years. The development plan set out specific plans for individual school programmes with target dates, success criteria and the persons responsible for the implementation. However, no mention was made in the development plan on the resources required for implementing individual school programmes.

Source: School records

4.10 On the other hand, Audit noted that the development plans of other seven schools contained only limited financial projections which could be used as a basis for compiling their annual budgets (see Example 8).

Example 8

**Limited financial projections shown in school development plan
(School 8)**

The development plan of the school attempted to identify the resources required for implementing its various programmes. However, limited financial projections were made on the resources required. For example, the school identified that the resources required to implement its English programme included teacher reference materials, training programmes, and time of staff released for observation, feedback and monitoring. However, the school did not translate the resources required into financial projections which could be used as a basis for compiling its budget.

Source: School records

Audit observations and recommendations

4.11   Educational goals cannot be achieved unless appropriate resources are made available at the right time. **Audit considers that a good budgeting process seeks to align the financial resources required with the programmes outlined in a school's development plan.**   The process provides a school with insight into the linkage between educational aims and budgeting decisions, and ensures that the allocation of resources to its various departments are consistent with its aim and objectives.   In this connection, Audit noted from the development plan of one of the schools (School 13) that the school management recognised the need to provide in future a more structured approach in the development planning, linking the budget with academic year cycles.   The school management considered that this structure would enable it to prioritise its efforts and limited resources towards targeted initiatives.

4.12   To ensure that the objectives set out in school development plans are reflected in school budgets, **Audit has *recommended* that the ESF should require its schools to:**

   (a)   **project the financial resources required to implement individual programmes in their development plans; and**

   (b)   **use the projections as a basis for compiling their annual budgets.**

Response from the English Schools Foundation

4.13   The **ESF** agrees with the audit recommendations. It has stated that all schools should be required to cost their development plans and use the cost projections in compiling annual budgets.

Budget allocation

4.14   ESF schools delegated budgets to individual budget holders (e.g. department heads or functional managers) in charge of each budget area. The process of allocating funds to budget holders varied among schools. Most schools allocated funds to budget holders based on a combination of factors such as:

   (a)   priorities in the school/departmental development plans;

   (b)   curriculum and pastoral needs of students;

(c)   demands of departments;

(d)   student number in each department;

(e)   past expenditure patterns and inflation; and

(f)   maintenance needs of the school.

4.15   Audit noted that many schools adopted a bidding system to assess the funding needs of their departments. Under this system, a budget holder had to bid his funding requirements for the following year, by submitting a budget request form to the senior staff members (e.g. principal or deputy principal) for approval. The budget request form usually listed out, in priority order, the amounts required for individual expenditure items (e.g. student resources, staff reference materials, consumables, information technology and capital expenditure). In some schools, the budget holders were also required to link their requests to their departmental development plans. After discussing the budget requests with the budget holders and assessing all the competing needs, the senior staff members would then approve and finalise the budget allocation.

Audit observations and recommendation

4.16   **To ensure that the budget is distributed in such a manner to suit the financial circumstances of a school and to balance the needs of individual budget holders, Audit considers that the following principles of resource allocation should be adopted:**

(a)   **the resource allocation should match with the financial circumstances of a school and be consistent with its priorities identified through the school planning process; and**

(b)   **budget holders should regularly review and justify the resources required to meet their commitments and new initiatives.**

4.17   The bidding system in many schools is generally in line with the principles mentioned in paragraph 4.16. It ensures that a school's budget allocation is more responsive to its overall strategies and the competing needs of its individual departments. However, Audit noted that three schools still had not adopted the bidding system in their allocation processes. For example, in one school (School 14), the principal determined the budget allocations for the departments.

4.18   **Audit has *recommended* that the ESF should require its schools which do not have a bidding system for assessing the funding needs of their departments to adopt such a system for budget allocation purpose.**

Response from the English Schools Foundation

4.19   The **ESF** has stated that it will consider the audit recommendations, having regard to the fact that school councils and principals require a degree of independence to meet the unique circumstances of each school.

Budget approval and monitoring by school councils

4.20   A school council's involvement in the school budgeting and monitoring process is of paramount importance. It helps ensure that school funds are properly spent to achieve the school aims. In the guidance notes issued by the ESF, it is stated that the roles of a school council in relation to school finance are as follows:

(a)   it should see and endorse the budget prepared by a senior staff member of the school;

(b)   it should try to assure itself that the objectives set out in the school development plan are being addressed in the school budget;

(c)   it should check that the budget does not simply reflect historical spending patterns, and that schools should carry out periodic reviews of expenditure to ensure the achievement of the up-to-date objectives of the school development plan; and

(d)   it should review the financial performance of the school regularly.

4.21   Audit review of the budget approval and monitoring procedures adopted by the councils of the 15 ESF schools indicated that:

(a)   eight schools had submitted their budgets to their councils for approval or endorsement. The budgets of seven schools were approved by their principals;

(b)   seven schools had not regularly informed their councils of the use of school funds against the approved budgets. Of the eight schools which had informed their councils of the use of school funds, three did so annually while the other five did so at council meetings; and

(c)   the councils of four schools indicated that they had not been involved in monitoring the use of school funds against the school financial plans or budgets in the past three school years (i.e. 2001-02, 2002-03 and 2003-04). Of the other 11 school councils which had been involved in monitoring the use of school funds, 3 did so only annually.

Audit observations and recommendations

4.22   **Audit considers that there is room for improvement in budget approval and monitoring by school councils.** To fulfil its role in relation to school finance, a school council needs to closely monitor the financial performance of the school, including approval of the budget and its subsequent major changes. On the other hand, a school should take the initiative to regularly inform the council of the use of school funds. It is a good practice for a school to produce a budget statement for the council each term, showing the variances between budgets and commitments to date, together with a forecast of the outturn to the year end. This gives the council a clear view of the school's financial performance, and enables timely decisions to be made to overcome problems as soon as they emerge.

4.23   **Audit has *recommended* that the ESF should urge its schools to:**

(a)   **seek the approval of their councils for their annual school budgets (including subsequent major amendments); and**

(b)   **regularly submit to their councils financial reports showing the up-to-date position of variances between the approved budget and the expenditure commitments together with a forecast of the outturn to the end of the financial year.**

4.24   **For those councils of its schools which have not played an active role in monitoring the use of school funds, Audit has *recommended* that the ESF should remind them to:**

(a)   **take the initiative to examine closely and approve their school annual budgets (including subsequent major amendments); and**

(b)   **monitor regularly the use of funds against the approved budgets and investigate significant variances.**

Response from the English Schools Foundation

4.25   The **ESF** agrees with the audit recommendations. It has stated that:

(a)   the role of principals in school budgeting will be included in the revised guidance for school councils;

(b)   all schools will start to report regularly their financial performance to their councils in September 2005;

(c)   there is a need to revise the guidance to school councils on the approval of school budgets and ensure consistent implementation at schools;

(d)   monitoring the use of school funds against the approved budgets should be a regular agenda item in school council meetings; and

(e)   finance sub-committees may have to be set up in schools to help monitor the use of school funds.

Managing the budget

4.26   Audit reviewed the practices of the 15 ESF schools in managing their budgets. Audit findings are reported in paragraphs 4.27 to 4.31.

Financial information for budget management

4.27   Most schools maintained a ledger system to assist the school management and budget holders in managing their budgets. Usually the system produced monthly ledger printouts, showing the expenses incurred by each budget holder. Most schools recorded the amounts of commitments incurred as well as cash already spent by budget holders in the relevant account ledgers. **Audit considers that this is a good practice because it gives a clear view of what still remains for each budget holder to spend, hence facilitating budget management.** However, four schools did not record the amounts of commitments in the relevant account ledgers.

Monitoring of expenses

4.28   All schools informed Audit that they regularly monitored the actual expenses against the budgets of individual budget holders to ensure that there was no overspending and that the expenses were for intended purposes. The monitoring procedures of one school are shown in Example 9.

Example 9

**Monitoring the budget
(School 13)**

The Deputy Principal in charge of finance checked the budget monthly. He would discuss with the relevant budget holders if there was any overspending or the expenses had approached the budget limit (e.g. over 90% of the budget). All expenditure requests over $3,000 and all orders raised must have the approval in writing from him or a department head.

Source: School records

4.29   Audit noted that eight schools required budget holders to specify, in their budget requests, details of expenditure items (e.g. textbooks, staff reference materials, consumables, equipment and replacement furniture) together with their corresponding amounts. **This facilitates subsequent checking by schools to ensure that the expenses incurred were in accordance with the original spending plans.** Any significant variations from the approved expenditure patterns could then be investigated. On the other hand, the other seven schools did not have such a requirement.

Virements of funds

4.30   Ten schools informed Audit that their policies allowed virement of funds between the budgets of individual budget holders. One school (School 3) indicated that virements were allowed provided that the budget holders agreed to the arrangement (e.g. to jointly fund a project) and the budget administrator (e.g. department head) had approved it. Another school (School 2) indicated that virements would be accepted, provided that there were sufficient funds and the needs were in line with the school development plan.

4.31   Audit noted that ESF schools, in general, had neither formal written policies nor control procedures on virement of funds between budgets. **Audit appreciates that schools should allow budget holders flexibility in the use of funds to meet their changing needs. However, schools should establish a formal policy, setting out clearly the circumstances under which virements are allowed.** Schools should also seek the approval of their councils if the virements exceed a pre-determined level.

Audit observations and recommendations

4.32   **Where parts of a budget have been delegated to different budget holders, there needs to be effective control measures to ensure that they manage their budgets effectively. Audit has identified scope for improvement in this area, as indicated in paragraphs 4.27 to 4.31. Audit has *recommended* that the ESF should require:**

(a)   **its schools to record the commitments and actual expenditure in the relevant ledgers of the school accounting systems, so as to facilitate the school management and budget holders to better manage individual budgets;**

(b)   **budget holders of its schools to clearly specify, in budget requests, details of expenditure items and the amounts to be spent, so as to facilitate schools to monitor whether expenses have been incurred for the originally intended purposes; and**

(c)   **its schools to establish formal policies and control procedures on virements of funds between budgets including:**

(i)   **the circumstances under which virements are allowed; and**

(ii)   **agreeing with their councils on the limits of virement which, if exceeded, would require councils' approval.**

Response from the English Schools Foundation

4.33   The **ESF** agrees with the audit recommendations stated in paragraph 4.32(a) and (b) and will remind schools of the best practice. As regards the audit recommendation in paragraph 4.32(c), the ESF has stated that:

(a)   it wishes school councils and principals to exercise control on virement issues, and to encourage such delegated leadership and authority to schools; and

(b)   principals have to report to school councils as a check and a balance.

Use of surplus funds

4.34 The ESF allows its schools to retain funds which are surplus to their requirements. At the end of the 2002-03 school year, the 15 ESF schools had surplus funds amounting to $16.6 million (see Table 2). These surplus funds were kept in the form of bank deposits and cash. Each school managed its own funds and maintained its own bank accounts.

Table 2

Surplus funds retained by ESF schools
(31 August 2003)

Range	Number of schools	Total amount of surplus funds
		($ million)
Above $1 million	5	9.1
From $500,000 to $1 million	8	6.9
Below $500,000	2	0.6
Total	**15**	**16.6**

Source: School records

4.35 Audit review of the practices of the 15 ESF schools in managing their surplus funds of the 2002-03 school year indicated that:

(a) 9 schools had plans for using their surplus funds. Examples of their intended use of the funds are at Appendix A; and

(b) the remaining 6 schools did not have specific plans for using their surplus funds. Their surplus funds amounted to some $5 million.

