

Report No. 43 of the Director of Audit — Chapter 5

SCHOOL ADMINISTRATION OF THE ENGLISH SCHOOLS FOUNDATION

Summary

1. The English Schools Foundation (ESF) was established under the English Schools Foundation Ordinance (Cap. 1117) in 1967. It operates 15 primary and secondary schools which receive recurrent government subsidies (totalling \$299 million in the 2002-03 school year, representing 29% of ESF income), and 1 primary school without such subsidies.

Audit review

2. The Audit Commission (Audit) has recently conducted a value for money audit of the ESF. The audit covered three major topics, namely: (a) government subsidies to the ESF; (b) corporate governance and Headquarters administration of the ESF; and (c) school administration of the ESF. This report deals with the administration of ESF schools.

Overall audit observations

3. Audit found that, in general, school administration guidelines provided by the ESF were inadequate. As a result, some schools had adopted good practices while some other schools had not. *Audit has recommended that the ESF should provide its schools with proper guidelines and adequate support to help them deal with various administrative matters, and that it should carry out internal audits on them to ascertain whether the guidelines have been complied with.*

Corporate governance of schools

4. **Composition of school councils.** 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. Audit noted that, with the exception of one school, the composition of ESF school councils did not include alumni. There is a growing trend of school governance that alumni are invited to take part in the affairs of school councils. *Audit has recommended that ESF schools should consider inviting suitable alumni to join their councils.*

5. **Delegation of decision-making powers.** The council of an ESF school is responsible for the proper management of the school. Proper delegation of decision-making powers by the council facilitates smooth running of the school. Audit noted that most ESF

school councils had not specifically set out their delegated decision-making powers (i.e. what matters and changes require their approval). *Audit has recommended that the ESF should request its school councils to clearly set out and document their decision-making powers.*

6. ***Participation of school councils in school activities.*** The roles of an ESF school council include setting the ethos and strategic direction of the school, formulating and implementing various school policies, handling personnel matters, and overseeing the school maintenance or improvement programmes. Audit noted that some school councils did not participate in these major school activities. *Audit has recommended that the ESF should encourage its school councils to participate actively in the management and implementation of significant school activities, and to consider setting up appropriate sub-committees to further their involvement in key decisions on significant school matters.*

7. ***Frequency of school council meetings.*** To discharge their duties, school council members need to attend regularly school council meetings. Audit noted that, in the 2001-02 and 2002-03 school years, most school councils held the required minimum number of meetings of three times a year, while some other councils held more than the minimum requirement. One school council did not hold any meetings for a period of 23 months. *Audit has recommended that the ESF should remind its school councils that they have to hold at least three meetings a year, and that it should encourage the councils of all ESF schools to hold more meetings than the minimum requirement.*

8. ***Declaration of conflict of interest.*** Audit noted that 12 of the 15 ESF schools did not require council members to declare to the councils their personal interests, financial or otherwise, which might conflict with their roles. The other three schools had not documented the declarations made by their council members. *Audit has recommended that the ESF should urge its schools to establish proper procedures to require council members to declare any interest which might conflict with their roles, and to properly document the declarations made.*

Strategic planning

9. ***Participation of stakeholders in the planning process.*** Getting stakeholders involved in the school planning process ensures that stakeholders have the opportunities to contribute to the school development. Audit noted that quite a number of ESF schools had not consulted their councils, non-teaching staff, parents of students, students and the ESF in the development of their plans. *Audit has recommended that the ESF should require its schools to seek the participation of various stakeholders, especially their councils, in the development of their plans.*

10. ***Time span of school development plan.*** A school's development plan is a blueprint for school development. A school should develop a longer-term development plan (say, three to five years) to help it anticipate potential problems and enable it to adopt strategies to meet its challenges. Audit noted that five ESF schools produced plans covering only one to two years. Audit also noted that different schools had different planning cycles,

which were inconsistent with that of the ESF. *Audit has recommended that the ESF should require its schools to produce a longer-term development plan, and that it should consider adopting a uniform planning cycle for its development plan and those of its schools.*

