

CHAPTER 5

Department of Health

The Society for the Aid and Rehabilitation of Drug Abusers

**Audit Commission
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THE SOCIETY FOR THE AID AND REHABILITATION OF DRUG ABUSERS

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PART 1: INTRODUCTION

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

Background

Treatment and rehabilitation of drug abusers

1.2 The Government adopts a multi-modality approach in the provision of drug treatment and rehabilitation (T&R) services to cater for the different needs of drug abusers from varying backgrounds. The services can broadly be grouped into the following programmes:

- (a) compulsory drug treatment programmes operated by the Correctional Services Department (CSD); and
- (b) voluntary T&R programmes, including:
 - (i) residential T&R programmes subvented by the Department of Health (DH) and the Social Welfare Department (SWD);
 - (ii) Methadone Treatment Programme (MTP) operated by the DH;
 - (iii) counselling centres for psychotropic substance abusers subvented by the SWD; and
 - (iv) substance abuse clinics operated by the Hospital Authority.

In the financial year 2006-07, the total government expenditure on drug T&R services was about \$286 million.

DH's T&R programmes for drug abusers

1.3 The DH provides T&R services to drug abusers by:

- (a) operating a network of 20 methadone clinics which provide treatment services to drug abusers on a voluntary and out-patient mode (see para. 1.2(b)(ii)); and
- (b) subventing non-governmental organisations (NGOs) which adopt a medical approach in operating voluntary residential T&R programmes for drug abusers (see para. 1.2(b)(i)). These NGOs are:

- (i) the Society for the Aid and Rehabilitation of Drug Abusers (SARDA);
- (ii) the Caritas Hong Kong — Wong Yiu Nam Centre; and
- (iii) the Hong Kong Christian Service — Jockey Club Lodge of Rising Sun.

1.4 For 2006-07, DH expenditure on the T&R of drug abusers was about \$116 million, accounting for 41% of the total government expenditure on T&R of drug abusers (see para. 1.2). DH expenditure of the \$116 million comprised \$81 million for subvention to the three NGOs (see para. 1.3(b)) and \$35 million for methadone clinic service. Of the subvention of \$81 million, \$72 million (89%) were provided to SARDA.

The Society for the Aid and Rehabilitation of Drug Abusers

1.5 SARDA was established in 1961 as a non-profit-making NGO to provide free residential T&R services to drug abusers who seek treatment on a voluntary basis. It operates:

- (a) a **Head Office**;
- (b) four **residential T&R centres** (see Table 1);

Table 1

T&R centres operated by SARDA

Name of centre	Capacity (beds)	Target group	
		Gender	Age
Shek Kwu Chau T&R Centre (SKC Centre)	316	Male	All ages
Sister Aquinas Memorial Women's Treatment Centre (Sister Aquinas Centre)	42	Female	29 and below
Adult Female Rehabilitation Centre	24	Female	Above 29
Au Tau Youth Centre	20	Male	Under 25

Source: SARDA records

- (c) five **halfway houses** which provide transitory accommodation to patients discharged from SARDA T&R centres, including those who want to consolidate their psychological preparation for facing outside temptations, and those who are unable to integrate into society immediately because of unemployment or other reasons;
- (d) four **social service centres** which provide pre-admission registration, aftercare service, community education and recreational activities to patients/ex-patients; and
- (e) one **out-patient clinic** which carries out physical examination for prospective admissions into SARDA centres and provides medical consultation to ex-patients.

SARDA also provides counselling services to patients of methadone clinics operated by the DH.

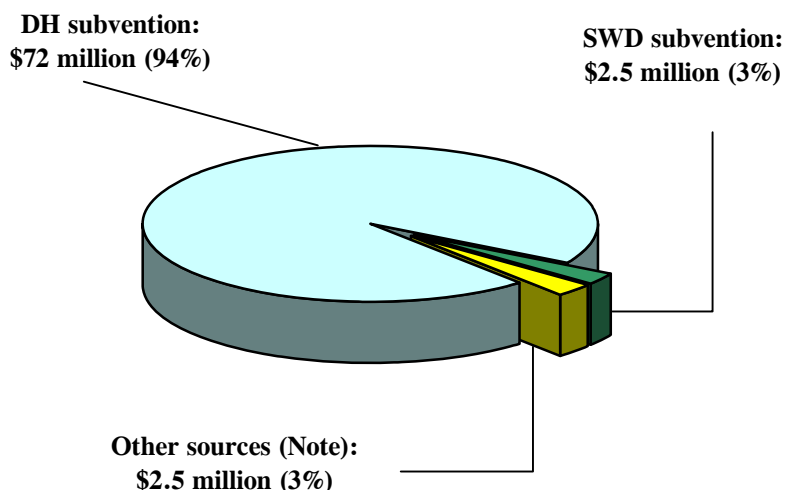
1.6 SARDA is governed by its Executive Committee (EC) which consists of members elected in annual general meetings. The Executive Director (ED) is responsible for the overall management of SARDA day-to-day operations under the policy direction of the EC. As at 31 December 2007, SARDA employed some 200 staff, including managerial staff, doctors, nurses, social workers and clerical staff. An organisation chart of SARDA as at 1 January 2008 is shown at Appendix A.

Sources of SARDA income

1.7 SARDA is mainly funded by recurrent subvention from the DH, which accounts for over 90% of SARDA income. Figure 1 shows, for 2006-07, the sources of SARDA recurrent income of \$77 million.

Figure 1

Recurrent income of SARDA
(2006-07)



Source: SARDA records

Note: Other sources included the Community Chest of Hong Kong and the Hong Kong Jockey Club Charities Trust.

1.8 From time to time, SARDA also received capital subvention from sources such as the Hong Kong Jockey Club Charities Trust, and the Lotteries Fund administered by the SWD. The capital subvention was for financing capital projects (such as the building of the Jockey Club Anti-Drug Preventive Education Centre at the SKC Centre in early 2007). In 2006-07, the capital subvention to SARDA was \$2.3 million.

SARDA expenditure

1.9 In 2006-07, the recurrent and capital expenditure of SARDA were \$75 million and \$2.3 million respectively. The recurrent expenditure was for staff salaries and wages (\$60 million or 80%), and other expenses (\$15 million or 20%) such as purchase of food for patients, repair and maintenance.

Audit review of voluntary treatment and rehabilitation programmes for drug abusers

1.10 The Audit Commission (Audit) has recently conducted an examination of voluntary T&R programmes for drug abusers. The audit findings are contained in a separate audit report (see Chapter 6 of the Director of Audit's Report No. 50).

Audit review of SARDA

1.11 Given the large amount of subvention provided to SARDA in the voluntary T&R services for drug abusers (see para. 1.4), Audit has conducted a separate review to examine the economy, efficiency and effectiveness in the administration of SARDA (the subject matter of this report). The review has found that there is scope for improvement in the following areas:

- (a) management and control of government subvention (PART 2);
- (b) corporate governance (PART 3);
- (c) strategic management (PART 4);
- (d) staff recruitment (PART 5);
- (e) financial control and cash management (PART 6);
- (f) procurement and stores management (PART 7); and
- (g) performance measurement and reporting (PART 8).

General response from SARDA

1.12 The **ED, SARDA** has said that the EC of SARDA discussed at its meeting of 25 February 2008 the observations and recommendations of the audit review. The comments of the EC of SARDA are as follows:

- (a) SARDA welcomes the audit review and accepts all the audit observations and recommendations;
- (b) the EC takes the audit recommendations very seriously and has appointed an Ad Hoc Monitoring Committee comprising six EC members to closely monitor implementation of the recommendations. The Ad Hoc Monitoring Committee will report to the EC on a regular basis; and

- (c) the EC would wish to record its grateful thanks to the Director of Audit and his staff for their expert advice in identifying areas for improvement in SARDA practices.

Acknowledgement

1.13 Audit would like to acknowledge with gratitude the full cooperation of the DH and SARDA staff during the course of the audit review.

PART 2: MANAGEMENT AND CONTROL OF GOVERNMENT SUBVENTION

2.1 This PART examines matters relating to the management and control of government subvention to SARDA.

Government subvention to SARDA

Deficiency grant by the DH

2.2 SARDA is mainly funded by recurrent subvention from the DH (see para. 1.7) in the form of an annual deficiency grant, which is designed to meet the difference in full between SARDA income and expenditure for a programme of activities approved by the DH. As a condition of grant, SARDA is required to observe the subvention guidelines set out in the “Notes for Guidance of Medical (Deficiency) Subvented Organisations” (Notes for Guidance) issued by the DH in 1986. In addition, SARDA is required to follow other guidelines/instructions issued by the DH from time to time. These guidelines/instructions mainly govern financial matters.

Role of the Director of Health as Controlling Officer of subvention to SARDA

2.3 According to the Notes for Guidance, the Director of Health is the designated Controlling Officer of the government subvention to SARDA. Under section 12 of the Public Finance Ordinance (Cap. 2), the Controlling Officer is responsible and accountable for the proper use of public funds under his control. In exercising this statutory authority, the Controlling Officer has the discretion to decide whether any part of the subvention guidelines should not be applied, or applied with modifications to the subvented organisation concerned. The Controlling Officer can also prescribe additional measures necessary to safeguard public interest.

2.4 The Notes for Guidance provide for the authority of the Director of Health, as the Controlling Officer of government subvention to SARDA. Appendix B shows the key provisions on the authority of the Director of Health.

Revised government guidelines on management and control of subvention

2.5 In September 2004, the Financial Services and the Treasury Bureau (FSTB) promulgated revised guidelines (in Financial Circular No. 9/2004) on the management and control of government funding for subvented organisations. The revised guidelines remove

duplications among several sets of subvention guidelines (including the Notes for Guidance adopted by the DH), streamline administrative procedures and rationalise the control framework. They take into account, inter alia, the responsibility of individual Directors of Bureaux in overseeing subvented organisations under their purview, changes in the Government's resource allocation system, the diversity in the subvented sector as well as the need to remove ambiguities and improve user-friendliness.