Audit observations and recommendations

4.36   In Chapter 4 of the Director of Audit's Report No. 43 on "Corporate governance and Headquarters administration of the English Schools Foundation", Audit has recommended that, in view of the high level of overdraft at its financial year end, the ESF should adopt an arrangement under which its schools would transfer a part of their bank deposits for which they do not have immediate needs to the ESF to reduce its overdraft. **Audit considers that schools, especially those which do not have any specific plans for using their surplus funds, could consider lodging funds with the ESF as an option of using their funds.** Audit noted that three schools had already placed part of their surplus funds with the ESF. In return, the ESF gave these schools a higher interest rate for their deposits, as compared with that given by banks.

4.37   Audit sought the views of the principals of the 15 ESF schools on whether they considered it a good idea to lodge their surplus funds with the ESF to earn a higher return. The majority of the principals supported this arrangement although they had expressed the following views:

(a)   the arrangement should not take away their financial independence; and

(b)   schools should be able to get back their funds from the ESF without restraint.

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

(a)   **require its schools to examine their need for retaining surplus funds;**

(b)   **request its schools to consider placing their surplus funds with it to help reduce its overdraft, as an option of deploying the funds; and**

(c)   **agree with its school principals the arrangement for transferring surplus funds to the ESF.**

Response from the English Schools Foundation

4.39   The **ESF** agrees with the audit recommendations. It has stated that:

(a)   it will discuss with schools the strategic use of any reserves. Schools will also have to report to councils their need for retaining surplus funds; and

(b)   it accepts that improvement is necessary to reduce the high level of overdraft of the ESF. It will adopt either the audit recommendation of requesting its schools to place their surplus funds with the ESF, or another alternative arrangement under which there will be a central cash management and payment system similar to those used by large commercial organisations, thereby avoiding the need for a separate bank account for each school.

Cash-flow projection

4.40   In examining the cash management of ESF schools, Audit noted that it was not a common practice for them to prepare cash-flow projections. Only one school (School 2) had done so.

4.41   A school's cash-flow projection is the amounts of money it expects to receive and pay out, say each month, in a period of usually 6 to 12 months. The projection takes into account the time lag between receiving money and incurring an expense and paying for it.

4.42   Cash-flow projection has the following advantages:

(a)   it provides a school with a basis for studying the financing of its activities. It indicates how much money is needed, and when it is needed. It will help a school anticipate shortfalls and address them in time;

(b)   it provides for more flexible deployment of surplus funds. For instance, a school may take advantage of projected cash surplus by making short-term investments, lodging it with the ESF to help reduce its bank overdraft, or buying supplies which it will use later; and

(c)   it provides for control of a school's operation. By comparing the projected cash flow with the actual cash flow, a school can determine whether, when and where the actual cash flow varies significantly from the projection. This will allow a school to detect potential cash-flow problems. Furthermore, by comparing the budgeted cash flow with the actual income and expenditure and understanding the nature of variances, a school can strengthen its ability to accurately anticipate future cash flow.

Schools should regularly update their cash-flow projections so as to ensure the accuracy of their forecast.

Audit observations and recommendations

4.43   With the exception of one school, others did not prepare any formal cash-flow projections. **Audit considers that schools need to prepare cash-flow projection because it is an effective management tool to help them identify cash surpluses and eliminate cash-flow problems.**

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

(a)   **advise its schools to consider preparing and updating cash-flow projections to enable them to manage their cash more effectively;**

(b)   **help its schools prepare cash-flow projections, where necessary; and**

(c)   **ensure that its schools periodically compare the cash-flow projection with the actual cash flow with a view to identifying potential problems in financial operation.**

Response from the English Schools Foundation

4.45   The **ESF** agrees with the audit recommendations. It has stated that:

(a)   training on cash-flow projections will be provided to school councils and administrative staff, where necessary; and

(b)   a finance sub-committee may have to be set up in each school to monitor the cash-flow position.

PART 5: FINANCIAL AND ADMINISTRATIVE MATTERS

5.1   This PART examines the financial and administrative matters of ESF schools.

**Financial and administrative guidelines
for English Schools Foundation schools**

5.2   From time to time, the ESF issues to its schools guidelines, in the form of school circulars and administrative memoranda (referred to by the ESF as SCAM), for handling financial and administrative matters. Up to 1 April 2004, the ESF had issued a total of 74 SCAM. Examples of these SCAM include:

Subject	Date of publication/revision
Inventory records	January 1987
Accounting instructions	April 1988
Allowance for replacement of furniture and equipment	September 1989
Letting of school premises	April 1994
Mileage allowance when on official business	August 1994

5.3   Audit noted that the ESF did not regularly revise its SCAM to take account of the changes and development in school financial and administrative matters, as shown in Example 10.

Example 10

An outdated ESF school circular

In 1994, the ESF issued a school circular on "mileage allowance when on official business". In the circular, it was stated that the ESF followed the government scale for granting mileage allowance to employees when on official business. According to the circular (which is still in force), eligible staff using private motor vehicles for official duties will receive a mileage allowance at the following rates:

Type of motor vehicle	Rate per km	
	(first 4,800 km)	(over 4,800 km)
Motor car	$3.44	$2.75
Motor cycle and scooter	$1.26	$1.01

The scale is in line with that adopted by the Government in 1994.

The Government subsequently changed the scale in 2003 and in 2004. With effect from 1 April 2004, the government scale for mileage allowance is as follows:

Type of motor vehicle	Flat rate per km
Motor car	$2.09
Motor cycle and scooter	$0.77

The ESF still follows the 1994 government scale for mileage allowance. It has not revised its scale for mileage allowance accordingly.

Source: ESF records

Audit observations and recommendations

5.4   **Audit considers that it is essential for the ESF to regularly review its SCAM to ensure that they are up-to-date, especially those which were issued/revised in the 1980s and 1990s (see para. 5.2).** The ESF should also consider uploading its various circulars and memoranda onto its website. This not only would facilitate future reviews and amendments but would also enable schools to have ready access to ESF guidelines.

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

(a)   **regularly review its school circulars and administrative memoranda to ensure that the guidelines are kept up-to-date; and**

(b)   **consider making use of the Internet for distributing the circulars and memoranda to schools.**

Response from the English Schools Foundation

5.6   The **ESF** agrees with the audit recommendations. It has stated that:

(a)   all SCAM should be updated regularly. Its internal auditor is updating these circulars and memoranda; and

(b)   it will look to extending the use of the Internet to disseminate the guidelines and procedures.

Internal control procedures of schools

5.7   Internal control procedures are vital to the operation of an effective financial and accounting system in minimising fraud and negligence and ensuring proper use of a school's financial resources. The ESF has provided certain guidelines on internal control procedures of schools. It is also essential for schools to set up their own internal control procedures to suit their particular circumstances. (For example, the internal control procedures of a small school with only a few administrative staff are different from those of a large school with more administrative staff.)

5.8   Audit surveyed the 15 ESF schools to ascertain whether school-based internal control procedures had been set up by them for the following four major financial and accounting control areas:

(a)   accounting and handling of payments;

(b)   accounting and handling of receipts;

(c)   procurement of goods and services; and

(d)   recording and custody of assets.

5.9   Of the 15 schools, 11 stated that they had set up their own internal control procedures for all the four control areas. Two schools had set up such procedures in three control areas while another two schools had not set up any procedures. For those control areas where internal control procedures had not been set up, schools informed Audit that they mainly followed ESF guidelines on the principles/procedures of internal control for schools. However, Audit noted that these guidelines had not adequately set out the principles/procedures which are essential for the smooth financial and accounting operation of schools, as shown in Example 11.

Example 11

**Control principles/procedures in
a school circular for handling receipts and payments**

According to the ESF school circular entitled "Accounting Instructions", in handling receipts and payments, schools need to observe the following control principles/procedures:

(a)   details of receipts and payments should be entered on Accounts Sheets;

(b)   receipts should be issued for money received. Money should be banked as soon as possible, preferably on the day of receipt;

(c)   paid invoices/statements should be cancelled with a "Paid" chop to prevent double payment; and

(d)   the clerk receiving the goods or services should certify on all invoices that goods and services had been received and checked.

Source: ESF records

5.10   Comparing the control principles/procedures mentioned in Example 11 with those stated in the SAG issued by the EMB to aided schools, Audit noted that the SAG provides more proper and complete guidelines.   For example, the SAG has elaborated control principles/procedures, as follows:

(a)   the duties of calculating, checking and recording sums due to or from the school should be separated as completely as possible from the duties of collecting or disbursing these sums;

(b)   the checking and reconciliation of bank accounts and cash balances relating to all funds should be carried out by employees who are not themselves involved in the day-to-day administration of these accounts;

(c)   all transactions should require the authorisation or approval by an appropriate responsible person; and

(d)   school principals should consider the relevance of best value principles to the expenditure of funds under their control as well as the propriety of spending.

5.11   In late April 2004, while Audit was reviewing the operation of ESF schools, the ESF issued a set of new guidelines entitled "General Purchase and Operation".   The new guidelines draw schools' attention to such control principles as the need for achieving value for money in making payments and the requirement for authorising purchases by school principals.   However, the new guidelines do not mention other guiding principles such as the segregation of accounting duties and the need for reconciliation control.

5.12   For those schools which stated that they had set up their own internal control procedures in all, or a number of the, four control areas, Audit noted that:

(a)   some schools had not documented their internal control procedures; and

(b)   for those schools which had documented their internal control procedures, such procedures were generally crude and not entirely satisfactory in ensuring the proper use of their financial resources.   Schools often missed out fundamental control principles/procedures such as those mentioned in paragraph 5.10.

Audit observations and recommendations

5.13   Inadequate and improper internal control procedures would expose schools to risks of fraud and negligence. **Audit considers that the ESF and its schools should work together to draw up adequate internal control procedures so as to ensure proper management of school funds.** In doing so, the ESF and schools could make reference to the SAG of the EMB, which is a good source of internal control procedures.

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

(a)   **in conjunction with its schools, draw up proper internal control procedures, making reference to the SAG; and**

(b)   **regularly carry out internal audits of schools to ascertain whether the internal controls are operating effectively.**

Response from the English Schools Foundation

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

(a)   the internal auditor has already started to update internal control procedures, with reference not only to the SAG but also to ESF practices and other sources. Besides working with schools, the internal auditor also works closely with the Headquarters management when drawing up such procedures; and

(b)   the ESF plans to consider systematic auditing and to review the use of time in auditing.

Expenditure on functions for school staff

Principals' budgets for reimbursement of entertainment expenditure

5.16   Each principal of an ESF school has an annual budget for reimbursement of entertainment expenditure. In the 2002-03 school year, each principal's budget ranged from $8,288 to $21,310. The principals used their budgets to arrange, among others, functions for school staff and received reimbursements from the ESF. The propriety of reimbursement of principals' entertainment expenditure has been separately examined

in Chapter 4 of the Director of Audit's Report No. 43 on "Corporate governance and Headquarters administration of the English Schools Foundation".

Staff functions arranged by ESF schools

5.17   In addition to providing staff functions with the principals' budgets for entertainment expenditure, it is the practice of ESF schools to arrange staff functions using schools' funds.

5.18   In the 2002-03 school year, the principals of the six schools visited by Audit spent a total of $80,600 of their budgets for entertainment expenditure on mainly staff functions.   On top of this amount, these six schools spent $157,656 to arrange other functions for school staff.   Table 3 shows the number and costs of staff functions arranged by these six schools in the 2002-03 school year.