11. ***Content of school development plan.*** 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. Audit noted that some schools produced development plans focusing only on certain areas of school activities. *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.*

12. ***Evaluation of school programmes.*** 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. *Audit has recommended that the ESF should require its schools to conduct evaluations against their development plans, and to make use of the evaluation results to help plan future courses of action.*

13. ***Survey on the views of stakeholders.*** 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. Audit noted that some ESF schools had not sought the views of some stakeholders. *Audit has recommended that the ESF should request these schools to put in place a system to collect the views of their stakeholders.*

Budgeting and cash management

14. ***Procedures for budgetary planning and control.*** Schools need to establish formal budgetary planning and control procedures to help manage their financial resources properly. Audit noted that eight ESF schools had developed formal procedures for budgetary planning and control while the other seven had not. The extent of the procedures also varied among schools. *Audit has recommended that the ESF should issue guidelines to assist its schools in developing formal procedures for budgetary planning and control.*

15. ***Linkage between budget and development plan.*** A good budgeting process seeks to align the financial resources required with the programmes outlined in a school's development plan. 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 with their development plans. *Audit has recommended that the ESF should require its schools to project the financial resources required to implement individual programmes in their development plans, and to use the projections as a basis for compiling their annual budgets.*

16. **Budget allocation.** Audit noted that, with the exception of three ESF schools, schools adopted a bidding system to assess the funding needs of their departments. The bidding system ensures that a school's budget allocation is more responsive to its overall strategies and the competing needs of its individual departments. *Audit has recommended that the ESF should require its schools which do not have a bidding system to adopt such a system for budget allocation purpose.*

17. **Budget approval and monitoring by school councils.** A school council's involvement in the school budgeting and monitoring process helps ensure that school funds are properly spent to achieve school aims. Audit noted that only eight schools had submitted their budgets to their councils for approval, and that the councils of four schools had not been involved in monitoring the use of school funds in the past three school years. *Audit has recommended that the ESF should remind the school councils to take the initiative to examine closely and approve their school annual budgets, and to monitor regularly the use of funds against the approved budgets and investigate significant variances.*

18. **Managing the budget.** Audit reviewed the practices of the 15 ESF schools in managing their budgets. Audit noted that the schools, in general, had neither written policies nor control procedures on virement of funds between budgets. *Audit has recommended that the ESF should require its schools to specify the circumstances under which virements are allowed and needed to be approved by school councils.*

19. **Use of surplus funds.** At the end of the 2002-03 school year, the 15 ESF schools had surplus funds amounting to \$16.6 million. Audit noted that six schools did not have specific plans for using their surplus funds. Meanwhile, the ESF had a high level of overdraft at its financial year end. *Audit has recommended that the ESF should require its schools to examine their need for retaining surplus funds, and to consider placing their surplus funds with it to help reduce its overdraft, as an option of deploying the funds.*

20. **Cash-flow projection.** 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 had done so. Cash-flow projection is an effective management tool to help schools identify cash surpluses and eliminate cash-flow problems. *Audit has recommended that the ESF should advise its schools to consider preparing and updating cash-flow projections to enable them to manage their cash more effectively.*

Financial and administrative matters

21. **Financial and administrative guidelines for ESF schools.** The ESF issues school circulars and administrative memoranda to its schools for handling financial and administrative matters. Audit noted that the ESF did not regularly revise the circulars and memoranda to ensure that they are up-to-date. *Audit has recommended that the ESF should regularly review its school circulars and administrative memoranda.*

22. **Internal control procedures of schools.** It is essential for schools to set up their own internal control procedures to suit their particular circumstances. Audit noted that not all ESF schools had done so. The guidelines on internal control principles/procedures provided by the ESF to schools were not adequate, and the internal control procedures in some schools were generally crude. *Audit has recommended that the ESF should, in conjunction with its schools, draw up proper internal control procedures and regularly carry out internal audits of schools to ascertain whether the internal controls are operating effectively.*