2.6 **The revised guidelines also stipulate that, as a matter of good management, the Controlling Officers should preferably enter into a Memorandum of Administrative Arrangements (MAA) or a similar instrument with each organisation receiving recurrent funding from the Government under their purview.** Such tailor-made instruments should set out the responsibilities of all parties in the delivery and monitoring of government-funded services and capital projects. A funding and service agreement (FSA) is an example of such instruments.

2.7 Instead of adopting the revised guidelines, the DH had obtained the FSTB's agreement to continue using the Notes for Guidance as the DH subvention guidelines. **As stated in Financial Circular No. 9/2004, the DH decided to retain the Notes for Guidance as departmental guidelines for application to organisations under its purview pending a further review.** Since November 2003, the DH has sought the views of its subvented organisations on changing the mode of subvention from a deficiency grant to a lump-sum grant basis. The DH intended to draw up new guidelines for its subvented organisations upon introduction of the new mode of subvention. However, the subvented organisations (including SARDA) had concerns about changing the mode of subvention to a lump-sum grant basis. As at February 2008, the new subvention arrangement had not been established, and the Notes for Guidance were still applicable to SARDA. The DH had not entered into an MAA/FSA with SARDA.

Disputes between SARDA and Department of Health

2.8 In the past few years, there had been prolonged discussions and arguments ("disputes") between SARDA and the DH on a number of occasions, mainly about the legitimacy of the DH's authority in giving directions to SARDA on administrative matters. The DH considered that it was discharging its duties in monitoring government subvention to SARDA. On the other hand, SARDA considered that its administrative autonomy was being interfered with unnecessarily. Lengthy discussions between SARDA and the DH were held with a view to sorting out these matters. These disputes mainly related to the following issues:

- (a) deployment of subvented resources to a non-subvented programme in 2004 (see para. 2.23);

- (b) staff matters which include:
 - (i) promotion of a Senior Social Work Officer to the post of Chief Social Work Officer (CSWO) in 2004; and
 - (ii) extension of service of the ED in late 2006;
- (c) handling of an anonymous complaint against a senior staff (hereinafter referred to as Staff A) of SARDA in late 2006; and
- (d) handling of a paper submitted by Staff A to the EC about a complaint against a directorate officer of the DH in late 2006.

Complaint to the Ombudsman against the DH

2.9 In March 2007, with the agreement of the EC, Staff A lodged, in his personal capacity, a complaint to the Ombudsman against the DH, which basically covered all the disputes mentioned in paragraph 2.8. In March 2008, the Ombudsman completed her investigation. In her report to the DH, the Ombudsman concluded that the complaint was **unsubstantiated**. In addition, she noted that the working relationship between SARDA and the DH was not harmonious, which was a highly unsatisfactory situation and was not conducive to the mutual trust and cooperative partnership necessary for the efficient and effective operation of a body subvented by public funds. The Ombudsman considered that the existing working relationship between SARDA and the DH should be reviewed as a matter of priority. She recommended that the Director of Health should:

- (a) review the funding system;
- (b) put in place formal monitoring mechanism; and
- (c) consider extending the measures mentioned in (a) and (b) above to other subvented bodies.

2.10 As final remarks in her investigation report, the Ombudsman said that:

- (a) the inquiry threw into sharp focus an unfortunate state of affairs. In subventing an NGO, the Administration aimed to promote and support community participation in the provision of services; and
- (b) in this case, the unharmonious relationship between SARDA and the DH had evidently bred an unhealthy distrust among their staff. This could hardly be conducive to the cordial cooperation necessary for quality services to the public. Such an unsatisfactory situation should be rectified as a matter of priority.

Audit questionnaire survey

2.11 The Ombudsman was conducting an investigation into the above complaint (see para. 2.9) at the time of this audit review in late 2007. Therefore, Audit did not examine the detailed allegations of the complaint in order to avoid duplicating the Ombudsman's investigation. Instead, Audit focused on identifying ways to avoid recurrence of similar disputes in future. Audit considered it most important to ascertain:

- (a) the **impacts** of the disputes between SARDA and the DH;
- (b) the **likely causes** of the disputes; and
- (c) measures that can help **avoid potential disputes** in future.

2.12 In December 2007 and January 2008, Audit conducted a questionnaire survey on all EC members (in 2006 or 2007) of SARDA and government representatives in the EC from the Narcotics Division (ND — Note 1) of the Security Bureau, the DH, and the SWD, to seek their views on the matters mentioned in paragraph 2.11. In order to ensure that respondents to the survey could freely express their views, both EC members and government representatives were given the choice of either disclosing their identities or remaining anonymous.

Note 1: *The ND is responsible for the formulation of policy, and overall coordination of anti-drug efforts in preventive education and publicity, research, T&R services, international cooperation and law enforcement.*

2.13 Table 2 shows the response rate of the survey as at 31 January 2008.

Table 2
Response rate of Audit questionnaire survey
(31 January 2008)

Questionnaire recipient	Number of questionnaires		
	Sent	Returned	Response rate
EC members	34	23 (Notes 1 and 2)	68%
Government representatives in the EC	3	3 (Note 2)	100%

Source: Audit questionnaire survey

Note 1: This does not include the blank questionnaires returned by two EC members.

Note 2: Of the 23 EC members and 3 government representatives in the EC, 13 members and 2 representatives chose to disclose their identities in completing the questionnaires.

Results of Audit questionnaire survey

2.14 The results of the survey are summarised as follows:

- (a) **Impacts of the disputes.** The majority of the respondents (Note 2) considered that the disputes between SARDA and the DH had adversely affected the efficiency and effectiveness of SARDA, or both SARDA and the DH, in performing its/their duties;
- (b) **Causes of the disputes.** The majority of the respondents (Note 2) considered that the disputes between SARDA and the DH arose mainly because SARDA did not expect the DH to get involved in SARDA's internal affairs;

Note 2: *Respondents to the survey included EC members of SARDA and government representatives (see also para. 2.15) in the EC.*

- (c) *SARDA obligation to follow DH directives.* The majority of the respondents (Note 2) expressed the view that SARDA had the obligation to follow the directives from the DH; and
- (d) *Measures to avoid potential disputes in future.* The majority of the respondents (Note 2) believed that the establishment of an FSA between SARDA and the DH would help avoid potential disputes in future and foster a more harmonious working relationship, and welcomed such an agreement to be established.

Details of the results of the survey are shown at Appendix C.

2.15 The DH and the ND representatives responded to the survey, not in a personal capacity, but on behalf of the bureau/department. While there were differences in views between EC members and the government representatives, both the DH and the ND representatives shared the views mentioned in paragraph 2.14. Details of the responses of the DH and the ND are shown at Appendices D and E respectively.

Audit observations and recommendation

Need to expedite the establishment of an FSA

2.16 Audit noted that the majority of the respondents, including the DH and the ND representatives, were of the view that an FSA would help build up mutual understanding and avoid potential disputes in future (see paras. 2.14(d) and 2.15). However, as mentioned in paragraph 2.7, the DH is still using the Notes for Guidance as the main guidelines for the management and control of SARDA.

2.17 Under the 2004 FSTB revised guidelines, Controlling Officers were advised to enter into an MAA or a similar instrument with each organisation receiving recurrent government funding under their purview (see para. 2.6). However, Audit noted that, as at February 2008, the DH had still not entered into an MAA or a similar instrument (such as FSA) with SARDA. In February 2008, in response to Audit enquiry, the DH explained that it had made efforts in drawing up an FSA with SARDA, as follows:

- (a) in August 2005, the lump-sum grant funding arrangement was discussed at a meeting among SARDA, the DH and the ND. However, at an EC meeting of SARDA in October 2005, SARDA resolved to retain the deficiency grant mode of subvention;

- (b) in 2006, the Independent Commission Against Corruption (ICAC) conducted a review on the allocation and control of subventions by the DH. The ICAC recommended that an FSA should be used. The DH accepted the ICAC recommendation which was in line with DH thinking; and
- (c) since November 2006, SARDA had been challenging the legitimacy of DH advice and directives (see para. 2.8). The DH considered that it was impossible to conclude an FSA with SARDA until the disagreement had been resolved. To take forward the ICAC recommendation, in January 2007 the DH sought the assistance of the ICAC to conduct a further study. It was the DH's wish that an independent third party (e.g. the ICAC) could objectively advise SARDA on its obligations to follow the advice and to comply with the directive of the Controlling Officer, and hence an FSA could be entered into with SARDA. However, the further study report issued by the ICAC in June 2007 did not cover these matters.

2.18 Taking into account the views expressed by the respondents to the Audit questionnaire survey (see paras. 2.14 and 2.15), it appears that the disputes mentioned in paragraph 2.8 arose mainly from differences in understanding and perceptions about the role of the DH (as the Controlling Officer of the government subvention) in the management and control of SARDA operations. **In any event, Audit considers that such disputes are not conducive to maintaining a good working relationship between SARDA and the DH, and further developing the services for T&R of drug abusers, in order to meet new and changing demands.** In this regard, the Ombudsman also had a similar observation in her investigation report of March 2008 (see paras. 2.9 and 2.10).

2.19 More than three years have elapsed since the FSTB's promulgation of the 2004 revised guidelines on management and control of government subvention. **The DH needs to continue its efforts in expediting the establishment of an MAA/FSA with SARDA.** In establishing such an MAA/FSA, the DH should take into account the views expressed by the respondents to the survey (see para. 4 at Appendix C).