Table 3

Number and costs of staff functions arranged by six ESF schools
(2002-03 school year)

School	Number of staff functions	Total amount
		($)
12	18	60,519
14	11	39,949
1	15	27,445
15	10	14,444
3	7	8,391
8	5	6,908
Total	**66**	**157,656**

Source: School records

5.19   Example 12 shows the nature of staff functions arranged by one school in the 2002-03 school year.

Example 12

**Nature of staff functions arranged by a school
(School 12)**

In the 2002-03 school year, the school paid a total of $60,519 for staff functions, as follows:

	Number of occasions	Total amount
		($)
Catering for staff parties and gatherings	9	35,837
Catering for staff seminars and workshops	4	9,891
Induction lunch/dinner for new staff	2	9,530
Staff farewell parties	2	2,820
Catering for Senior Management Team meeting	1	2,441
Total	**18**	**60,519**

Source: School records

5.20   While most of the functions in the six ESF schools were meant for groups of staff, Audit noted that there were instances where a school arranged entertainment for a few staff only (see Example 13).

Example 13

Principal of a school dined with an ESF officer
(School 1)

In June 2003, the Principal had to meet a senior ESF officer. They dined at a restaurant at the Peak. The dinner cost $1,042. The Principal wrote down in the school's payment voucher the following particulars for the expenditure:

"Meeting/celebration with (name of the Foundation Office staff)."

The school records gave no further details about the dinner.

Source: School records

The ESF's revised policy on
reimbursing principals' entertainment expenditure

5.21   On 8 March 2004, the Executive Committee of the Foundation decided that the ESF should not reimburse entertainment expenses in relation to functions among staff. On 28 May 2004, the ESF issued a circular setting out a revised policy on the reimbursement of entertainment expenditure. In the circular, it was stated, among others, 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 purpose of the function stated).

5.22   Subsequent to the revision of the policy on principals' entertainment expenditure, the Human Resources Director of the Foundation Office informed schools that the revised policy was also applicable to the payment of entertainment expenditure from ESF schools' funds. In June 2004, the Executive Committee of the Foundation decided that the revised policy would take effect from September 2004.

Audit observations and recommendations

5.23   For the six schools visited by Audit, Audit noted that they charged the expenditure on staff functions to different accounts in the 2002-03 school year (see Table 4). **For better monitoring of expenditure on staff functions/entertainment in schools, Audit considers that schools should charge such expenditure to a single account.**

Table 4

Charging of expenditure for staff functions
(2002-03 school year)

Account name	Amount
	($)
Celebration and Entertainment	113,972
Expenses Authorised — Principal	28,535
Specially Approved Expenditure	14,313
Miscellaneous	836
Total	**157,656**

Source: School records

5.24   While some schools might have spent more generously, Audit examination of the records of the six schools visited revealed that some schools were frugal on staff functions. **In Audit's view, staff functions in schools could enhance staff morale and improve relationship among staff. Instead of a complete withdrawal of entertainment spending in schools, the ESF might consider setting aside an annual sum to be spent by schools on staff functions, while requiring school staff to pay for excess expenditure.**

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

(a)   **revise the structure of accounts of its schools so that all entertainment expenditure is charged to one single account to facilitate monitoring and control; and**

(b)   **consider the appropriateness of setting aside an annual sum to be spent by its schools on staff functions.**

Response from the English Schools Foundation

5.26   The **ESF** agrees with the audit recommendations. It has stated that it will consider the appropriateness of setting aside an annual sum to be spent on staff functions.

Response from the Administration

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

(a)   he feels disappointed at the six-month lag between the decision of the Executive Committee of the Foundation and the implementation of the decision on reimbursement of entertainment expenditure (paras. 5.21 and 5.22); and

(b)   this time lag has frustrated the early realisation of benefits arising from the adoption of good practices, and may be reflective of the larger problems of governance and checks and balances.

Provision of welfare and benefits to school staff

5.28   Audit noted that some ESF schools incurred expenditure on the welfare and benefits of their staff. Table 5 shows examples of such expenditure incurred during the period September 2002 to March 2004 by the six schools visited by Audit.

Table 5

**Examples of expenditure incurred by schools on staff welfare and benefits
(September 2002 to March 2004)**

Nature of welfare and benefits	Schools	Number of occasions	Total amount
			($)
Gifts for staff (e.g. leaving the school and recovering from illness)	1, 3, 8, 12, 14, 15	38	20,656
"Lai See" for staff	3, 15	2	2,760
Purchase of 12 bottles of wine for future occasions	12	1	2,861
Purchase of a bottle of wine for unknown purpose	1	1	358
Flowers for a staff member whose spouse had passed away	3	1	500
Ex-gratia payment for a deceased staff member's spouse	12	1	10,000

Source: School records

5.29   Audit noted that the ESF had not set any guidelines on the provision of staff welfare and benefits by schools. The provision was made solely at schools' discretion.

Audit observations and recommendation

5.30   **Audit appreciates that it is important for an ESF school to be a good and caring employer. However, it is equally important that a school should handle its financial resources with propriety.**   The ESF needs to establish guidelines on the provision of staff welfare and benefits by schools. The guidelines should include such details as:

(a)   the circumstances under which welfare and benefits could be provided to staff;

(b)   the types of welfare and benefits; and

(c)   the financial limits for different types of welfare and benefits.

5.31   **Audit has *recommended* that the ESF should formulate a policy on the provision of staff welfare and benefits by its schools.**

Response from the English Schools Foundation

5.32   The **ESF** agrees with the audit recommendation.

Travelling expenditure for official duties

5.33   For the six schools visited by Audit, it is an established practice that claims for reimbursement of taxi fares incurred by staff for carrying out official duties have to be supported by receipts or details of journeys. Audit noted that one school did not always require its staff to properly substantiate claims for reimbursement of taxi fares, as shown in Case 1.

Case 1

Claims for reimbursement of taxi fares
(School 12)

The claimant submitted claims for taxi fares amounting to $1,450 and $863 in the 2002-03 and 2003-04 school years respectively.

Audit noted that 90% of the claims were not supported by receipts or details of the journeys (e.g. date, destination and purpose). There were only acknowledgements of receipt of claim monies, like the one below, signed by the claimant:

"Received from the English Schools Foundation (name of the school) the sum of dollars HK$500 in payment of taxi."

Source: School records

Audit observations and recommendation

5.34 **Audit considers that the ESF needs to improve the propriety in managing travelling expenditure for official duties by school staff. Audit has *recommended* that the ESF should require its schools to ensure that, in processing claims for reimbursement of travelling expenditure, the claimant submits receipts and details of journeys.**

Response from the English Schools Foundation

5.35 The **ESF** agrees with the audit recommendation and has stated that a policy is being implemented in this respect.

Savings in school expenditure

5.36   Given the multifarious nature of school expenditure, there might be opportunities where a school could achieve savings if it critically examines its expenditure pattern. Audit noted that one school had taken the initiative to reduce its expenditure on meetings and conferences by choosing a cheaper alternative (see Example 14).

Example 14

**Reducing meeting and conference expenditure by a school
(School 14)**

In the 2002-03 school year, the school organised two meetings for its Senior Management Team in a hotel. The school ordered from the hotel two meeting packages at a total of $11,550. The packages included the following services and charges:

(a)   meeting room rental;

(b)   set lunch for each participant;

(c)   two coffee/tea breaks with refreshments;

(d)   equipment (e.g. overhead projector, flipchart and white board); and

(e)   10% service charge.

Seven participants attended the first meeting in January 2003, and eight participants attended the second meeting in May 2003. They ordered beverages (e.g. wine, beer and mineral water) in addition to the food and drinks provided. The additional beverages cost $3,826.5, inclusive of a 10% service charge. This amount, together with the package fee of $11,550 and the tipping of $399.5, made up the bill to $15,776.

Later on, the school realised that the cost of arranging meetings in the hotel was high and took action to avoid similar expenditure in future. In the 2003-04 school year, the school held its Senior Management Team meetings at the school sports hall.

Source: School records

Audit observations and recommendations

5.37   Audit welcomes the school's initiative to reduce its expenditure in Example 14. **Given the manifold expenditure of schools, it is not unusual that schools have incurred expenses for those goods and services which are desirable but not essential.**   The initiative taken by the school to economise on its expenditure should be a good example for others to follow.

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

(a)   **require its schools to critically review their spending patterns with a view to identifying expenditure areas which are not essential; and**

(b)   **require its schools, in the light of the review results, to economise on their expenditure.**

Response from the English Schools Foundation

5.39   The **ESF** agrees with the audit recommendations. It has stated that:

(a)   it will review the spending patterns of schools; and

(b)   its schools will continue to carefully monitor their budgets.

Asset recording

5.40   In the 2002-03 school year, ESF schools spent some $5 million on acquiring capital items such as furniture and equipment. The ESF requires its schools to keep asset registers for items of furniture and equipment. Audit reviewed the practices of recording assets of the 15 ESF schools. Audit observations are summarised in paragraphs 5.41 to 5.45.

Audit observations

Completeness of asset registers

5.41   ESF schools usually possess the following types of assets:

(a)   computer equipment;

(b)   audio-visual equipment;

(c)   office equipment; and

(d)   school furniture.

As shown in Figure 4, some schools did not record some of their assets in their asset registers.

Figure 4

Types of assets recorded in schools' asset registers

Type of assets	Number of schools

(a) Computer equipment   14   1

(b) Audio-visual equipment   12   3

(c) Office equipment   13   2

(d) School furniture   11   4

Legend: Schools had recorded the asset

Schools had **not** recorded the asset
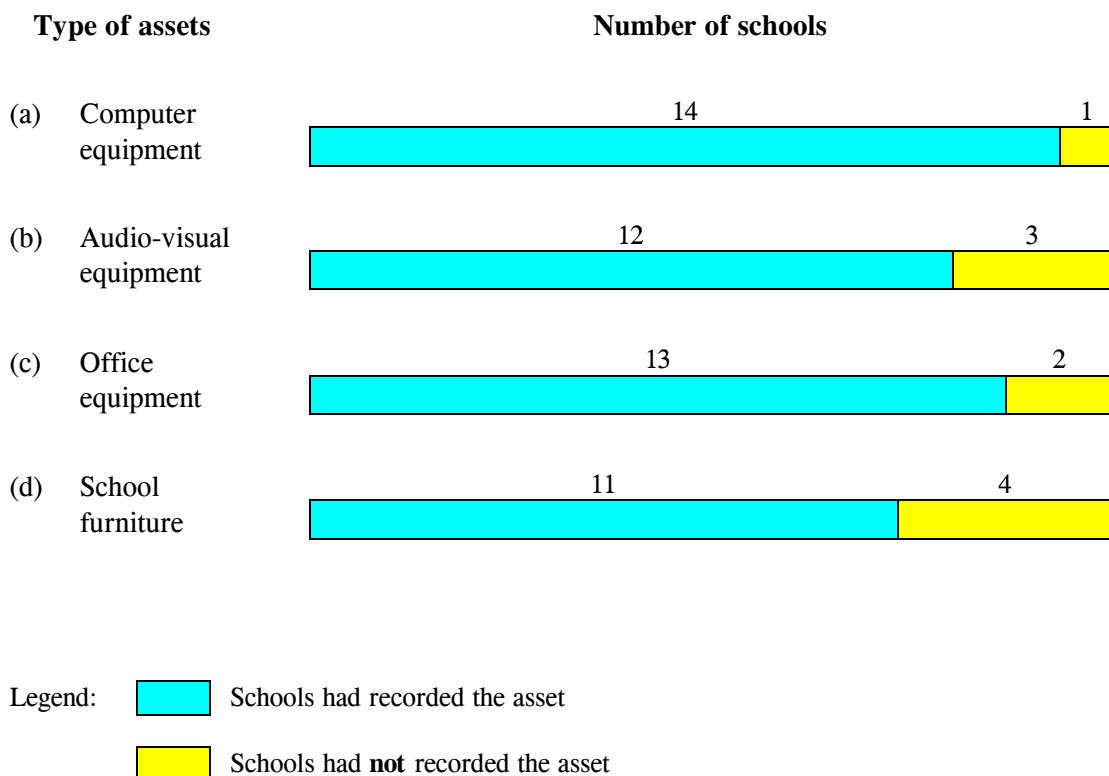
Source: School records and Audit survey

5.42   **Audit considers that an asset register is an important tool for asset management in schools.** Maintenance of a proper asset register would:

(a)   help schools promote safe custody of their assets;

(b)   help schools make proper decision on equipment replacement;

(c)   assist ESF external auditors to audit the schools' annual accounts and financial systems;

(d)   be useful in the event of insurance claims; and

(e)   facilitate school management to conduct independent checks of assets to deter misuse and prevent theft.