23. **Expenditure on functions for school staff.** For the six ESF schools visited by Audit, Audit noted that they charged the expenditure on staff functions to different accounts in the 2002-03 school year. For better monitoring of expenditure on staff functions/entertainment in schools, *Audit has recommended that the ESF should revise the structure of accounts of its schools so that all entertainment expenditure is charged to one single account.* While some schools might have spent more generously, Audit examination of the records of the six schools visited revealed that some schools were in fact frugal on staff functions. Audit considers that staff functions could enhance morale and improve relationship among staff. *Audit has recommended that the ESF should consider the appropriateness of setting aside an annual sum to be spent by its schools on staff functions.*

24. **Provision of welfare and benefits to school staff.** 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 has recommended that the ESF should formulate a policy on the provision of staff welfare and benefits by its schools.*

25. **Savings in school expenditure.** Audit welcomes that a school had taken the initiative to reduce its expenditure on meetings and conferences by choosing a cheaper alternative. Given the manifold expenditure of schools, it is not unusual that schools have incurred expenses for goods and services which are desirable but not essential. *Audit has recommended that the ESF should require its schools to critically review their spending patterns and to economise on their expenditure.*

26. **Asset recording.** Audit reviewed the practices of recording assets of the 15 ESF schools. Audit noted that some schools did not record some of their assets in their asset registers, seven schools did not timely record assets upon acquisition and three schools did not check their assets. Audit also noted that the assets in six schools were checked by persons who were also responsible for their custody. *Audit has recommended that the ESF should require its schools to promptly record assets with value above a financial threshold in asset registers upon their acquisition, and to have their asset registers checked periodically by persons not involved in the custody of the assets.*

Procurement and energy management

27. **Procurement procedures.** The procurement guidelines issued by the ESF to schools have been vague and incomprehensive. The six schools visited by Audit had set their own procurement guidelines, but they often did not observe the guidelines. They also

often did not compare prices against alternative suppliers. Had the schools made more efforts to seek better value for money from procurement of goods and services, savings could have been achieved. *Audit has recommended that the ESF should draw up a set of clear and comprehensive procurement guidelines to help its schools procure goods and services at best prices, and require all its school staff involved in procurement to follow the guidelines.*

28. **Documentation of quotations.** In examining schools' procurement, Audit noted that, in general, schools did not properly document the quotations obtained. *Audit has recommended that the ESF should require its schools to always properly document the quotations obtained to demonstrate that procurement has been made on a fair and competitive basis.*

29. **Use of purchasing consortia.** Audit noted that opportunities exist for schools to achieve savings through collaboration among themselves in acquiring goods and services. For example, as at 1 May 2004, schools owned 42 photocopiers and leased 54 photocopiers. Audit survey revealed that schools acquired these photocopiers without forming any purchasing consortium. Audit also noted that opportunities for savings also exist within a school through better acquisition planning. For example, instead of taking advantage of bulk-purchase discounts, a large number of orders for computers had been placed by a school sparingly within short periods of time. *Audit has recommended that the ESF should devise a mechanism to coordinate its schools' orders for goods and services, and urge individual schools to always plan and coordinate the purchase requirements and to take full advantage of bulk-purchase discounts.*

30. **Leasing and outright purchase of school equipment.** Some ESF schools acquired equipment by leasing while others by purchasing outright. Audit noted that, of the 15 ESF schools, only 7 had conducted cost-benefit analysis of leasing versus outright purchase of school equipment. *Audit has recommended that the ESF should require its schools to conduct cost-benefit analysis before entering into leasing agreements for or making outright purchases of school equipment.*

31. **Electricity consumption.** The electricity supply companies in Hong Kong offer different types of tariffs to their customers. In general, high electricity consumption customers may benefit from selecting a lower tariff. Audit examined the electricity consumption of the six ESF schools visited and noted that most of their consumption was high enough to benefit from selecting lower electricity tariffs. *Audit has recommended that the ESF should require its schools to select the most economical tariff available for their electricity accounts.*