Audit recommendation

2.20 **Audit has recommended that the Director of Health should accord priority to establishing, in consultation with SARDA, an MAA/FSA between SARDA and the DH, taking into account the views expressed by the respondents to the Audit questionnaire survey.**

Response from the Administration

- 2.21 The **Director of Health** welcomes the audit recommendation. He has said that:
- (a) the DH has made great efforts in establishing an FSA with SARDA, but has encountered implementation difficulties (see para. 2.17);
 - (b) the DH has recently concluded an FSA with one of its subvented NGOs (i.e. the Hong Kong Red Cross); and
 - (c) the DH is pleased to note that the Ombudsman has found Staff A's complaint against the DH unsubstantiated. The DH believes that the findings of the Ombudsman investigation report (see paras. 2.9 and 2.10) would send a clear message to SARDA of its obligation to follow DH directives. The way would then be clear for the DH and SARDA to agree on an FSA.

Response from SARDA

2.22 The **ED, SARDA** has said that SARDA will cooperate fully with its subventing department to work out an MAA or FSA at the earliest opportunity. The FSA will delineate the roles and responsibilities of both the subventing department and the subvented organisation. This will enable SARDA to work in the true spirit of partnership with its subventing department in future.

Monitoring the use of subvented resources

2.23 One of the disputes between SARDA and the DH related to the deployment of subvented resources to the Supported Employment Service (SES) which was a non-subvented programme (see para. 2.8(a)). In early 2000, the EC endorsed the establishment of the SES, as an extension to its aftercare service. The objective of the SES was to provide direct employment opportunities for the patients discharged from SARDA T&R centres and halfway houses. The SES was operated by the Pui Hong Self-Help Association (PHSHA — Note 3), which was an NGO independent of SARDA. SARDA deployed four staff (employed by using DH subvention) to work for the SES, including the performance of front-line duties. In April 2004, the DH considered the SES a non-subvented activity and asked SARDA to regularise the deployment of the four staff to the SES. In September 2007, the DH gave its covering approval for SARDA to deploy the four staff to the SES. In the same month, the PHSHA decided to wind up the SES and the four staff returned to SARDA.

Note 3: *The PHSHA is a non-profit-making organisation set up under section 21 of the Companies Ordinance (Cap. 32). Its principal activity is to provide a network of self-help and mutual support for former drug abusers.*

Audit observations and recommendations

Deployment of subvented resources to non-subvented activities

2.24 While the SES case has been resolved, Audit considers that there are lessons to be learnt for both the DH and SARDA.

2.25 *Scope for improvement in DH management of subvention to SARDA.* During the past five years from 2003 to 2007, the DH did not conduct any inspection of SARDA activities to monitor compliance with DH subvention guidelines. **Audit considers that if the DH had conducted such inspection, the irregularity in respect of staff deployment to non-subvented activities (i.e. the SES case) might have been revealed earlier, and timely remedial actions could have been taken.** In this regard, Audit notes that the SWD, which provides an annual subvention of about \$2.5 million to SARDA for the operation of halfway houses, conducts periodic inspections on these halfway houses. The scope of inspections covers such issues as monitoring compliance with SWD subvention guidelines, and reviewing accounting books and records and internal control procedures. During the past five years from 2003 to 2007, the SWD conducted two inspections of the halfway houses (i.e. in 2004 and 2006).

2.26 *Need for SARDA to enhance its transparency and public accountability.* Audit considers that there were inadequacies in the handling of the SES case by SARDA, as follows:

- (a) *No separate accounting records for resources spent on non-subvented activities.* SARDA did not maintain separate accounting records for resources spent on activities which were not subvented by the DH, e.g. the provision of administrative/accounting support to the PSHHA (see para. 2.27(a) and (b)). For transparency and public accountability, SARDA should have maintained such records;
- (b) *Improper maintenance of staff movement records.* As SARDA had not kept proper records of staff movements, Audit could not ascertain when the four staff were deployed to the SES (see para. 2.23). As a good management practice, SARDA should have kept proper records of staff movements; and
- (c) *No framework agreement between SARDA and the PSHHA.* According to SARDA, it has maintained a working relationship with the PSHHA since the PSHHA was set up in 1967. Apart from the deployment of SARDA staff to the SES (which was operated by the PSHHA), SARDA also had other collaborations with the PSHHA (see paras. 2.27 and 2.28). However, there is no framework agreement between SARDA and the PSHHA.

Collaboration between SARDA and the PSHHA

2.27 As mentioned in paragraph 2.23, the SES was operated by the PSHHA with staff deployed to it from SARDA. Audit notes that SARDA has had collaborations with the PSHHA, as follows:

- (a) ***Application for funding on behalf of the PSHHA.*** Other than government subvention, every year SARDA submits an application to the Community Chest of Hong Kong (Community Chest) to apply for recurrent funding, not only for itself but also for the PSHHA. In 2006-07, it received a sum of \$1.22 million from the Community Chest which included an amount of \$0.88 million for financing PSHHA salary expenditure, rents and other miscellaneous expenses, while the remaining amount was for SARDA use. For application of Community Chest funds on behalf of the PSHHA, the CSWO of SARDA spends some of his time (Note 4) in preparing the funding application and a progress report for submission to the Community Chest on a half-yearly basis;
- (b) ***Providing accounting support to the PSHHA.*** After receiving the sum from the Community Chest, SARDA keeps the whole sum and pays for some of the salaries, rents and other expenses of the PSHHA (Note 5). An Assistant Clerical Officer of SARDA is responsible for handling such payments. In addition, Audit noted that the following two staff spent some of their time (Note 4) in helping the PSHHA with financial matters:
 - (i) the Accountant of SARDA obtained quotations from external auditors for the annual audit of the PSHHA, arranged the external auditor for the performance of the annual audit, and answered audit enquiries if required; and
 - (ii) a Clerical Officer consolidated the accounts of the PSHHA every month; and
- (c) ***Assistance provided by the PSHHA.*** To reciprocate SARDA's assistance, the PSHHA subsidises and helps in the programmes (e.g. recreational activities) run by SARDA for its patients. It also operates the co-op shop which sells snacks and sundries to the patients in the SKC Centre.

Note 4: *SARDA did not keep records on how much time the CSWO, the Accountant, the Clerical Officer and the Assistant Clerical Officer spent in handling PSHHA matters.*

Note 5: *The PSHHA is responsible for payment of the rest of the salaries, rents and other expenses.*

2.28 According to SARDA, its collaboration with the PHSHA has been in existence for a very long time (see para. 2.26(c)). Audit appreciates that such collaboration provides mutual benefits for both SARDA and the PHSHA. However, as the provision of assistance to the PHSHA involves the use of SARDA staff whose salaries are paid from the DH subvention, SARDA should have sought DH formal advice before entering into such collaboration.

Audit recommendations

2.29 **Audit has recommended that SARDA should:**

Deployment of subvented resources to non-subvented activities

- (a) **ensure that the Notes for Guidance and other DH directives, as well as the MAA/FSA (after it is established — see para. 2.20), are always complied with in the use of subvented resources;**
- (b) **maintain separate accounting records for resources spent on non-subvented activities;**
- (c) **keep proper records of staff movements, especially for redeployment of staff from subvented to non-subvented programmes;**
- (d) **consider establishing framework agreements with organisations that have a close working relationship with SARDA; and**

Collaboration between SARDA and the PHSHA

- (e) **seek formal advice of the Director of Health before entering into an agreement with other organisations, which would involve redeployment of subvented resources to programmes the DH may not wish to subvent.**

2.30 **Audit has also recommended that the Director of Health should:**

Deployment of subvented resources to non-subvented activities

- (a) **set up an effective mechanism to monitor SARDA use of subvented resources, including periodic inspections of SARDA to ensure compliance with the DH subvention guidelines; and**

Collaboration between SARDA and the PHSHA

- (b) **provide clear guidelines to SARDA on the arrangements for SARDA to enter into major collaboration with other organisations, especially if redeployment of subvented resources is involved.**

Response from SARDA

2.31 SARDA accepts the audit recommendations. The **ED, SARDA** has said that the recommendations are noted either for future compliance (as the SES is no longer in existence — see para. 2.23), or implementation at the earliest opportunity.

Response from the Administration

2.32 The **Director of Health** generally agrees with the audit recommendation in paragraph 2.30(a). He also agrees with the audit recommendation in paragraph 2.30(b). He has said that:

Deployment of subvented resources to non-subvented activities

- (a) in addition to monitoring the performance of SARDA through a review of returns on achievement of service outputs and performance measures, the DH keeps abreast of developments in SARDA through attendance at meetings and official functions, ad hoc visits to various institutions and assessment visits in processing funding applications. The DH considers that such contacts do facilitate its monitoring work;
- (b) to further improve the control framework, the DH will continue to press for the establishment of an FSA;
- (c) as regards paragraph 2.25, as a condition of subvention, there are provisions for NGOs to engage independent auditors to conduct external audits. The external auditors are required to provide an opinion on whether the NGOs have complied with the subvention guidelines. Taken into consideration the cost-effectiveness of inspections, the DH may periodically carry out inspections if circumstances so justify. The DH will also advise SARDA on how to improve its internal control system; and

Collaboration between SARDA and the PHSHA

- (d) the DH will ask SARDA to set out in full its current arrangement with the PHSHA and advise SARDA the appropriate way forward.

PART 3: CORPORATE GOVERNANCE

3.1 This PART examines corporate governance issues of SARDA.

Membership of SARDA

3.2 According to the Constitution of SARDA, ordinary membership of the Society shall be open to any person on payment of the subscription therein prescribed. The annual subscription for ordinary members is \$100. An applicant may apply for life membership by paying a one-off payment of \$1,000 or any other amount as may be decided by SARDA in its general meeting from time to time. As at 31 December 2007, SARDA had 143 members, all of whom were life members.

Governance structure

Executive Committee

3.3 SARDA is governed by an EC (see para. 1.6) which sets policies on voluntary T&R services for drug abusers. According to the Constitution of SARDA, the general management of the affairs of SARDA shall be conducted by the EC which may take any action or exercise any powers in the name of SARDA deemed necessary to further its aims. Members of the EC are elected at annual general meetings from its members. The EC members shall elect among themselves the Officers of SARDA (see para. 3.4(a)).