It is essential for schools to maintain proper asset registers. In this connection, Audit realises that it might not be cost-effective for schools to record every asset item in their registers. It would be useful if schools could make reference to an appropriate financial threshold such that items below a certain amount would not require recording in the asset registers. Audit noted that the ESF had not stipulated such a threshold for schools' reference.

Maintenance of asset registers

5.43   To ensure the completeness and accuracy of the information in asset registers and to keep track of the assets recorded, schools need to promptly record in their registers new addition of assets and to perform regular checks of the assets recorded. It is a requirement of the ESF that schools should conduct periodic checks of their assets. If a school finds it impracticable to conduct a complete check, the school should conduct at least periodic checks of the more valuable items.

5.44   Audit noted that, of the 15 ESF schools:

(a)   7 had not timely recorded assets upon acquisition. They also had not taken effective action to ensure subsequent recording; and

(b)   3 did not have the practice of checking their assets.

Example 15 shows the practice of one school which failed to record and check its assets properly. **Audit considers that the school's practice had rendered its asset registers not reliable as a tool for asset management.**

Example 15

**Failure to record and check assets properly
(School 12)**

The school kept asset registers for computer equipment, audio-visual equipment, office equipment and school furniture. However, the school did not immediately record the newly acquired assets in its registers upon receipt. The school also did not trace the payments for acquisition of assets from the payment vouchers to the asset registers to ensure that the recording had been made.

Audit also noted that the school had not conducted physical checks of its assets for two years.

Source: School records

5.45   Audit also noted that, for the 12 schools which had periodically checked their assets, in 6 schools, the checks were conducted by persons who were also responsible for custody of the assets (see Example 16). **To minimise the risk of fraud or errors, Audit considers that the checking of assets should be carried out by a staff member who has not been involved in their custody.**

Example 16

Assets checking by custodians in a school
(School 14)

The school kept asset registers for computer equipment, audio-visual equipment, office equipment and school furniture. In the past two years ending on 31 March 2004, inventory holders conducted periodic checks of the assets under their custody and informed the Principal of any discrepancies.

Source: School records

Audit recommendations

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

(a)   **set a financial threshold for recording assets by its schools;**

(b)   **require its schools to promptly record assets with value above the set threshold in the asset registers upon acquisition; and**

(c)   **require its schools to have asset registers checked periodically by persons who are not involved in the custody of the assets.**

Response from the English Schools Foundation

5.47   The **ESF** agrees with the audit recommendations and has stated that it will review the current policy.

PART 6: PROCUREMENT AND ENERGY MANAGEMENT

6.1 This PART examines the procurement arrangements and energy management of ESF schools.

Procurement procedures

6.2 In the 2003-04 school year, ESF schools incurred about $39 million on procurement of goods and services. Procurement in schools is performed by various budget holders such as finance officers, bursars and department heads. Audit findings on the procurement of ESF schools are summarised in paragraphs 6.3 to 6.7.

Inadequacies of the existing procurement procedures

6.3 Audit notes that the existing procurement guidelines issued by the ESF to schools have the following inadequacies:

(a) the ESF has issued to ESF schools (via SCAM No. 26 dated September 1989) guidelines on procedures for procuring furniture and equipment. These procedures are summarised as follows:

Estimated cost of each purchase	Procedures schools should comply with
Below $8,000	Oral quotations are required
$8,000 and above	At least three written quotations are required

School staff making procurement should complete a "tender comparison sheet" which details the quotations obtained and should submit it to the school principal for approval. However, the guidelines have not laid down:

(i)   the number of oral quotations required for purchases below $8,000;

(ii)   the procedures to be followed when the lowest quotation is considered not acceptable; and

(iii)   the circumstances under which tenders are required and the associated number of tenders;

(b)   when schools build a new extension, the ESF might require them to procure new furniture and equipment for the extension. In such cases, the ESF would issue ad-hoc "project-based" procurement guidelines to the schools concerned. The following is an example of the guidelines issued to a school in early 2003 for the procurement of new furniture and equipment for its extension wing:

Estimated cost of each purchase	Procedures schools should comply with
Below $30,000	At least three oral or written quotations were required
$30,000 to $100,000	At least three written quotations were required
Over $100,000	At least five written quotations were required

These ad-hoc "project-based" guidelines are inconsistent with the guidelines on procurement of furniture and equipment mentioned in paragraph 6.3(a). They involve different estimated purchase costs and procedures. Furthermore, the co-existence of two sets of guidelines on procurement of furniture and equipment might cause confusion to schools;

(c)   the ESF has allowed schools to pay for minor repair and maintenance of school premises and swimming pools, provided that the cost of each transaction does not exceed $8,500. The ESF is normally responsible for repair and maintenance costing over $8,500 for each transaction. The ESF normally handles all school improvement works. However, as the ESF has to prioritise requests from

schools for improvement works and to balance its funding, it cannot commit to complete all school improvement works. Subject to the ESF's endorsement on the specifications, schools may utilise their own funding to carry out such works. Nevertheless, the ESF has not issued any procurement guidelines on minor repair and maintenance and school improvement works that use schools' own funding (Note 14); and

(d)   apart from the guidelines on procurement of furniture and equipment, there are no other guidelines covering the procurement of other goods and services (e.g. books, stationery and teaching materials). Although the ESF issued to schools guidelines on general purchase in April 2004, these guidelines are too general for schools to follow. It is only mentioned in the guidelines that:

(i)   once an item is considered to be material, a quotation should be obtained from the relevant supplier. After agreeing with the quotation, the principal/authoriser should give his approval for the quotation; and

(ii)   it is the responsibility of staff initiating the purchase to seek the approval from the principal/authoriser before making a purchase order.

The guidelines do not include details such as the purchase value above which quotations are required and the number of quotations to be obtained.

Schools' own procurement procedures

6.4   Probably because the existing procurement guidelines are vague and incomprehensive, in the six schools visited by Audit, most of the staff responsible for procurement informed Audit that:

(a)   they were not aware that the ESF had issued procurement guidelines to schools; and

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Note 14:   *The Building Management Department of the ESF has issued guidelines on procurement procedures for repair, maintenance and improvement works of school premises and swimming pools. However, these guidelines (Schools and Staff Accommodation Financial Guidelines dated February 1996) are restricted to transactions handled by the ESF. Schools are not required to follow these guidelines in carrying out their own repair, maintenance and improvement works.*

(b)   these schools had their own procurement guidelines, albeit not in written form.

The procurement guidelines of these six schools are shown in Table 6.

Table 6

Procurement guidelines of schools

School	Procurement guidelines
1	Purchases each costing $1,000 or above required two or more written quotations.
3 and 8	All purchases would be arranged by obtaining two or more written quotations.
12	Purchases each costing $8,500 or above required two or more written quotations.
14	All purchases would be arranged by obtaining two or more written quotations. Sometimes, quotations were obtained by telephone.
15	No financial limits were set for which goods and services should be procured through quotations and tendering. For procurement through quotations, the school usually obtained two quotations for comparison. Sometimes, the school procured goods and services directly from the existing suppliers/service providers without obtaining quotations because they were considered to be reliable, or reference had been made to their previous quotations.

Source: School records and Audit enquiries

6.5   Although schools had set their own procurement guidelines (see Table 6), Audit noted that they often did not observe the guidelines (see Example 17).

Example 17

**Services procured by a school
without following its own procurement guidelines
(School 8)**

In August 2003, the school procured services for repair and maintenance of its premises costing some $24,000 from a contractor. The school staff responsible for procurement informed Audit that the school procured from the contractor directly as it had previous knowledge about that contractor.

Source: School records and Audit enquiries

Procurement without seeking competitive prices

6.6   Audit noted that schools could have been more conscientious in seeking the best value for money in procurement by obtaining quotations from different suppliers as a matter of routine. Audit examination of the procurements made by the six schools visited during the 2002-03 and 2003-04 (up to May 2004) school years revealed that schools often did not compare the prices against alternative suppliers. Such cases are illustrated in Example 18.

Example 18

Procurement by schools without seeking competitive prices
(Schools 12 and 1)

Case A: In October 2002, School 12 purchased five drama books for US$7.50 (i.e. each for US$1.50) from the USA through the Internet. The delivery cost of these books was US$74.94, which was ten times the cost of the books. Audit noted that, when making the purchase, the school had a choice of three delivery options, as follows:

		Delivery cost	
Type of delivery	**Estimated delivery time**	**Per delivery**	**Per book**
	(Business days)	**(US$)**	**(US$)**
Standard airmail	10 to 16	6.99	4.99
Expedited airmail	5 to 9	9.99	6.99
Priority courier	2 to 4	29.99	8.99

Note: Total delivery cost = Cost per delivery + No. of books × Delivery cost per book

In the event, the school chose the most expensive delivery option [i.e. US$29.99 + (5 books × US$8.99 per book) = US$74.94]. There was no documented evidence to show that the school had checked the prices of alternative suppliers or had provided justification for choosing this option.

Case B: Similar to Case A, in January 2004, School 1 purchased three books for £14.97 (i.e. each for £4.99) from the UK through the Internet. The delivery cost of these books was £ 13.96, which was 93% of the cost of the books. There was no documented evidence to show that the school had obtained competitive quotations.

Source: School records and Audit enquiries

6.7   In Example 18, had these two schools made more efforts to seek better value for money, savings could have been achieved. For instance, in Case B, School 1 could have been able to purchase the three books from an on-line bookstore in Hong Kong at the same cost as that charged by the UK on-line bookstore. In doing so, School 1 would not have to pay the delivery cost because the Hong Kong on-line bookstore did not charge such cost (that company charged HK$8 per order with free delivery for order over HK$150). There was also not much difference in the estimated delivery time between the bookstores (within 14 days for the Hong Kong bookstore versus 8 to 14 days for the UK bookstore).

Audit observations and recommendations

6.8   **Audit considers that the ESF needs to draw up a set of clear and comprehensive procurement guidelines to facilitate schools to procure goods and services at best prices.** In this connection, the ESF may make reference to EMB guidelines on procurement of goods and services issued to some 1,000 aided primary and secondary schools in Hong Kong. According to these guidelines, schools are required to observe the following principles in the procurement of goods and services:

(a)   all procurement must be conducted on a fair and competitive basis;

(b)   the lowest offer which meets specifications should be accepted as a general rule, except where there are good reasons to the contrary; and

(c)   proper records of the quotations and tenders must be available for inspection, including the reasons for cases where the lowest offer is rejected.

6.9   For procurement procedures for schools, these guidelines include the following:

(a)   purchases in the range of $30,000 to $50,000 should be arranged through written quotations and those below $30,000 through oral quotations. In either case, a minimum of two quotations have to be obtained. A Purchase-by-Quotation Form (which details the quotations obtained and the recommendations made) should be submitted to the school principal for approval. If the lowest quotation is not selected, the staff responsible for the procurement should record in the Form why it is not chosen; and

(b)   single purchase above $50,000 has to be arranged by tender. Schools should seek separate tenders from at least five suppliers. Tenders from $50,001 up to $120,000 have to be approved by a committee comprising at least two staff members and headed by the school principal. Tenders over $120,000 have to be approved by a committee comprising the school supervisor/a council member, the school principal, a teacher and a representative of the parent-teacher association if appropriate.