32. **Energy saving measures.** While some schools had taken the initiative to introduce energy saving measures, Audit noted that some schools had not implemented such measures. *Audit has recommended that the ESF should disseminate the practices of energy saving measures implemented by some of its schools to other schools, and regularly conduct reviews to identify new energy saving measures.*

Human resources management

33. **Recording of selection interviews.** Audit noted that it was not a requirement for schools to document in a formal assessment form the results of interviewing applicants for non-teaching posts. Of the 15 ESF schools, 5 did not have the practice of using an assessment form to record the interview results. *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.*

34. **Staff appointment.** The authority for appointing staff for any ESF school is vested in the ESF Executive Committee. The ESF requires school councils to authorise offers of staff appointment and to recommend suitable appointees to the Executive Committee. However, the 15 ESF school councils usually delegated 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. Audit considers that, by seeking the approval of school councils, proper checks and balances in the appointment of applicants can be maintained. *Audit has recommended that, before offering appointment to applicants for school posts, the ESF should require its schools to request their councils to endorse the most suitable applicant for appointment.*

35. **Performance appraisal.** The ESF has not set any guidelines on the conduct of performance appraisal of school staff. While most of the 15 ESF schools conducted regular appraisal of their teachers, 10 schools and 11 schools did not regularly appraise the performance of their principals and non-teaching staff respectively. In 6 schools, the principals had never been formally appraised. *Audit has recommended that the ESF should set guidelines on the conduct of performance appraisal of different ranks of school staff, and require its schools to set up a formal performance appraisal system based on the guidelines.*

36. **Grant of salary increments.** The ESF maintains salary scales for teaching staff and non-teaching staff. Audit noted that the ESF had granted salary increments to staff automatically. This is less than satisfactory because the ESF has made no attempt to distinguish and reward good performers, and to express its dissatisfaction with poor performers. *Audit has recommended that the ESF should consider devising a mechanism for awarding salary increments to its staff.*

37. **Registration of supply teachers.** According to the Education Ordinance (Cap. 279), persons who teach in a school shall be registered with the Permanent Secretary for Education and Manpower as registered teachers. Audit reviewed the ESF's latest supply teacher list (April 2004) and noted that 20 candidates on the list were not registered teachers. Of these 20 candidates, 12 had worked as supply teachers in 6 ESF schools. *Audit has recommended that the ESF should ensure that candidates on its supply teacher list have met the requirements of the Education Ordinance on teacher registration.*

Other income and support

38. ***Letting of school premises.*** The ESF allows schools to let their premises to organisations for educational or sporting purposes. Audit noted that some schools had relatively lower letting income. The recommended schedule of charges for letting school accommodation set by the ESF was also out-dated. *Audit has recommended that the ESF should request its schools to examine whether it is necessary to promote the availability of their premises and facilities for hiring by outsiders, and regularly review the charges to ensure that they are appropriate.*

39. ***Use of the Quality Education Fund.*** The Quality Education Fund (QEF) was established in 1998 to finance projects for the promotion of quality school education in Hong Kong. Audit considers that 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. However, only half of ESF schools had applied for the QEF. *Audit has recommended that the ESF should encourage its schools to actively pursue the opportunities which are available to them from the QEF.*

40. ***Support from parent-teacher associations.*** Parent-teacher associations (PTAs) of ESF schools had actively organised and supported various school activities and contributed resources for the development of schools. Audit survey indicated that ESF schools were satisfied with the work of their PTAs. Audit considers that local schools would benefit from the experiences and good practices of PTAs of ESF schools. *Audit has recommended that the ESF should consider liaising with the Education and Manpower Bureau to disseminate the experiences and good practices of PTAs of ESF schools to the local education sector.*

Response from the English Schools Foundation

41. The ESF has accepted the audit recommendations.

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