3.4 The EC of SARDA holds at least four meetings each year. The EC membership comprises:

Persons with voting rights

- (a) Officers and not more than 16 members (other than Officers). They have voting rights and are elected at annual general meetings. The Officers comprise the Chairman, the Vice Chairman, the Honorary Treasurer, the Honorary Secretary, the Immediate Past Chairman and such other Officers as the EC shall from time to time see fit;

- (b) up to four members, serving as co-opted members (Note 6) of the EC with voting rights;

Persons without voting rights

- (c) five ex-officio members, who are staff members including the ED, three Superintendents in charge of T&R centres, halfway houses or social service centres, and the Administrative Secretary; and
- (d) three government representatives (from the ND, the DH and the SWD).

Management Committee

3.5 The Management Committee (MC) is responsible for supervising the administration of SARDA. The terms of reference of the MC are as follows:

- (a) supervise the administration of SARDA;
- (b) implement the agreed policies of the EC;
- (c) report to the EC regularly on overall developments; and
- (d) make policy recommendations to the EC.

MC members (consisting of voting members and ex-officio members) are appointed by the EC. The EC determines the number of meetings for the MC. Usually, four meetings are held each year.

Research Committee

3.6 The Research Committee (RC) is responsible for conducting research into drug T&R matters. RC members (consisting of voting members and ex-officio members) are appointed by the EC. The RC may co-opt any other experts or individuals to join the Committee. It meets about three to four times annually.

Note 6: *The co-opted members are appointed by the EC under two criteria, i.e. they should possess the expertise and experience which SARDA would benefit, and take an interest in serving on the EC.*

3.7 Table 3 shows the number of EC, MC and RC members as at 1 January 2008.

Table 3
Number of EC, MC and RC members
(1 January 2008)

EC			MC		RC	
Voting member	Ex-officio member	Government representative	Voting member	Ex-officio member	Voting member	Ex-officio member
22	5	3	9	6	5	2

Source: SARDA records

Quorum of meetings

3.8 In general, the setting of a quorum for committee meetings ensures that there are sufficient members attending the meetings to discuss matters arising and make decisions on behalf of the committee. According to the Constitution of SARDA, any six members of the EC shall form a quorum. For the MC and the RC, they do not have a quorum of meetings.

Audit observations and recommendations

3.9 Audit considers that, with a total of 22 voting members in the EC (see Table 3), a quorum of only six members (i.e. 27%) appears to be on the low side. Audit considers that a larger quorum can ensure that more voting members are present at an EC meeting to discuss matter of importance and with their experience and expertise, make effective decisions. **SARDA needs to consider whether the quorum of its EC meetings should be increased.**

3.10 It is a good practice for an organisation to set a quorum of meetings not only for its board, but also for all major committees/sub-committees. **SARDA needs to consider setting an appropriate quorum for its MC and RC meetings.**

3.11 **Audit has recommended that SARDA should consider:**

- (a) **increasing the quorum for its EC meetings; and**

- (b) **setting an appropriate quorum for its MC and RC meetings.**

Response from SARDA

3.12 SARDA accepts the audit recommendations. The **ED, SARDA** has said that these recommendations are noted for immediate implementation.

Attendance at committee meetings

3.13 The overall effectiveness of the governing body of an organisation to fulfil its responsibilities (e.g. providing strategic directions and effective monitoring of management performance) largely depends on the knowledge, experience and competency of its members, as well as their commitment to serving the organisation. An indicator of the committee members' commitment to serving SARDA is their attendance rates at committee meetings. Table 4 shows the attendance rates of members and government representatives at committee meetings of SARDA.

Table 4

**Attendance rates at committee meetings
(2002-03 to 2006-07 – Note)**

Year (Note)	EC meeting			MC meeting		RC meeting	
	Voting member	Ex-officio member	Government representative	Voting member	Ex-officio member	Voting member	Ex-officio member
2002-03	56 %	92 %	47 %	58 %	100 %	57 %	100 %
2003-04	63 %	80 %	53 %	65 %	100 %	54 %	100 %
2004-05	55 %	96 %	60 %	53 %	96 %	38 %	100 %
2005-06	61 %	100 %	73 %	69 %	100 %	44 %	100 %
2006-07	64 %	40%	67 %	60 %	88 %	48 %	83 %
Average	60%	82%	60%	61%	97%	48%	97%

Source: *Audit analysis of SARDA records*

Note: *Committee meetings start in December and end in November of the following year.*

Audit observations and recommendations

Attendance of voting members

3.14 Table 4 shows that, from 2002-03 to 2006-07:

- (a) for EC and MC meetings, the average attendance of voting members was about 60% (i.e. over half of the voting members were present); and
- (b) for RC meetings, the average attendance was only 48% (i.e. a simple majority was not achieved). The attendance rate of RC meetings was relatively low.

3.15 Audit also found that the attendance of some voting members in 2006-07 was particularly low. For example:

- (a) **EC meetings.** Three voting members attended only one meeting (out of a total of six meetings) of the EC held in 2006-07. One of them was a co-opted member who only attended two (out of a total of 27) EC meetings in the period 2002-03 to 2006-07;
- (b) **MC meetings.** Two voting members attended only one meeting (out of a total of four meetings) of the MC in 2006-07; and
- (c) **RC meetings.** Four voting members were absent from all the three RC meetings in 2006-07. Three of them had been continuously absent from all meetings for the last couple of years (i.e. since December 2002, August 2004 and October 2004).

3.16 The low attendance of some voting members at committee meetings is less than satisfactory. Without the benefits of the expertise and experience of those who were absent from the meetings, the effectiveness of the committees might be affected. **Audit considers that SARDA needs to monitor the attendance of voting members at committee meetings and take measures to improve their attendance.** For example, SARDA may consider providing information about the attendance record of individual committee members to all SARDA members (see also para. 3.28).

Attendance of ex-officio members

3.17 As shown in Table 4, the average attendance of ex-officio members at committee meetings was generally satisfactory (82% for EC meetings, and 97% for both MC and RC meetings). However, in 2006-07, the average attendance of 40% at EC meetings was relatively low. In particular, one ex-officio member (Superintendent of a SARDA centre) was absent from all six EC meetings in 2006-07, while another member (Superintendent of another SARDA centre) was absent from all but one of the meetings in the year.

Attendance of government representatives

3.18 Government representatives sitting in EC meetings play an important role in providing guidance and advice, particularly on those issues with policy or resource implications. They should therefore make efforts to attend all EC meetings as far as possible. Even if a government representative is unable to attend an EC meeting because of other commitments, an alternate representative should be appointed. Audit noted that the average attendance rate for government representatives as a whole in the period 2002-03 to 2006-07 was 60% (see Table 4).

3.19 Audit further analysed the attendance of government representatives (from the ND, the DH and the SWD). Details are shown in Table 5.

Table 5**Attendance rates of government representatives at EC meetings**

Year (Note)	ND	DH	SWD	All representatives
2002-03	80%	40%	20%	47%
2003-04	80%	80%	0%	53%
2004-05	80%	100%	0%	60%
2005-06	100%	100%	20%	73%
2006-07	83%	100%	17%	67%
Average	85%	84%	11%	60%

Source: Audit analysis of SARDA records

Note: Committee meetings start in December and end in November of the following year.

Low attendance of the SWD representative

3.20 Table 5 shows that the low overall attendance rate of government representatives during the period 2002-03 to 2006-07 was mainly due to the low attendance of the SWD representative. In particular, the SWD representative did not attend any EC meeting of SARDA in 2003-04 and 2004-05. While SWD subvention to SARDA only accounts for 3%

(\$2.5 million) of SARDA recurrent income (see Figure 1 in para. 1.7), attendance of the SWD representative at EC meetings is nonetheless important. This is because based on the extensive knowledge and experience of the SWD in subventing NGOs as well as in the provision of social services, it could provide valuable advice to the EC of SARDA, with a view to further enhancing its performance and improving its services. **Audit has suggested that the SWD needs to improve the attendance of its representative at EC meetings.**

3.21 In response to the observations in paragraph 3.20, in February 2008 the SWD informed Audit that:

- (a) it has been a historical convention for a SWD representative to sit in at the EC meetings of some of the subvented NGOs (such as SARDA) as **observer** for liaison purpose;
- (b) the policy directive for developing programmes for the T&R of drug abusers comes from the ND. For delivery of strategic or policy directive, the SWD as the executive department generally resorts to across-the-board notification letters, briefing sessions, or individual agency meetings to set the way for implementation;
- (c) the monitoring mechanism of subvented units under SWD purview is based on the Service Performance Monitoring System implemented since 1999-2000, which comprises the key components of FSAs signed between the SWD and operating NGOs, self-assessment by NGOs, external assessment by the SWD, and implementation of Service Quality Standards;
- (d) the issues discussed at EC meetings of SARDA mainly relate to the DH, as well as staff appointments and office administration issues which are outside SWD purview. Therefore, so far as the four halfway houses subvented and monitored by the SWD have been performing up to the required standards, the SWD is playing a secondary observer role at the EC meetings; and
- (e) as it is NGOs' role to exercise proper corporate governance on their own organisations, it has been SWD policy not to send representatives to the boards of NGOs any longer, say upon expiry of the respective terms of office. In accordance with its departmental policy, the SWD will revisit its participation as observer in EC meetings of SARDA. However, the SWD will maintain regular attendance of EC meetings before the expiry of the 2007-08 term of office.