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

(a)   **draw up a set of clear and comprehensive procurement guidelines to help its schools procure goods and services at best prices, making reference to EMB guidelines to aided schools in Hong Kong;**

(b)   **periodically revise the procurement guidelines to ensure that they are up-to-date and complete;**

(c)   **require all its school staff involved in procurement (e.g. finance officers, bursars and department heads) to follow the procurement guidelines issued by the ESF unless it is impracticable to do so, and in such circumstances, record the reasons for not doing so; and**

(d)   **ask the internal auditor to monitor compliance with the procurement guidelines by its schools.**

Response from the English Schools Foundation

6.11   The **ESF** agrees with the audit recommendations and has stated that procurement guidelines based on those of the EMB have now been drafted.

Documentation of quotations

6.12   In examining schools' procurement, Audit noted that, in general, schools did not properly document the quotations obtained. Some schools informed Audit that they had obtained quotations in the procurement of goods and services although they did not retain details of such quotations, as shown in Example 19.

Example 19

Purchase made by a school without documentation of quotations
(School 1)

In April 2003, the school purchased a projector for $18,000. The staff responsible for procurement informed Audit that quotations had been obtained from a number of suppliers before the purchase was made. The selected quotation was attached to the invoice. However, the school did not retain or record the details of those quotations which were rejected.

Source: School records and Audit enquiries

Audit observations and recommendation

6.13   **Failure to document properly the quotations obtained means that schools were not always able to demonstrate that there had been due regard for propriety and that attempts had been made to secure good value for money.**

6.14   **Audit has** *recommended* **that the ESF should require its schools to always properly document the quotations obtained so as to demonstrate that procurement has been made on a fair and competitive basis.**

Response from the English Schools Foundation

6.15   The **ESF** agrees with the audit recommendation and has stated that the requirement for its schools to properly document the quotations will be made mandatory.

Use of purchasing consortia

6.16   Schools usually procure similar goods and services such as books, stationery and equipment.   Schools can establish purchasing consortia among themselves to make bulk purchase of similar goods and services to obtain better bargains.

6.17   Audit reviewed the arrangements among ESF schools in making use of bulk purchase of school items.   Audit noted that a few schools (Schools 1, 3, 7, 8 and 15) had coordinated among themselves to order items like books, white boards, and information and communication technology equipment to obtain bulk-purchase discounts.   While this proactive approach is commendable, opportunities exist for schools to achieve greater savings through collaboration among themselves in acquiring goods and services, especially high-value goods and services.   As an example, Audit examined the arrangements for purchasing reprographic equipment by schools.   The reprographic equipment used by schools was mainly photocopiers, some of which were capable of printing high-quality coloured documents.   Schools used photocopiers to print items such as annual reports, teaching materials, and exercises for students.   The estimated volume of reprographic work in a typical year reported by schools is shown in Appendix B.

6.18   Schools obtained their photocopiers either by direct purchase or by leasing.   As can be seen from Appendix C, as at 1 May 2004, 42 photocopiers were owned and 54 photocopiers were leased by schools.   Audit survey revealed that schools acquired the photocopiers without forming a purchasing consortium.   Schools could have achieved savings by collaborating among themselves to place large purchase orders or leasing contracts for photocopiers to obtain more favourable terms.

6.19   Apart from savings obtained through coordinated procurement among ESF schools, Audit noted that opportunities for savings also exist within a school through better acquisition planning (see Example 20).

Example 20

**Acquisition of computers by a school
(School 14)**

From September 2002 to March 2004, the school procured a total of 133 sets of desktop computers and 113 sets of notebook computers for some $2.5 million. These computers were procured in response to purchase requests received from time to time from its various departments. During the period, the school made 28 transactions to procure these computers. Details of these transactions are as follows:

Period of procurement	Number of transactions	Number of desktop computers acquired	Number of notebook computers acquired
1.9.02 to 30.11.02	6	31	1
1.12.02 to 28.2.03	3	25	58
1.3.03 to 31.5.03	3	15	–
1.6.03 to 31.8.03	4	3	25
1.9.03 to 30.11.03	3	27	16
1.12.03 to 29.2.04	7	28	8
1.3.04 to 31.3.04	2	4	5
Total	**28**	**133**	**113**

The school informed Audit that the large number of procurement orders were to meet staff demand for computers as soon as possible. It thought that there would not be much difference in price even if these orders were combined into fewer orders.

Source: School records and Audit enquiries

6.20   The school mentioned in Example 20 should better plan and coordinate its purchase orders for computers to demonstrate that efforts had been made to achieve savings by placing larger orders. It is undesirable that a large number of orders had been placed by the school sparingly within short periods of time.

Audit observations and recommendations

6.21   **Audit considers that ESF schools should as far as possible coordinate their purchase orders for similar goods and services and take advantage of bulk-purchase discounts to achieve savings.** According to Audit survey, 14 schools agreed to make more collaboration among themselves to make bulk purchase of similar school items. Eleven schools also considered that the ESF should help individual schools negotiate bulk-purchase discounts on school items. The items suggested for bulk purchase included reprographic equipment, information and communication technology equipment, furniture, teaching aids and materials, and stationery.

6.22   Collective purchases by schools might involve additional administrative work. Furthermore, sometimes schools might have purchase requirements to meet their specific circumstances. For these reasons, the ESF should review which items of goods and services are cost-effective and practicable to acquire through coordinated procurement. Other school items should be procured through normal quotation or tender procedures.

6.23   Within a school, it should always endeavour to take advantage of bulk-purchase discounts by placing large orders for goods and services.

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

   (a)   **identify items of goods and services which are cost-effective and practicable to acquire through bulk-purchase orders;**

   (b)   **devise a mechanism to coordinate its schools' orders for goods and services in order to take advantage of bulk-purchase discounts; and**

   (c)   **urge individual schools to always plan and coordinate the purchase requirements within the school and to take full advantage of bulk-purchase discounts for goods and services.**

Response from the English Schools Foundation

6.25   The **ESF** agrees with the audit recommendations. It has stated that:

(a)   no central purchasing scheme is presently in place, but this practice is being implemented for purchase of high-value items, e.g. information and communication technology equipment;

(b)   the ESF will consider setting up a mechanism in the long run to coordinate the purchase of other goods and services of high volume and/or high value; and

(c)   it will urge individual schools to always plan and coordinate the purchasing requirements.

Response from the Administration

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

(a)   in the context of the fact-finding exercise, he has suggested to the ESF the merits of bulk purchase of common items; and

(b)   with advance in technology, coordination can be done electronically, with different schools responsible for the procurement of different items for use by the ESF school community. This would enable the ESF to reap the benefits of economy of scale and division of labour simultaneously. He believes that this remains valid reference by the ESF in its future review of procurement practices.

Leasing and outright purchase of school equipment

6.27   Some schools acquired equipment by leasing while others by purchasing outright. Table 7 shows, using photocopiers as an example, the equipment leased and purchased by schools as at 1 May 2004.

Table 7

**Photocopiers obtained by schools
(1 May 2004)**

	Number of schools	Number of photocopiers
Photocopiers acquired solely by leasing	5	18
Photocopiers acquired solely by outright purchase	3	18
Photocopiers acquired by leasing and outright purchase	6	60

Source: Audit survey

Note: One school (School 9) did not provide to Audit information about its photocopiers.

6.28   The advantages of leasing include:

(a)   ***Saving capital outlay.*** A major advantage of leasing expensive equipment is that the leasing decision typically replaces a large capital outlay with much smaller and regular payments;

(b)   ***Operating flexibility.*** Leasing can increase flexibility in schools' operations by responding to changing administrative and teaching conditions. Schools can use a leasing arrangement to meet temporary needs. They can also use a short-term lease to test new equipment prior to making a longer-term purchasing decision; and

(c)   ***Operating and managerial convenience.*** While having full use of the equipment, schools do not have to worry about maintenance and repair associated with equipment ownership because the leasing organisation owns and normally maintains the equipment.

6.29   On the other hand, a major advantage of outright purchase can be its relatively lower overall cost, when compared with leasing. Since the lessor has to pay the capital cost, maintain the equipment and bear all the risks associated with ownership, the total implicit cost of a lease is substantially higher than what the lessee would need to pay for the direct purchase of that equipment. Usually, there is a penalty clause for early termination of lease.

6.30   Both leasing and outright purchase have their merits. Before committing to a leasing agreement or outright purchase, schools need to consider the cost-effectiveness of these two options.

Audit observations and recommendations

6.31   Audit noted that, of the 15 ESF schools, only 7 had conducted cost-benefit analysis of leasing versus outright purchase of school equipment. **For better acquisition planning and decision making, Audit considers that schools should evaluate the costs and benefits of leasing versus outright purchase of school equipment.**

6.32   **Audit has *recommended* that the ESF should require its schools to:**

   (a)   **conduct cost-benefit analysis before entering into leasing agreements for or making outright purchases of school equipment; and**

   (b)   **document the analysis to show how decisions for leasing or purchasing school equipment have been made.**

Response from the English Schools Foundation

6.33   The **ESF** agrees with the audit recommendations. It has stated that:

   (a)   the practice of conducting cost-benefit analysis is in existence; and

   (b)   more guidance will be given on documenting the practice.

Electricity consumption

6.34   Electricity charges account for a large proportion of ESF schools' expenditure. The electricity charges of the 15 ESF schools in the 2002-03 school year amounted to $12.4 million.

6.35   There are two electricity supply companies (Companies A and B) in Hong Kong. Company A supplies electricity to Hong Kong Island, Ap Lei Chau and Lamma Island. Company B supplies electricity to Kowloon and the New Territories, including Lantau and several outlying islands.

Tariff structure

6.36   The two electricity supply companies offer different types of tariffs to their customers. In general, high electricity consumption customers may benefit from selecting a lower tariff.

Tariff structure of Company A

6.37   Company A offers two types of tariffs to its non-domestic customers, namely:

(a)   ***Block Rate Tariff.*** The rate for each electricity unit measured in kilowatt-hour (kWh) is $1.016 for the first 1,500 kWh and $1.096 thereafter; and

(b)   ***Maximum Demand Tariff.*** Customers whose monthly electricity consumption is not less than 26,500 kWh may apply for supply under the Maximum Demand Tariff. This tariff consists of two charges, namely:

(i)   ***energy charge.*** This is based on the electricity consumption (measured in kWh) of the month. Depending on the consumption, the rates of energy charge range from $0.906 to $0.954 per unit. These are 6% to 11% lower than the unit rates of the Block Rate Tariff; and

(ii)   ***demand charge.*** The demand charge is based on the maximum electricity demand in the month measured in kilovolt-ampere (kVA), instead of kWh. The unit rates of demand charge range from $37.3 to $39.3 per kVA.

6.38   According to Company A, as kVA information is only available to the Maximum Demand Tariff customers, customers using the Block Rate Tariff are recommended to engage registered electrical contractors to install recorders to measure the actual kVA value of their installations in order to ascertain whether it is beneficial for them to change the tariff to the Maximum Demand Tariff.

Tariff structure of Company B

6.39   Company B offers three types of tariffs to its non-domestic customers, namely:

(a)   *General Service Tariff.* The unit rate for electricity consumption is $0.968 for the first 5,000 kWh and $0.958 thereafter;

(b)   *Bulk Tariff.* Customers whose monthly electricity consumption is not less than 20,000 kWh may apply for supply under the Bulk Tariff. Like Company A, this tariff consists of two charges. Under the Bulk Tariff, the unit rates of energy charge range from $0.619 to $0.694 per kWh and those of demand charge from $26 to $66.5 per kVA. Compared to the General Service Tariff, the energy charge under the Bulk Tariff offers a discount of 28% to 35%; and

(c)   *Large Power Tariff.* This is the lowest tariff offered to high consumption customers with electricity demand not less than 3,000 kVA. The Large Power Tariff also consists of two charges. Under the Large Power Tariff, the unit rates of energy charge range from $0.434 to $0.529 per kWh and those of demand charge from $33 to $117 per kVA. Compared to the General Service Tariff, the energy charge under the Large Power Tariff offers a discount of 45% to 55%.

6.40   Similar to customers of Company A, customers of Company B using the General Service Tariff are recommended to install recorders to measure the actual kVA value of their installations in order to ascertain whether it is beneficial for them to change to other tariffs.

6.41   Audit examined the electricity consumption from September 2002 to March 2004 of the six ESF schools visited. Audit noted that most schools could benefit from selecting lower electricity tariffs. Audit findings are summarised in paragraphs 6.42 to 6.46.

Audit observations

Schools having electricity accounts with Company A

6.42   Schools 8 and 15 each had two electricity accounts using the Block Rate Tariff of Company A. Their electricity charges and consumption are shown in Table 8.

Table 8

Electricity charges and consumption of Schools 8 and 15
(September 2002 to March 2004)

Electricity account	Average monthly electricity charge	Average monthly electricity consumption	Monthly electricity consumption range
	($)	(kWh)	(kWh)
School 8			
Account No. 1	22,727	21,233	14,068 to 27,543
Account No. 2	22,557	21,076	2,900 to 53,100
School 15			
Account No. 1	92,382	85,968	61,290 to 105,410
Account No. 2	82,427	76,716	37,020 to 131,960

Source: School records

6.43   As shown in Table 8, the average monthly electricity consumption of each of the two accounts of School 8 did not exceed the Maximum Demand Tariff threshold of 26,500 kWh per month (see para. 6.37(b)).   However, the aggregate (21,233 kWh + 21,076 kWh = 42,309 kWh) of its average monthly electricity consumption exceeded the threshold, rendering it beneficial to switch from the Block Rate Tariff to the Maximum Demand Tariff. **As the electricity supply companies in Hong Kong may allow an organisation to combine electricity accounts in order to become eligible for lower tariff, Audit considers that School 8 should ascertain the possibility of combining its two electricity accounts into one account to satisfy the threshold requirement for obtaining a lower tariff.**

6.44   **For the two accounts of School 15, Audit considers that the school, which had an average monthly consumption well above 26,500 kWh, could benefit from the lower unit rate of the Maximum Demand Tariff.** As no kVA information is available, Audit could not estimate the resulting potential savings.

Schools having electricity accounts with Company B

6.45   Company B supplies electricity to Schools 1, 3, 12 and 14. All the electricity accounts of these four schools were using the General Service Tariff. The electricity charges and consumption of these accounts are shown in Table 9.

Table 9

Electricity charges and consumption of Schools 1, 3, 12 and 14
(September 2002 to March 2004)

Electricity account	Average monthly electricity charge	Average monthly electricity consumption	Monthly electricity consumption range
	($)	(kWh)	(kWh)
School 1			
Account No. 1	29,413	31,977	18,960 to 50,540
School 3			
Account No. 1	14,340	15,648	12,010 to 23,610
Account No. 2	8,441	9,075	2,030 to 22,940
Account No. 3	935	1,042	551 to 1,685
Account No. 4	781	886	525 to 1,180
Account No. 5	626	706	318 to 1,278
School 12			
Account No. 1	99,338	106,814	59,550 to 159,772
Account No. 2	20,799	22,766	11,600 to 34,800
Account No. 3	3,282	3,586	2,048 to 6,034
Account No. 4	1,564	1,642	260 to 4,020
School 14			
Account No.1	77,841	83,760	38,727 to 119,880

Source: School records

6.46   The average monthly electricity consumption of Accounts No. 1 of Schools 1, 12 and 14 and Account No. 2 of School 12 each exceeded the Bulk Tariff threshold of 20,000 kWh per month (see para. 6.39(b)). These schools could benefit from selecting the Bulk Tariff which offers a lower electricity unit rate. As no kVA information is available, Audit could not estimate the potential savings resulting from the selection of the Bulk Tariff for these accounts. It is also not known whether the electricity demand of these accounts had exceeded the Large Power Tariff threshold of 3,000 kVA so that further savings could be achieved by using the Large Power Tariff which offers the lowest unit rate. Regarding the five accounts of School 3, each had not exceeded the Bulk Tariff threshold of 20,000 kWh per month. **However, similar to the case of School 8 (see para. 6.43), Audit considers that School 3 should explore the possibility of combining these accounts into one account to satisfy the threshold requirement for obtaining a lower tariff.**

Audit recommendations

6.47   **Audit has *recommended* that the ESF should require its schools to:**

(a)   **select the most economical tariff available for their electricity accounts;**

(b)   **conduct an analysis to ascertain the kVA value of their electricity accounts so as to enable them to select the most economical tariff;**

(c)   **explore the possibility of combining the electricity accounts within schools to obtain a more economical tariff; and**

(d)   **regularly monitor the electricity consumption pattern to ensure that the most economical tariff is obtained.**

Response from the English Schools Foundation

6.48   The **ESF** agrees with the audit recommendations and has stated that Audit guidance on energy management is valuable.

Energy saving measures

6.49   Implementation of energy saving measures can bring benefits to schools by saving energy cost and to our environment by reducing energy consumption.   Of the 15 ESF schools, some schools had taken the initiative to introduce energy saving measures, as follows:

(a)   13 schools regularly reminded their staff to turn off all air-conditioners, lights and electrical appliances after use;

(b)   five schools installed automatic control devices to switch off air-conditioning systems and lights after school;

(c)   two schools frequently reminded their staff to keep doors closed when air-conditioners were being used;

(d)   two schools always reminded their students to economise on the use of electricity at school; and

(e)   a school's cleansing staff member and caretakers performed regular checks to ensure that, when not needed, air-conditioners and lights were switched off.

Audit observations and recommendations

6.50   Audit noted that some of the schools had not implemented energy saving measures. **Audit considers that it is useful for schools to implement such measures in view of their financial and environmental benefits.**

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

(a)   **disseminate the practices of energy saving measures implemented by some of its schools to other schools; and**

(b)   **regularly conduct reviews to identify new energy saving measures that can be adopted by its schools.**

Response from the English Schools Foundation

6.52   The **ESF** agrees with the audit recommendations.

Response from the Administration

6.53   The **Secretary for Education and Manpower** appreciates Audit analysis and looks forward to ESF expeditious follow-up in respect of the audit recommendations in paragraphs 6.47 and 6.51. He has said that:

(a)   while he appreciates that the high electricity charges could be attributable to the size of school premises and longer school hours (e.g. for activities purposes), the possibility of wastage and subscription to a less favourable tariff plan could not be ruled out; and

(b)   proper management could save energy and turn out savings which would benefit the ESF and all its stakeholders, including ESF students (in terms of more resources for teaching and learning), parents of ESF students (in terms of reduced tuition fees), the Government and taxpayers generally (in terms of more funds for other education and public purposes).

PART 7:   HUMAN RESOURCES MANAGEMENT

7.1   This PART examines the practices of human resources management in ESF schools.

Staff recruitment

7.2   In the 2002-03 and 2003-04 school years, the 15 ESF schools reviewed by Audit recruited 297 staff, comprising 172 teaching staff and 125 non-teaching staff.

7.3   The ESF selects both overseas and local applicants for appointment to teaching posts in its schools. In short-listing applicants for interview, the principal of the school concerned usually consults the Chairman of its council and sometimes its other senior staff. The ESF sets up overseas and local interview boards to interview the short-listed applicants for individual schools. An overseas interview board includes school principals and the Secretary of the Foundation. A local interview board includes principals of those schools which offer the teaching posts and sometimes other staff and council members of the schools concerned as well as the Secretary of the Foundation. During interviews, a formal candidate assessment form is used to record individual qualities and traits of the applicants.

7.4   Unlike the recruitment of teaching staff, the ESF does not coordinate the setting up of interview boards for the selection of non-teaching staff. Each school forms its own selection panel to short-list and interview applicants for non-teaching posts. A selection panel includes usually the school principal, teachers and administrative staff and sometimes school council members.

7.5   Audit reviewed the recruitment processes of the 15 ESF schools. Audit findings are summarised in paragraphs 7.6 to 7.7.

Recording of selection interviews

7.6   A formal assessment form is used to record the individual qualities and traits of applicants for teaching posts (see para. 7.3). However, Audit noted that there was no requirement for schools to document in a similar way the results of interviewing applicants for non-teaching posts. Of the 15 ESF schools, 10 had used an assessment form to record the interview results. Example 21 shows the assessment form that one school used for recruiting non-teaching staff.

Example 21

**Assessment form used in
the recruitment of non-teaching staff by a school
(School 2)**

The school needed to recruit a librarian in the 2002-03 school year. The school formed a selection panel to interview applicants for the post. Each interviewer recorded in a standard form his assessment of the following attributes for each candidate:

(a)   appearance/personality;

(b)   standard of spoken English;

(c)   general experience and attitude;

(d)   ability related to the post;

(e)   interpersonal skills; and

(f)   interpretation of questions.

The interviewer also recorded in the assessment form the applicant's overall rating. A final section in the assessment form required the interviewer to state his conclusion on the applicant's suitability for the post.

Source: School records

7.7   For the other five schools which did not have the practice of using an assessment form to record the interview results, the interviewer jotted down his comments about the applicant, for example, on the résumé.

Audit observations and recommendation

7.8   **Audit considers that it is essential for schools to require the interviewer to properly record, in an assessment form, his assessment of an applicant showing his relative merits together with the reasons for recommending or not recommending him for appointment.**   Such a form would ensure consistency in assessing applicants and facilitate subsequent detailed comparison.   This would also ensure that the selection of applicants has been conducted on a fair and open basis, and that the most suitable applicants have been appointed.

7.9   **Audit has *recommended* that the ESF should require its schools to document in an assessment form the assessment of an applicant showing his relative merits and the reasons for recommending or not recommending him for appointment.**

Response from the English Schools Foundation

7.10   The **ESF** agrees with the audit recommendation.

Staff appointment

7.11   According to Regulation 14.19 made under the English Schools Foundation Ordinance, the council of an ESF school shall authorise offers of appointment to staff needed for the school, and seek confirmation of such appointments from the Executive Committee of the Foundation.   The authority for appointing staff for any ESF school is vested in the Executive Committee.

7.12   The ESF expects school councils to participate more proactively than merely giving their authorisation for appointment as a formality.   In a guidance memorandum for ESF school council members, it is stated that school councils have the duty to advise the Executive Committee on all matters relating to the work of schools.   In particular, school councils are required to recommend to the Executive Committee suitable applicants for appointment to posts in their schools.

7.13   The ESF requires school councils to authorise offers of staff appointment and to recommend suitable appointees to the Executive Committee.   However, councils of the 15 ESF schools usually delegate these duties to the school principals.   Audit noted that in the recruitment exercises for the 2002-03 and 2003-04 school years, only five schools had sought the approval of their councils for the applicants to be recommended to the Executive Committee.   Example 22 shows the practice in one of these schools.