Audit recommendations

3.22 **Audit has recommended that SARDA should take measures to improve the attendance of members at committee meetings. Such measures should include:**

- (a) **ensuring that adequate guidelines on the roles and responsibilities of committee members are provided to them;**
- (b) **ensuring that ex-officio members attend all committee meetings;**
- (c) **issuing reminders to members whose attendance rate at committee meetings is low; and**
- (d) **considering providing information about the attendance record of individual committee members to all SARDA members (see also para. 3.29).**

3.23 **Audit has also recommended that the Director of Social Welfare should:**

- (a) **review the role played by the SWD representative as observer at EC meetings of SARDA; and**
- (b) **pending the review in (a) above, ensure that the SWD representative attend EC meetings of SARDA as far as possible.**

Response from SARDA

3.24 **SARDA accepts the audit recommendations. The ED, SARDA has said that these recommendations are noted for immediate implementation.**

Response from the Administration

3.25 **The Director of Social Welfare agrees with the audit recommendations.**

Committee members with low attendance records

3.26 **As mentioned in paragraph 3.16, the attendance of some voting members of SARDA committees was less than satisfactory. Audit examined the attendance of committee members (including co-opted members) at EC meetings held in 2006-07 and ascertained whether those members with low attendance (say, 50% or less) were re-elected or re-appointed to the 2007-08 EC.**

Audit observations and recommendations

3.27 Despite their low attendance (i.e. 50% or below) at EC meetings held in 2006-07:

- (a) four (80%) of the five voting members with low attendance were re-elected to the 2007-08 EC; and
- (b) two (67%) of the three co-opted members with low attendance were re-appointed to the 2007-08 EC.

3.28 In general, it is undesirable that committee members with low attendance records are still re-elected or re-appointed to serve on the committees. To enable SARDA members to choose suitable candidates with strong commitment to serving on the EC, SARDA may consider compiling the attendance record of individual EC members (see also para. 3.16) and, before the EC election, provide such information to all SARDA members. Regarding co-opted EC members and MC/RC members, SARDA should duly take into account their past attendance record in considering their re-appointment to the committees concerned.

3.29 **Audit has recommended that SARDA should:**

- (a) **before the EC election, draw all members' attention to the attendance of individual EC members who stand for re-election; and**
- (b) **duly take into account the attendance history of committee members (including MC and RC members and co-opted EC members) in considering their re-appointment.**

Response from SARDA

3.30 SARDA accepts the audit recommendations. The **ED, SARDA** has said that these recommendations are noted for immediate implementation.

Budget approval by the Executive Committee

3.31 According to the Notes for Guidance, to obtain DH recurrent subvention, every year SARDA is required to provide a detailed budget, based on a programme of activities approved by its EC (on which the Director of Health, as the Controlling Officer of the subvention for SARDA, is represented). **The Notes for Guidance further requires that the budget must be presented to the Director of Health through the EC.** After vetting the budget, the DH will inform SARDA of the approved recurrent subvention for the provision of services.

Audit observations and recommendations

3.32 Audit review of SARDA annual budget approval process from 2002-03 to 2006-07 showed that:

- (a) all of the annual budgets were submitted to the DH through the ED/Administrative Secretary of SARDA;
- (b) none of the annual budgets was approved by the EC or MC **before** submission to the DH;
- (c) all of the annual budgets were endorsed by the MC **after** they had been submitted to the DH; and
- (d) in two years (i.e. 2004-05 and 2006-07), the annual budgets were “noted” by the EC at its meetings **after** they had been submitted to the DH.

Table 6 shows a summary of the above audit findings.

Table 6
SARDA annual budget approval process
(2002-03 to 2006-07)

Year	Submission of budget to DH by	Budget approved by EC/MC <i>before</i> submission to DH	Budget endorsed by MC <i>after</i> submission to DH	Budget noted by EC <i>after</i> submission to DH
2002-03	ED	No	Yes	No
2003-04	ED	No	Yes	No
2004-05	Administrative Secretary	No	Yes	Yes
2005-06	ED	No	Yes	No
2006-07	ED	No	Yes	Yes

Source: SARDA records

3.33 As stipulated in the Notes for Guidance, the EC is charged with the responsibility of administering a programme of activities and the disbursement of subvention funds within the approved ambit of the subvention. To properly discharge this responsibility, it is important for both the EC (on which the Director of Health is represented) and the MC to consider and approve the detailed budget, before submission to the DH. In particular, with representation from the relevant government bureau and departments (i.e. the ND, the DH and the SWD), the EC is in the best position to ensure that the detailed budget is based on the programme of activities it approved, and is in line with the government policy and within the ambit of subvention. In Audit's view, the EC should have played a more active role in the budget vetting and approval process, with a view to detecting and avoiding such disputes as the use of subvented resources on non-subvented activities (see para. 2.23).

3.34 **Audit has recommended that SARDA should ensure that:**

- (a) **the annual budget (together with a programme of activities on which it is based) is submitted to the EC for approval, before it is submitted to the DH; and**
- (b) **after EC approval has been given, the budget is presented to the Director of Health through the EC, as required by the Notes for Guidance.**

Response from SARDA

3.35 SARDA accepts the audit recommendations. The ED, SARDA has said that these recommendations are noted for immediate implementation.

Budget monitoring by the Executive Committee

3.36 According to the Notes for Guidance:

- (a) expenditure of SARDA throughout the year should be controlled by the EC, which is required to adhere to the budget approved by the DH; and
- (b) if SARDA wishes to deviate from the approved budget, it must seek the Director of Health's approval to do so.

3.37 The good practice guide on "Corporate Governance for Public Bodies", issued by the Hong Kong Institute of Certified Public Accountants, also states that the governing board of a public organisation is accountable for the organisation's use of public funds.

Audit observations and recommendations

3.38 Audit noted that while up-to-date information on SARDA financial position was reported to the MC in its periodic meetings, such information was not reported regularly to the EC. In the absence of periodic information on the financial position of SARDA, the EC might not be able to exercise proper expenditure control, as required by the Notes for Guidance. By enhancing the role of the EC in budget monitoring and expenditure control, the issue of the use of subvented resources on non-subvented activities (see para. 2.23) might have been drawn to the attention of EC members and the government representatives sitting on the EC, and more timely remedial action could have been taken.

3.39 **Audit has recommended that SARDA should ensure that:**

- (a) **financial position of SARDA is reported regularly to the EC for budget monitoring and expenditure control purposes;**
- (b) **matters requiring special attention, including redeployment of resources that is not in line with the approved programme of activities, are drawn to the attention of the EC; and**
- (c) **the advice of government representatives in the EC is sought on matters with significant policy or financial implications.**

Response from SARDA

3.40 SARDA accepts the audit recommendations. The **ED, SARDA** has said that these recommendations are noted for immediate implementation.

PART 4: STRATEGIC MANAGEMENT

4.1 This PART examines SARDA strategic planning and issues that need to be addressed strategically in order to meet challenges ahead.

Importance of strategic management

4.2 Effective strategic management is vital to an organisation in meeting the challenges of a changing environment and new demands. An organisation needs to review its position and direction regularly, and to develop a strategic plan for establishing what it intends to achieve over a period of time. It is also important that an organisation allocates and manages its resources to deliver services that meet its strategic objectives and priorities. Furthermore, an effective performance measurement and reporting system should be in place to enable all stakeholders assess the extent to which an organisation meets its strategic objectives.

Strategic planning

4.3 In July 1997, the ND commissioned a consultant to carry out a management review of SARDA. The consultancy study was completed in January 1998 and endorsed by a working group comprising representatives of the ND and the DH. The consultancy report recommended, among other things, that SARDA needed to formulate a strategic direction for the provision of T&R services for drug abusers.

4.4 In December 1998, to follow up the recommendations of the consultancy report, SARDA formulated a strategic plan (the 1998 SARDA strategic plan), which set out the strategic directions of its services for the five-year period 1999-2000 to 2003-04. The strategic plan examined future demands for T&R services, and identified priorities and goals, which include the following initiatives:

- (a) revamping the programmes at T&R centres;
- (b) reorganising the aftercare and counselling services; and
- (c) researching into herbal medicine, acupuncture and electro-stimulation.

Audit observations and recommendations

Need to establish a formal strategic planning process

4.5 Audit noted that the formulation of the 1998 SARDA strategic plan was only a one-off exercise. Since then, SARDA has neither updated this strategic plan, nor formulated a new one (upon expiry of the plan in 2003-04), taking into account significant changes since 1998 (see paras. 4.11 to 4.17). From time to time, strategic initiatives were discussed by the EC on a piecemeal basis.

4.6 **To provide effective strategic directions for future development, it is necessary for SARDA to establish a formal strategic planning process.** The process should include:

- (a) regular review and updating of the current strategic plan (say at least on a yearly basis) within the planning period (say five years); and
- (b) formal evaluation of the implementation of strategic plan upon its expiry, and the formulation of a new one, taking into account latest changes and developments.

Need to assess the financial resources required

4.7 The 1998 SARDA strategic plan did not provide an estimate of the required financial resources for implementing initiatives under the plan (see para. 4.4). The implementation of the priorities and goals identified in the strategic plan may have significant resource implications. **As a good planning process, SARDA needs to assess the financial resources required for implementing initiatives set out in its strategic plan.** This forms the basis for compiling SARDA financial projections and annual budgets. It also provides a clear linkage between the strategic plan and annual budgets, and ensures that the strategic plan can be effectively translated into operational and budget plans to meet strategic objectives.

Need to address strategic issues that pose great challenges to SARDA

4.8 As mentioned in paragraph 4.5, the SARDA strategic plan, which was formulated in 1998, had not taken into account subsequent changes and developments. In particular, a number of significant issues had since emerged that could have far-reaching impacts on SARDA. These issues, which pose great challenges to SARDA, include:

- (a) the need to respond to changes in the drug abuse situation in Hong Kong in the past 10 years (see paras. 4.11 to 4.19); and
- (b) possible impacts brought about by the review of the subvention arrangement for SARDA (see paras. 2.16 to 2.20).

Audit considers it necessary for SARDA, in consultation with its key stakeholders (including the ND and the DH), to address these strategic issues as a matter of priority.

Audit recommendations

4.9 **Audit has recommended that SARDA should:**

- (a) **establish a more rigorous strategic planning process, including:**
 - (i) **regular review and updating of the strategic plan within the planning period; and**
 - (ii) **formal evaluation of the implementation of the strategic plan upon its expiry;**
- (b) **assess the financial resources required for implementing initiatives set out in its strategic plan; and**
- (c) **address strategic issues that pose challenges to SARDA, in consultation with its key stakeholders (including the ND and the DH).**

Response from SARDA

4.10 SARDA accepts the audit recommendations. The **ED, SARDA** has said that:

- (a) the next strategic plan is largely dependent on the outcome of the SARDA proposal to establish a Centre for Anti-drug Education and Disciplinary Training (CAEDT) at Shek Kwu Chau (see paras. 4.14 to 4.16); and
- (b) SARDA will produce the strategic plan within three months after policy support of the CAEDT proposal is given.

Meeting challenges in the provision of drug treatment and rehabilitation services

Changes in drug abuse situation in Hong Kong

4.11 *Shift from the use of heroin to psychotropic substances.* According to statistics of the Central Registry of Drug Abuse (Note 7), from 1997 to 2007, the total number of reported drug abusers had decreased steadily by 23% (from 17,635 to 13,491). At the same time, there had been a shift from the use of heroin to psychotropic substances. From 1997 to 2007, the number of reported heroin abusers decreased considerably by 48% (from 14,291 to 7,390). However, in the same period, the number of reported psychotropic substance abusers increased significantly by 124% (from 3,488 to 7,810).

4.12 *Drop in demand for SARDA services.* SARDA programmes are basically geared to the provision of T&R services for heroin abusers. The recent decline in the number of heroin abusers has had a great impact on the demand for SARDA services. The total number of admissions of the four SARDA centres (see Table 1 in para. 1.5) decreased by 29%, from 2,152 in 1997 to 1,525 in 2007 (see Table 7). This was mainly attributable to the considerable decrease of 32% (from 1,988 to 1,360) in admissions to the SKC Centre in the same period.

Note 7: *The Central Registry of Drug Abuse is a registry maintained by the ND to collect information for monitoring the drug abuse situation in Hong Kong and to provide basic data to facilitate drug policy formulation.*

Table 7
Number of admissions to SARDA centres
(1997 to 2007)

Year	SKC Centre	Sister Aquinas Centre	Adult Female Rehabilitation Centre	Au Tau Youth Centre	Total
1997	1,988	85	10	69	2,152
1998	2,084	99	25	106	2,314
1999	1,881	105	31	118	2,135
2000	1,801	96	29	86	2,012
2001	2,103	79	27	83	2,292
2002	1,993	118	52	127	2,290
2003	1,852	112	59	129	2,152
2004	1,688	158	87	86	2,019
2005	1,598	156	97	79	1,930
2006	1,333	116	45	70	1,564
2007	1,360	104	20	41	1,525

Source: SARDA records

4.13 *Under-utilisation of the SKC Centre.* While the drop in demand for SARDA services has little effect on its smaller centres (i.e. the Adult Female Rehabilitation Centre and the Au Tau Youth Centre), the bed occupancy rates of the two larger centres (i.e. the SKC Centre and the Sister Aquinas Centre) had been decreasing in the past few years. For example, there was considerable under-utilisation of the SKC Centre, with its bed occupancy rate dropping from 71% in 2004 to 64% in 2007. Table 8 shows the bed occupancy rates of the SARDA centres in the period 2004 to 2007.

Table 8
Bed occupancy rates of SARDA centres
(2004 to 2007)

Year	T&R centre (capacity)			
	SKC Centre (316 beds)	Sister Aquinas Centre (42 beds)	Adult Female Rehabilitation Centre (24 beds)	Au Tau Youth Centre (20 beds)
2004	71%	92%	98%	97%
2005	66%	74%	101%	89%
2006	63%	69%	106%	101%
2007	64%	83%	100%	96%

Source: SARDA records

4.14 *Proposal to provide new services to psychotropic substance abusers.* To address the issue of under-utilisation of the SKC Centre, in June 2004, SARDA put forward to the ND a proposal to establish a CAEDT (see para. 4.10(a)) at Shek Kwu Chau with an estimated capital cost of \$82 million. The concept of the CAEDT was derived from a recommendation of the Three-year Plan on Drug Treatment and Rehabilitation Services in Hong Kong (2003-2005) published by the ND in 2003, which called for the establishment of pilot innovative programmes (such as boot-camp programmes) that provide experiential and adventure training to young psychotropic substance abusers, in order to meet the changes in drug abuse patterns.

4.15 The CAEDT aimed to provide outward-bound style of training to the youth (especially students) in the territory with a theme that emphasises the prevention of drug (including psychotropic substance) abuse. SARDA expected that the CAEDT would be operated without additional recurrent government funds. CAEDT recurrent resources would be funded by fee income (received from users of CAEDT services) and redeploying existing resources. In July 2005, SARDA applied for funding from the Hong Kong Jockey Club Charities Trust for the construction of the CAEDT campus. However, the Trust would review the CAEDT proposal only after policy support is given by the Government. SARDA estimated that the project cost in 2006 was \$117 million.

4.16 Because the June 2004 CAEDT proposal was rather preliminary, the ND and the DH had to examine the proposal in close liaison with SARDA. In April 2006, the ND informed SARDA that the Administration supported the proposal in principle. In January 2008, SARDA submitted the latest version of its proposal. As at February 2008, the proposal was still under examination by the ND and the DH. As advised by the ND in February 2008, the under-utilisation of the SKC Centre and the CAEDT proposal were two separate issues. The Administration would examine the CAEDT proposal on its own merit.

Audit observations and recommendations

4.17 The extension of SARDA services to also cover psychotropic substance abusers is a strategic direction that SARDA has been pursuing in recent years. Such service re-engineering may have significant resource implications (e.g. investment in infrastructure and recurrent funding requirements). To meet the challenges posed by changes in drug abuse situation in Hong Kong, SARDA needs to continue to pursue this strategic direction. The proposal to establish the CAEDT is an initiative under this service re-engineering strategy.

4.18 **Audit has recommended that SARDA should further explore, through its strategic planning process and in consultation with the ND and the DH, the better use of its resources and facilities (especially in the SKC Centre), including suitable re-engineering to provide services for the T&R of psychotropic substance abusers.**

4.19 **Audit has also recommended that the Commissioner for Narcotics should, in consultation with the Director of Health, accord priority to the examination of the SARDA proposal to establish the CAEDT, and to arrive at an early decision.**

Response from SARDA

4.20 SARDA accepts the audit recommendation. The ED, SARDA has said that SARDA will work closely with the ND and the DH on the best way forward to better use its resources and facilities.

Response from the Administration

4.21 The Commissioner for Narcotics agrees with the audit recommendation.

PART 5: STAFF RECRUITMENT

5.1 This PART examines matters relating to staff recruitment of SARDA.

Audit examination of SARDA staff recruitment process

5.2 Audit has examined SARDA staff recruitment process, and found that there are areas where improvements can be made:

- (a) documentation of recruitment exercises (see paras. 5.3 to 5.6); and
- (b) granting of incremental credit for experience (ICE — see paras. 5.9 to 5.20).

Documentation of recruitment exercises

5.3 In general, it is a good management practice to maintain proper records of a recruitment exercise, in order to ensure fairness and transparency in the staff recruitment process.

5.4 ***Recruitment process.*** For staff recruitment, SARDA advertises the post(s) to be recruited in a local newspaper. After receiving applications from candidates, SARDA prepares a list of applications received, showing the date of receipt, name of applicant and the post applied for. Eligible candidates are then shortlisted for interview. The selection panel is chaired by the immediate supervisor of the vacant post, a staff who is two substantive ranks higher than the vacant post, and a representative from SARDA Administration Department. During the interview, a candidate assessment form is used to record individual qualities and performance of the applicants. Successful candidates are prioritised and requested to attend a health check.

Audit observations and recommendation

5.5 Audit reviewed SARDA recruitment process and found that:

- (a) among the applicants who submitted applications for a post, SARDA would shortlist some applicants for interview. However, the shortlisting criteria were not laid down;
- (b) for those applicants who were not shortlisted for interview, the reasons were not documented on file; and

- (c) there was no record kept for those shortlisted applicants who did not show up for interview.

Example 1 shows the inadequacies mentioned above.

Example 1

Inadequate documentation of a recruitment exercise

In July 2007, a recruitment exercise was conducted to recruit an Assistant Social Work Officer. Audit review of the documentation of the recruitment exercise revealed that:

- (a) of the 23 applicants, 13 were shortlisted for interview, while 10 were not shortlisted. The shortlisting criteria were not laid down;
- (b) there was no control list to record those applicants who were not shortlisted, and the reasons for not shortlisting them; and
- (c) of the 13 applicants shortlisted for interview, 8 showed up for interview. There was no record kept in respect of the 5 applicants who did not show up for interview.

Source: SARDA records

5.6 To enhance transparency and fairness, Audit has *recommended* that SARDA should maintain proper records of the recruitment exercises, including:

- (a) the shortlisting criteria;
- (b) the reasons for not shortlisting a candidate for interview; and
- (c) a record of those candidates who do not show up for interview.

Response from SARDA

5.7 SARDA accepts the audit recommendation. The ED, SARDA has said that the recommendation will be implemented with immediate effect.

Response from the Administration

5.8 The **Director of Health** also welcomes the audit recommendation. He has said that the DH has reminded SARDA, in its current recruitment exercise for a new ED, the importance of having shortlisting criteria and clear documentation.