Example 22

Seeking school council's approval
prior to offering appointment by a school
(School 12)

In the recruitment of teaching staff for the 2002-03 and 2003-04 school years, the school council members did not attend all the selection interviews. The school sought its council's approval for the applicants to be appointed to its teaching posts. The school took the following steps to seek the council's approval:

(a) informing council members of the interview results verbally;

(b) presenting the interview records of the short-listed applicants at school council meetings for deliberation and endorsement; and

(c) recording council members' approval in school council meeting minutes.

Source: School records

7.14 For the other ten schools, since the school council had delegated the authority to appoint school staff to the principal, the principal decided on the suitable applicants to be recommended to the ESF for appointment. The principal needed only to report to the school council after the appointments had been made.

Audit observations and recommendations

7.15 Audit recognises that it might not be possible for school council members to participate in the entire selection process of school staff, especially in attending overseas selection interviews. **However, Audit considers that it is desirable for schools to seek the approval of their councils for the applicants to be recommended to the Executive Committee, as in the case of the school mentioned in Example 22.** It is stated in the ESF's guidance memorandum to school council members that:

> *"The School Council oversees the life and work of the school. Senior staff are a key element in carrying out school policies and practices so Councillors ought to be involved in their selection. Furthermore, each school has its strengths and weaknesses — all staff appointments should be made in the light of these. A Councillor who knows his or her school and the ESF policies is well placed to assist in senior appointments which meet the needs of their school and the school community."*

Although the above guidance seems to apply to appointment of senior staff only, **Audit considers that its underlying principle could also be applied to the appointment of other staff. By seeking the approval of school council members, proper checks and balances in the appointment of applicants for school posts can be maintained.**

7.16　　**Audit has *recommended* that, before offering appointment to applicants for school posts, the ESF should require its schools to:**

(a)　　**submit the assessment forms and other relevant records (e.g. résumé) of the applicants to their councils for review; and**

(b)　　**request their councils to endorse the most suitable applicant for appointment.**

Response from the English Schools Foundation

7.17　　The **ESF** generally agrees with the audit recommendations. It has stated that:

(a)　　the tight time-frame for offering appointments sometimes makes it impossible to convene school council meetings. Therefore, authority is vested with the principals;

(b)　　given the large number of applicants for many ESF posts, and the large number of posts which may be vacant in a large school, it is impractical to involve school councils in reviewing all applications in the necessary time-scale. However, it acknowledges the need for school councils' involvement in decisions on staff appointments; and

(c)　　an option being considered is that an appointments sub-group of school council is established to ratify the appointments.

Performance appraisal

7.18   The ESF has not set any guidelines on the conduct of performance appraisal of school staff. Nevertheless, it is the practice of some ESF schools to conduct appraisal of their staff's performance regularly.

7.19   As can be seen from Figure 5, most of the 15 schools conducted regular performance appraisal of their teachers. However, these 15 schools conducted performance appraisal of their principals and non-teaching staff less frequently.

Figure 5

Performance appraisal practices of the 15 ESF schools

Appraisee	Number of schools

Principal — 5 (cyan) | 10 (yellow)

Teaching staff (other than the principal) — 12 (cyan) | 3 (yellow)

Non-teaching staff — 4 (cyan) | 11 (yellow)

Legend: ▢ (cyan) Schools had regularly conducted performance appraisal

▢ (yellow) Schools had **not** regularly conducted performance appraisal
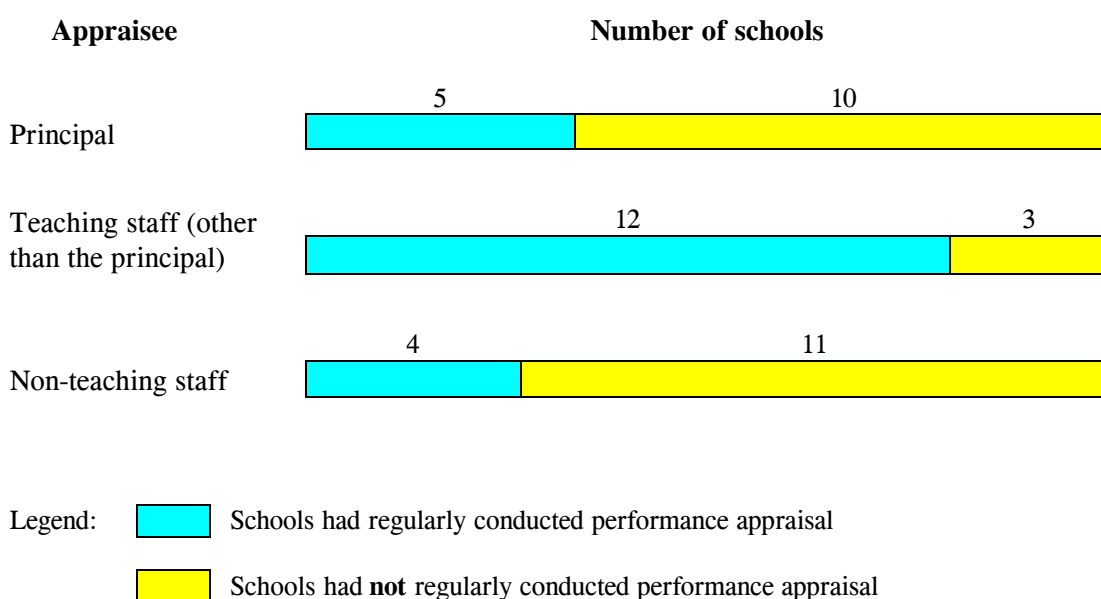
Source: Audit survey

Performance appraisal of principals

7.20   Of those 10 schools which did not regularly (e.g. once every few years) appraise the performance of their principals (see Figure 5), 6 did not appraise their principals' performance at all. The performance of the principals of these six schools had never been formally appraised. Example 23 shows the practice in one of these schools.

Example 23

Lack of appraisal of the principal's performance in a school
(School 11)

The school did not have the practice of appraising the performance of its principal who was appointed under a renewable contract. The principal informed Audit that in the past 17 years, neither the ESF nor the school council had ever appraised his performance.

Source: Audit survey

7.21   Audit also noted that those principals whose performance had not been regularly appraised had seen the need for formal performance appraisal. The principal of a school (School 2) informed Audit that he would welcome professional dialogue on his work with an Education Officer of the ESF. However, the frequency of his performance appraisal was irregular. The ESF last appraised his performance in 2000.

7.22   On the other hand, five schools appraised their principals' performance regularly (see Figure 5 in para. 7.19). Audit noted that in one of these schools (School 13), the Chairman of the school council and an Education Officer of the ESF conducted annual performance appraisal of its principal.

Performance appraisal of other school staff

7.23   For those schools which conducted regular performance appraisal of individual staff below the principal rank, it was usually the principal and the appraisee's line manager (e.g. senior teacher) who conducted the performance appraisal. The principals informed Audit that they conducted the performance appraisal to achieve one or more of the following objectives:

(a)   identifying the strengths and weaknesses of the appraisee;

(b)   identifying the professional and development needs of the appraisee;

(c)   providing reference for future promotion exercises;

(d)   helping decide whether to offer further employment to the appraisee;

(e)   ascertaining whether teachers are carrying out school policies; and

(f)   offering support to staff.

7.24   For other schools which did not regularly appraise the performance of their staff below the principal rank, some of them informed Audit that:

(a)   they had conducted a one-off performance appraisal of the staff at the end of a probationary period; or

(b)   they had interviewed their staff periodically (e.g. in each summer) to find out their development needs and strengths.

Audit observations and recommendations

7.25   The ESF has not set any guidelines on the conduct of performance appraisal of school staff.   As a result, some schools had not adequately assessed their staff's performance.   **Audit considers that it is essential for schools to have a proper arrangement for conducting regular performance appraisal of their staff.**   This will provide staff with feedback on their performance as well as a basis for schools to assess how a staff member has played his role.

7.26   Having regard to the many objectives that a performance appraisal exercise is expected to achieve (see para. 7.23), **Audit considers that one-off performance appraisals or interviews of staff should only be regarded as a complement to, but not as a substitute for, a system of formal performance appraisal of school staff.** ESF schools should have in place a formal performance appraisal system to evaluate the performance of school staff.

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

(a)   **set guidelines on the conduct of performance appraisal of different ranks of school staff; and**

(b)   **require its schools to:**

    (i)   **set up a formal performance appraisal system based on the guidelines; and**

    (ii)   **conduct regular performance appraisals of school staff.**

Response from the English Schools Foundation

7.28   The **ESF** agrees with the audit recommendations. It has stated that:

(a)   the guidelines on the conduct of performance appraisal will be established through the relevant committees of the Foundation; and

(b)   as regards the setting up of a formal performance appraisal system based on the guidelines and the conduct of regular performance appraisals of school staff, these are stated initiatives in the ESF's Development Plan 2004-07 which will be processed through the relevant committees of the Foundation.

Grant of salary increments

7.29   The ESF maintains salary scales for teaching staff and non-teaching staff. The ESF grants salary increments to staff annually in accordance with the relevant salary scale. However, the ESF could withhold the increment of a staff member on the grounds of inefficiency.

7.30   Some of the 15 ESF schools had conducted performance appraisal of their staff (see Figure 5 in para. 7.19). However, the principals of these schools informed Audit that their performance appraisal systems were not intended for assessing the appraisees' performance for the award of salary increments. The ESF had granted salary increments to its staff automatically.

Audit observations and recommendation

7.31   **Audit considers that it is less than satisfactory that salary increments are granted to staff automatically.** This is because, in doing so, the ESF has made no attempt to distinguish and reward good performers, and to express its dissatisfaction with poor performers. In contrast, staff of government and aided schools in Hong Kong could receive salary increments only if their performance has been satisfactory.

7.32   **Audit has *recommended* that the ESF should consider devising a mechanism for awarding salary increments to its staff.**

Response from the English Schools Foundation

7.33   The **ESF** agrees in principle with the audit recommendation and has stated that 74% of ESF staff are on the maximum incremental point.

Registration of supply teachers

7.34   It is a requirement of the Education Ordinance (Cap. 279) that persons who teach in a school shall be registered with the Permanent Secretary for Education and Manpower as registered teachers. The registered persons hold a Certificate of Registration as a Teacher issued by the EMB. If no suitable registered teacher is available for employment, the supervisor of a school should seek the permission of the Permanent Secretary for Education and Manpower to employ an unregistered person as a permitted teacher in that particular school. In general, no person shall teach in a school unless he is a registered teacher or a permitted teacher. For a person who has applied for teacher registration but is awaiting the Permanent Secretary for Education and Manpower's decision, the Education Ordinance allows him to teach in schools for a grace period of six months.

7.35   From time to time, ESF schools engage supply teachers to provide relief for teaching staff who are absent from schools due to various reasons. In the 2002-03 and 2003-04 (up to 31 March 2004) school years, an ESF school required the help of as many as 49 supply teachers rendering services for a total of 670 days.

7.36   The ESF maintains a list of candidates for supply teachers who are available at short notice on a day-to-day basis. The ESF updates the supply teacher list and disseminates a copy to each ESF school for its use. Some schools had modified the list by adding candidates to the list according to their knowledge and removing from the list those candidates who, for example, prefer to teach in other geographical locations. When the need for engaging a supply teacher arises, a school will select from its supply teacher list a candidate who is available for appointment. The school usually takes account of the candidate's past performance in making the selection.