Granting of incremental credit for experience

5.9 SARDA recruits staff and pays them at the entry salary point of their corresponding grade. For new recruits who are in the professional grade (such as nurses and social workers), subject to DH approval, SARDA may grant ICE to them. ICE takes into account the post-qualification experience of a new recruit and, where appropriate, adjusts upwards his entry salary point. It may be granted to him before or after he joins SARDA. However, before receiving DH approval, he can only be paid at the starting point of his salary scale. Upon DH approval, he will be paid at the revised salary point with retrospective effect from the date he joins SARDA.

5.10 *Approval procedures.* In seeking approval for the grant of ICE, SARDA submits a detailed list of qualification and experience of the new recruit to the DH for its consideration. SARDA also makes recommendation on the incremental salary points to be given to him. The DH vets the post-qualification experience of the new recruit and decides on the increment to be granted.

5.11 *SARDA recruitment difficulties.* In general, the principle of granting ICE is that it should be granted only when a rank is faced with recruitment difficulties, and there is a need to attract and retain experienced staff. Regarding the granting of ICE, on 11 August 2006, the DH advised SARDA that “*the scale of provision, subject to a maximum of one increment for every completed year of relevant post-qualification experience, should have regard to needs. The prevailing recruitment market and practice are important factors for consideration.*” SARDA considers that the granting of ICE is important for it to address the difficulties in recruiting and retaining staff (particularly nurses), given the remoteness of its T&R centres (particularly the SKC Centre), and the limited promotion prospects for its staff. For example, of an establishment of 18 nurses in SARDA, 8.5 (47% — Note 8) left the service in 2006.

Note 8: *They included 6 nurses who resigned from the service, and 2.5 (a part-time nurse was counted as 0.5 staff) who left because of retirement or completion of contract.*

Audit observations and recommendations

Need to expedite the processing of ICE applications

5.12 Audit examined at random 10 out of 20 ICE applications of new recruits processed in 2005, 2006 and 2007 (up to September 2007). Appendix F shows the time taken to process these 10 ICE applications.

5.13 As shown at Appendix F, it took an average time of:

- (a) 41 days for SARDA to submit an ICE application to the DH. The longest time span was 105 days (i.e. 3.5 months); and
- (b) 36 days for the DH to approve an ICE application submitted by SARDA. The longest time span was 143 days (i.e. 4.8 months).

Therefore, on average, a new recruit of SARDA had to wait for **2.6 months** (i.e. 41 days + 36 days = 77 days) before ICE was granted to him.

5.14 **It appears that the time taken (by both SARDA and the DH) to handle ICE applications was rather long. Audit considers that the long time taken to process ICE applications might not be conducive to attracting and retaining professional staff (e.g. nurses and social workers) to work in SARDA.** In this connection, Audit noted a case (Note 9) in which a nurse initially accepted SARDA's job offer, but eventually rejected the offer as she did not receive any reply about her ICE application before commencement of duty (see Example 2).

Note 9: *This case has not been included in Appendix F because the processing of ICE application was subsequently withdrawn by SARDA (see Example 2).*

Example 2

Long time taken in handling an ICE application

1. In September 2007, SARDA made a job offer to a nurse. On 19 September 2007, SARDA submitted an ICE application on behalf of the nurse for an entry salary at Point 20 of the Master Pay Scale (MPS 20). SARDA stated that the nurse was the only applicant responding to its job advertisement in the recent recruitment exercises that had been repeated in August 2007.
2. On 9 October 2007, SARDA wrote to the DH stating that the nurse would not report duty, as expected on 11 October 2007, unless she could be allowed to enter at MPS 20. SARDA requested the DH to reply as early as possible. SARDA subsequently withdrew the nurse's ICE application on 1 November 2007 as the nurse had turned down the job offer. Between 19 September 2007 and 1 November 2007, SARDA did not receive any reply or queries from the DH regarding the ICE application.
3. In February 2008, in response to Audit enquiry, the DH explained that it was not aware (until 9 October 2007) of the fact that the nurse would decline to report duty unless she was granted MPS 20 before commencement of duty. In any case, the request of MPS 20 could not be approved under prevailing policy.

Source: SARDA records

5.15 Audit considers that both SARDA and the DH need to take measures to streamline the processing of ICE applications.

Need to document justifications for granting ICE

5.16 In the ten ICE applications examined by Audit (see para. 5.12), Audit noted that there were cases where a new recruit with fewer years of post-qualification experience was granted more incremental salary points than another one with more experience (see Table 9).

Table 9

Examples of ICE granted to new recruits in cases examined by Audit

New recruit (Note 1)	Post	Appointment date	Entry salary point (Note 2) (a)	Years of post-qualification experience counted for ICE purpose	Salary point recommended by SARDA and approved by DH (Note 2) (b)	Incremental salary points granted (c) = (b) – (a)	DH approval date
Staff I	Nurse	10 January 2005	5	16 years	13	8	1 August 2005
Staff II	Nurse	23 July 2005	5	26 years	10	5	1 November 2005
Staff III	Nurse	24 October 2006	5	29 years	9	4	25 October 2006
Staff IV	Nurse	18 December 2006	5	26 years	14	9	22 November 2006

Source: SARDA records

Note 1: Staff I, II, III and IV relate to Cases 1, 2, 8 and 9 respectively in Appendix F.

Note 2: This is based on the salary point of the Master Pay Scale of the Civil Service.

5.17 As can be seen in Table 9, in August 2005, Staff I with 16 years of post-qualification experience was recommended (by SARDA) and granted (by the DH) 8 incremental salary points. However, at about the same time (in November 2005), Staff II with 26 years of post-qualification experience (i.e. 10 years more than that of Staff I) was recommended and granted only 5 incremental salary points. A comparison of the ICE granted to Staff III and IV also showed similar situation. There was no justification recorded on file for the different treatments in these cases.

5.18 To ensure fairness and transparency, Audit considers that SARDA should document on file the justifications for differences in the basis for granting ICE.

Audit recommendations

- 5.19 **Audit has recommended that SARDA should:**
- (a) **in consultation with the DH, take measures to streamline the processing of ICE applications; and**
 - (b) **ensure that the justifications for granting ICE are recorded on file, and that all cases are handled in a consistent manner.**

5.20 **Audit has also recommended that the Director of Health should remind SARDA to make reference to the DH guidelines on the granting of ICE and, where necessary, provide additional guidelines to SARDA.**

Response from SARDA

- 5.21 SARDA accepts the audit recommendations. The **ED, SARDA** has said that:
- (a) these recommendations will be implemented with immediate effect; and
 - (b) SARDA will comply with the guidelines on the ICE when issued by the DH.

Response from the Administration

- 5.22 The **Director of Health** accepts the audit recommendations. He has said that:
- (a) Case 1 at Appendix F is an isolated case. If this case was excluded, the average processing time for the DH mentioned in paragraph 5.13(b) would be 24 days; and
 - (b) as regards paragraph 5.14, while acknowledging that the processing time could have been improved, the DH would not be able to approve the salary point requested by the candidate in accordance with prevailing policy. In other words, even if the application had been processed well in time, SARDA would not have been able to secure the service of that candidate.

PART 6: FINANCIAL CONTROL AND CASH MANAGEMENT

6.1 This PART examines the financial control and cash management of SARDA.

Financial control

SARDA Accounts Unit

6.2 The Accounts Unit of SARDA, headed by an Accountant, is responsible for handling all finance, accounting and supplies matters. The Accountant reports to the Administrative Secretary, who is the head of SARDA Administration Department (see Appendix A).

SARDA Standing Financial Instructions

6.3 From time to time, SARDA issues guidelines, in the form of Standing Financial Instructions (SFIs), for handling financial and accounting matters. As at 1 October 2007, SARDA had a total of 22 SFIs. Examples of SFIs issued by SARDA are shown in Table 10. SARDA also issues temporary circulars to supplement the SFIs where necessary.

Table 10

Examples of SFIs issued by SARDA

Subject	Date of issue
Financial Commitments	May 1990
Budgetary Control System	August 1996
Financial Application for and Report on Programme	May 1998
Petty Cash Imprest System	May 1998
Overnight Holding Limits of Safe	May 1998

Source: SARDA records

Audit observations and recommendations

Need to conduct regular review of the SFIs

6.4 Audit noted that SARDA did not regularly review its SFIs to take into account the development and changes in financial and accounting matters. For example, the SFI on Budgetary Control System was issued more than ten years ago (in August 1996) and has not since been revised to reflect latest changes/developments in financial and accounting matters (see Example 3).

Example 3

An out-dated SFI

1. The DH recurrent subvention to SARDA falls into two broad categories, namely “personal emoluments” and “other charges”. Prior to 2006-07, according to SARDA SFI on budgetary control system, virement between subheads in “other charges” should be subject to EC approval. In June 2006, as the DH recurrent subvention for “other charges” had already been changed in 2002-03 to a block allocation with no itemised breakdown under various subheads (thus providing SARDA with flexibility in deployment of funds), the EC resolved that virement would no longer need to be approved by it. To ensure proper use of funds, the allocation of funds in “other charges” is discussed in the weekly meetings among the ED, the Administrative Secretary, the Accountant, the CSWO and a Social Work Officer of SARDA.
2. Despite the above changes, the aforesaid SFI has not been amended to reflect the changes. Furthermore, the SFI describes the procedures relating to a manual budgeting and accounting system whereas, in practice, a computerised system has been in operation since April 2003.

Source: SARDA records

6.5 **Audit considers that SARDA needs to regularly review the SFIs to ensure that they are up-to-date and reflect latest changes/developments in financial and accounting matters.**

Need to establish regulations governing controls on financial and accounting matters

6.6 In 1979, SARDA prepared a draft Agency Manual. In the Manual, the finance and accounting system of SARDA was described. The draft Manual provided details on SARDA accounting policies, budgetary controls and procedures, revenue and expenditure control, and stock and inventory control. However, SARDA had not finalised and issued the Manual.