Audit observations and recommendations

7.37   Audit reviewed the latest supply teacher list that the ESF sent to individual schools in April 2004. Audit noted that, of the 92 candidates on the list, 20 had not applied for teacher registration. These 20 candidates were not registered teachers at the time the list was issued, and still remained unregistered by June 2004 when this audit was completed. Of these 20 candidates, 12 had worked as supply teachers in 6 ESF schools. These 6 ESF schools had not sought the Permanent Secretary for Education and Manpower's permission for appointing persons without teacher registration as supply teachers. **Although the supply teachers in ESF schools are generally qualified teachers from abroad, it is essential for ESF schools to appoint only registered teachers in accordance with the requirements of the Education Ordinance.**

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

(a)   **ensure that candidates on its supply teacher list have met the requirements of the Education Ordinance on teacher registration so that they can be readily appointed as supply teachers;**

(b)   **ascertain whether individual schools have appointed supply teachers contrary to the requirements of the Education Ordinance on teacher registration, and seek the advice of the Education and Manpower Bureau on whether covering approval needs to be obtained; and**

(c)   **remind regularly its schools of the need to observe the requirements of the Education Ordinance on teacher registration in the appointment of supply teachers.**

Response from the English Schools Foundation

7.39   The **ESF** generally agrees with the audit recommendations. It has stated that:

(a)   it regularly asks its supply teachers without registration to declare whether they are applying for the registration. Out of the 20 teachers who remained unregistered by June 2004 (when this audit was completed), 14 had declared that they were applying for the registration, 3 of whom had obtained it as of September 2004. Furthermore, 9 out of the 20 teachers without registration are no longer on the ESF's list of supply teachers of September 2004;

(b)   the establishment and utilisation of the supply teacher lists is now being reviewed. However, it has to be recognised that it takes some time to complete the teacher registration process; and

(c)   when specialist subject teachers, who are in short supply, are required as cover, the needs of the school and its students may have to be considered as having priority. The ESF has insisted that the policy on the employment of only qualified teachers is strictly enforced. The ESF will give serious consideration to establishing a centrally administered supply teacher list, which enables not only the credentials of supply teachers to be verified, but also their quality to be ensured.

PART 8: OTHER INCOME AND SUPPORT

8.1   This PART examines other sources of income and support to ESF schools.

Letting of school premises

8.2   The ESF allows schools to let their premises to organisations, associations and agencies which require a meeting place, an auditorium, or facilities for educational or sporting purposes. This is a service to provide accommodation connected with educational, community or social activities. Schools can retain the letting income for their own use.

8.3   According to ESF guidelines, no organisation should make use of school facilities without being charged because this represents a hidden subsidy to that organisation. The recommended schedule of charges for hiring school accommodation is as follows:

School premises/facilities	Charge per hour
A hall	$330 to $430
A classroom	$120 to $160
A piano	$100
Air-conditioning for a classroom	$75

8.4   Having regard to the nature and purpose of the activity, schools may decide whether to charge a full rate or a reduced rate or to waive the charge. The general rules are as follows:

(a)   no charges should be levied on charitable or philanthropic organisations hiring school accommodation for providing services to students or their parents;

(b)   a reduced rate may be charged to charitable organisations hiring school accommodation for serving the community at large; and

(c)   a full rate should be charged for hiring by profit-making organisations.

8.5   Appendix D shows the letting income of schools in the 2001-02, 2002-03 and 2003-04 school years.

Audit observations and recommendations

8.6   As indicated in Appendix D, schools had let out their premises and generated income. Some schools (e.g. Schools 10 and 11) had relatively lower letting income. The letting of school premises is a community service to foster better cooperation between schools and the community. The income generated can also be used for the schools' educational activities.

8.7   Audit also noted that some schools had set their charges for hiring school premises higher than the recommended charges (see para. 8.3). For example, one school (School 7) set the charge for hiring a classroom at $200 per hour which exceeded the recommended charge of $120 to $160 per hour. The recommended schedule of charges mentioned in paragraph 8.3 was fixed ten years ago in April 1994. Furthermore, some school facilities (such as swimming pool and playground) have not been included in the present schedule of charges.

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

(a)   **request its schools to examine whether it is necessary to promote the availability of their premises and facilities for hiring by outsiders; and**

(b)   **regularly review the schedule of charges for hiring of school premises and facilities to ensure that the charges are appropriate.**

Response from the English Schools Foundation

8.9   The **ESF** generally agrees with the audit recommendations and has stated that schools' size, facilities and location have an impact on their letting income.

Use of the Quality Education Fund

8.10   The Quality Education Fund (QEF) was established in January 1998 with an allocation of $5 billion under a Trust with the Permanent Secretary for Education and Manpower Incorporated as the Trustee. The QEF finances projects for the promotion of quality school education in Hong Kong. It caters for worthwhile non-profit-making initiatives within the ambit of basic education (i.e., pre-primary, primary, secondary and

special education). The projects which the QEF has funded include those promoting effective learning, all-round education, school-based management, education research, and application of information technology in education. Good practices of successful projects would be disseminated to the wider education community.

8.11   From its inception in 1998 to May 2004, the QEF:

  (a)   received 13,856 applications for funding of $12,642 million in the first seven calls for applications; and

  (b)   approved 5,250 applications and awarded funding of $3,038 million.

8.12   Audit noted that, from the inception of the QEF to May 2004, 8 of the 15 ESF schools had applied for the QEF. Of these 8 schools, 3 were successfully awarded funding for their projects (see Table 10).

Table 10

Approved QEF projects

School	Year approved	Project nature	Project description	Amount approved ($)
13	2000	Information technology	Multi-media learning centre	1,170,000
14	2000	Information technology	Multi-media learning centre	950,000
15	1999	Information technology	Computer-assisted teaching and learning in science through data-logging and Internet	432,700
15	1999	All-round education	Western orchestra	322,600
15	2000	Information technology	Information technology learning centre	800,000
			Total	**3,675,300**

Source: Audit survey

8.13   The QEF may also be used on schemes to give awards to schools with excellent performance. The QEF has organised the Outstanding School Awards to give recognition to schools with excellent practices and performance in management and organisation, teaching and learning, and support for students and school ethos and students' attainment. In this regard, in 2001, the West Island School was given an Outstanding School Award for its excellent performance in management and organisation.

Audit observations and recommendation

8.14   The establishment of the QEF is to finance high-quality school projects. Through the dissemination of successful practices and experiences distilled from these funded projects, a quality culture is developed within the whole education sector. The ESF, as a high-quality education provider, should try to make use of this public funding to carry out educational projects to benefit not only its schools but also other educational institutions. Only half of ESF schools had applied for the QEF (see para. 8.12).

8.15   **Audit has *recommended* that the ESF should encourage its schools to actively pursue the opportunities which are available to them from the QEF.**

Response from the English Schools Foundation

8.16   The **ESF** agrees to disseminate information about the QEF to its schools. It has stated that it has encouraged its schools to make QEF bids and will reiterate this in writing.

Support from parent-teacher associations

8.17   The ESF is well aware that parents play an important role in their children's education. In order to establish a close working partnership between home and school, a parent-teacher association (PTA) is set up in each school. The PTA serves as a channel for communication between the school and parents of students and organises various kinds of activities which help promote home-school cooperation for implementation of school policies.

8.18   In addition, PTAs of ESF schools have joined together to form the Joint Council of Parent Teacher Associations. Members of the Joint Council include the Chairman of each school's PTA. They meet once every term to consider wider school matters. The Chairman of the Joint Council, who is also the Chairman of a PTA, sits on the Executive Committee of the Foundation. This arrangement enables the parents' participation in school policy matters.

8.19   PTAs of ESF schools had actively organised and supported various school activities and contributed resources for the development of schools. PTAs made donations and organised fund-raising activities to provide funding for improvement of the learning environment for students (e.g. acquisition of library books, musical instruments and interactive white boards).   Apart from the financial contribution, PTAs also provided assistance in day-to-day school activities. Examples of these activities include:

(a)   assisting in class activities (e.g. listening to younger students reading in classrooms);

(b)   assisting in learning support work;

(c)   mentoring students;

(d)   providing work experience placements for older students;

(e)   coaching for extra-curricular activities;

(f)   organising school bus services; and

(g)   running PTA shops (which sell items such as uniforms and stationery) and helping PTAs with administrative tasks.

Audit observations and recommendation

8.20   Audit survey indicated that ESF schools were satisfied with the work of their PTAs. Some schools considered that the support from PTAs was excellent. In the Director of Audit's Report No. 39 on "Primary education — Delivery of effective primary education" issued in October 2002, Audit observed that, while PTAs had been established in many local aided and government primary schools, participation of parents in the work of their children's schools was limited. Audit made a number of recommendations to the EMB to help schools foster more parental participation in the delivery of effective education. Since then, the EMB has organised promotion campaigns to convey to parents the importance of participation in their children's school activities. **Audit considers that local schools would benefit from the experiences and good practices of PTAs of ESF schools.**

8.21   **Audit has *recommended* that the ESF should consider liaising with the EMB to disseminate the experiences and good practices of PTAs of ESF schools to the local education sector.**

Response from the English Schools Foundation

8.22   The **ESF** agrees with the audit recommendation.

Schools' intended use of surplus funds
(2002-03 school year)

(a)   Supplement the budget for the next school year

(b)   Subsidise the appointment of Educational Assistants in the next school   year

(c)   Improve the existing school building and cover those expenses of the new school building, which would not be paid for by the ESF

(d)   Acquire teaching equipment and pay for related expenses (e.g. purchasing interactive white boards, purchasing personal computers, upgrading wireless network during the summer vacation, and paying for computer expenses)

(e)   Replace the existing school bus

(f)   Buy lockers for students

Source: Audit survey

**Estimated volume of
reprographic work of schools in a typical year**

School	Number of pages
2	500,000
4	340,000
5	350,000
6	1,436,000
8	1,100,000
10	114,000
11	2,253,000
12	2,600,000
13	3,000,000
14	2,135,000
15	530,000

Source: *Audit survey*

Remarks: *Four schools did not provide to Audit the
annual volume of their reprographic work.*

Photocopiers used by schools
(1 May 2004)

School	Number of photocopiers		
	Purchased by schools	**Leased by schools**	**Total**
	(a)	**(b)**	**(c) = (a) + (b)**
1	–	3	3
2	1	3	4
3	1	2	3
4	–	3	3
5	3	–	3
6	4	–	4
7	–	2	2
8	–	6	6
10	–	4	4
11	11	–	11
12	3	13	16
13	8	7	15
14	2	9	11
15	9	2	11
Total	**42**	**54**	**96**

Source: Audit survey

Remarks: One school (School 9) did not provide to Audit the number of its photocopiers.

**Letting income of schools
(2001-02, 2002-03 and 2003-04 school years)**

School	Letting income			
	2001-02	**2002-03**	**2003-04 (Note)**	**Total**
	(a)	**(b)**	**(c)**	**(d) = (a)+ (b)+ (c)**
	($)	**($)**	**($)**	**($)**
15	737,609	853,193	582,401	2,173,203
13	761,284	844,900	279,047	1,885,231
6	684,007	544,373	295,735	1,524,115
12	672,651	288,212	199,414	1,160,277
2	472,448	410,052	265,214	1,147,714
8	423,003	367,819	159,038	949,860
3	300,337	278,428	226,911	805,676
1	250,429	309,378	217,981	777,788
9	82,334	280,380	386,657	749,371
4	306,587	308,608	117,441	732,636
5	209,774	177,403	188,603	575,780
14	119,805	109,673	239,525	469,003
7	114,777	174,740	92,109	381,626
11	144,193	133,249	65,487	342,929
10	188,437	32,775	27,650	248,862

Source: Audit survey

Note: The data were up to 31 March 2004.

Acronyms and abbreviations

Audit	Audit Commission
EMB	Education and Manpower Bureau
ESF	English Schools Foundation
kVA	Kilovolt-ampere
kWh	Kilowatt-hour
PTA	Parent-teacher association
QEF	Quality Education Fund
SAG	School Administration Guide
SBM	School-based management
SCAM	School circulars and administrative memoranda
VFM	Value for Money