6.7 In October 1985, the then ED instructed the then Accountant to produce a set of regulations governing controls on financial and accounting matters. The target was to produce these regulations by February 1986. However, this task had not been completed.

6.8 In December 1995, the then Administrative Secretary mentioned in a memorandum to the then Accountant that for better internal controls, it was time to review the financial and accounting practices and to establish a set of regulations. However, the regulations had not been established.

6.9 Audit noted that the past attempts to develop a set of financial and accounting regulations (see paras. 6.6 to 6.8) to govern the internal control system of SARDA had been futile. Internal control procedures are vital to the operation of an effective financial and accounting system. A set of clear and comprehensive regulations governing controls on financial and accounting matters can help ensure compliance and the proper use of financial resources. **Audit considers that SARDA needs to accord priority to the establishment of such a set of comprehensive regulations.**

Audit recommendations

6.10 **Audit has recommended that SARDA should:**

- (a) **regularly review the SFIs to ensure that they are up-to-date and reflect latest changes/developments in financial and accounting matters; and**
- (b) **accord priority to the establishment of a set of comprehensive regulations governing controls on financial and accounting matters.**

Response from SARDA

6.11 SARDA accepts the audit recommendations. The ED, SARDA has said that:

- (a) these recommendations are noted for immediate or future implementation where appropriate; and
- (b) action has been in hand to update the SFIs.

Management of surplus funds

6.12 As at 31 March 2007, SARDA had cash amounting to \$9.6 million, of which:

- (a) \$0.1 million was cash in hand; and
- (b) \$9.5 million was cash at bank, comprising \$7.2 million (76%) placed as fixed deposits, and \$2.3 million (24%) placed in savings and current accounts.

Audit observations and recommendations

6.13 In 2006-07, a total of 149 fixed deposits were placed by SARDA. Audit analysis of these 149 fixed deposits showed that:

- (a) the deposit amount was, on average, \$0.67 million ranging from \$0.1 million to \$5.3 million;
- (b) the deposit tenure was, on average, 36 days ranging from 7 days to 176 days (about 6 months); and
- (c) the interest rate was, on average, 2.7% ranging from 2.5% to 2.9%.

6.14 Audit noted that in 2006-07 and 2007-08 (up to November 2007), SARDA placed all fixed deposits with the same bank. SARDA did not obtain quotes for interest rates from other banks. The average interest rate of 2.7% (for an average deposit tenure of 36 days) was in line with the 2006 market average (i.e. 2.7% for one-month time deposits, as published in the Hong Kong Monetary Authority Annual Report 2006). **However, in order to obtain a higher return, SARDA needs to adopt the good practice of obtaining interest rate quotes from different banks before placing fixed deposits.**

6.15 SARDA has not laid down its policies and procedures on the management of surplus funds. All along, SARDA Accounts Unit has followed the practice of placing surplus funds (i.e. monies not immediately required to meet expenses) as Hong Kong dollar fixed deposits with the same bank. SARDA does not hold other types of investments (such as bonds and certificates of deposits) that are acquired by using government funds. In order to maximise return on investment of surplus funds, Audit considers that SARDA

should establish a set of policies and procedures on the management of surplus funds, including, for example:

- (a) a list of approved banks from which SARDA may obtain quotes for placing fixed deposits;
- (b) the types of investment (e.g. US dollar and other foreign currency deposits, treasury bills, bonds and certificates of deposits) that SARDA may hold; and
- (c) the authorities for approving different types and amounts of investment.

6.16 **Audit has recommended that SARDA should:**

- (a) **adopt the good practice of obtaining interest rate quotes from different banks before placing fixed deposits, so as to improve the return on investment of surplus funds; and**
- (b) **establish a set of policies and procedures on the management of surplus funds.**

Response from SARDA

6.17 SARDA accepts the audit recommendations. The **ED, SARDA** has said that these recommendations are noted for immediate or future implementation where appropriate.

Petty cash management

6.18 SARDA offices (Note 10) are provided with petty cash, ranging from \$500 to \$29,500 for the payment of various expenses. Audit visited the two largest T&R centres of SARDA (referred to as Centres A and B) to conduct sample checks on the operation and management of petty cash.

Note 10: *SARDA offices include the Head Office Administration Department, T&R centres, halfway houses and social service centres.*

Audit observations and recommendations

Need to strengthen petty cash management

6.19 Audit examination revealed that there were inadequacies in petty cash management, as follows:

- (a) ***Cash limit exceeded.*** Centre A maintains three petty cash accounts with a total cash limit of \$19,400 prescribed by SARDA Head Office. Audit visited Centre A in November 2007 and conducted surprise cash surveys on the three accounts. The cash surveys revealed that the balance of petty cash of \$63,085 had exceeded the total cash limit by \$43,685. Upon enquiry, the responsible staff of Centre A informed Audit that the surplus, part of which was brought forward from his predecessor, had been accumulated for many years. **Audit considers that the Head Office should investigate the reasons for the surplus. For proper petty cash management, SARDA should ensure that all its offices conduct regular reconciliation of their petty cash accounts, and report and return any surplus to the Head Office;**
- (b) ***Different petty cash accounts held by one person.*** Centre A has three petty cash accounts designated for different purposes (i.e. general expenses, patient amenities and patient admission deposits). Audit noted that all three accounts were held by the same person (as the petty cash holder). For Centre B, the four petty cash accounts (designated for different purposes) were held by different persons. **Audit considers that the arrangement in Centre A is less than satisfactory, because there is no segregation of duties in handling petty cash for different specific purposes. SARDA may require all its offices to adopt the good practice of Centre B in arranging different persons to hold different petty cash accounts as far as possible;**
- (c) ***No segregation of duties between authorisation and payment of petty cash.*** In Centre A, the authorising officer approving payments from petty cash is also the petty cash holder. **As a good internal control practice, Audit considers that the person who authorises petty cash payments should not, at the same time, be the petty cash holder;**
- (d) ***Use of petty cash to pay for goods/services delivered at regular intervals.*** The relevant SFI of SARDA stipulates that petty cash should not be used to purchase goods/services delivered at regular intervals. However, Audit noted that in Centre A, an officer disbursed from the petty cash monthly service fees for his mobile phone (which he uses for operational purposes). Audit also noted that, in Centre B, an arrangement was made with the suppliers to supply food with their invoices settled by petty cash at regular intervals. **Audit considers that SARDA should ensure that all its offices comply with the above-mentioned SFI requirement;**

- (e) ***Frequent personal advances to petty cash accounts.*** Audit noted that in Centre B, there were frequent deficits in petty cash accounts, resulting in personal advances (amounting to some \$24,000 as at the time of audit visit in December 2007) to the accounts by centre staff, while awaiting reimbursement from the Head Office. **Audit considers that such a practice of using personal advances to top up a petty cash account should not be encouraged. SARDA should take measures to avoid deficits in petty cash accounts, thus obviating the need for such personal advances by centre staff.** For example, more frequent topping up of petty cash accounts may be arranged. As mentioned in (d) above, if petty cash is used only for paying small incidental expenses (but not for goods/services delivered in regular intervals), deficits of petty cash accounts may be avoided. If the amount of petty cash for a centre is really found to be insufficient, the Head Office should consider increasing the cash limit accordingly; and
- (f) ***Petty cash book not updated.*** Audit noted that details of petty cash transactions were not properly kept by the two centres visited. Instead of recording petty cash payment transactions on a daily basis, the transactions were posted to the petty cash book only when the petty cash holder sought reimbursements from the Head Office. **Such a practice is not entirely satisfactory. SARDA needs to ensure that all petty cash holders update their cash books on a daily basis.**

Need to conduct proper cash surveys

6.20 The Head Office and petty cash controllers (Note 11) conduct cash surveys on SARDA offices to detect and deter mismanagement of petty cash. Audit findings are as follows:

- (a) ***Cash surveys by the Head Office.*** Of the 19 SARDA offices with petty cash accounts, in 2006-07, the Head Office conducted annual cash surveys in only 4 T&R centres. Before 2006-07, it only conducted such surveys in the SKC Centre; and
- (b) ***Cash surveys by petty cash controllers.*** Audit noted that in Centre A, the Superintendent conducted cash surveys on petty cash held by the petty cash holder on a bi-monthly basis. However, in Centre B, no cash survey was conducted by the petty cash controller.

Note 11: *The petty cash controller is usually the head of a T&R centre, halfway house or social service centre.*

Audit recommendations

6.21 **Audit has recommended that SARDA should:**

Need to strengthen petty cash management

- (a) **ensure that all offices conduct regular reconciliation of their petty cash accounts, and report and return any surplus to the Head Office;**
- (b) **ensure that surpluses in petty cash accounts are properly investigated;**
- (c) **require all offices to adopt the good practice of Centre B that different persons hold different petty cash accounts;**
- (d) **ensure that the person who authorises petty cash payments should not, at the same time, be the petty cash holder;**
- (e) **ensure that SARDA offices use petty cash only for small incidental expenses, but not for the purchase of goods/services delivered at regular intervals;**
- (f) **take measures to avoid deficits in petty cash accounts, thus obviating the need for personal advances by centre staff;**
- (g) **ensure that all petty cash holders update their cash books daily;**

Need to conduct proper cash surveys

- (h) **conduct cash surveys on all SARDA offices on a more frequent basis; and**
- (i) **stipulate the frequencies of cash surveys to be conducted by petty cash controllers, and ensure that they carry out the surveys as required.**

Response from SARDA

6.22 SARDA accepts the audit recommendations. The **ED, SARDA** has said that these recommendations are noted for immediate or future implementation where appropriate.

PART 7: PROCUREMENT AND STORES MANAGEMENT

7.1 This PART examines SARDA procurement and stores management.

Procurement of stores

7.2 SARDA procurement of stores is governed by DH “Guidelines on Purchasing and Supplies Procedures for Organisations Subvented by the Department of Health” (Purchasing Guidelines). SARDA also has its own Stores Regulations.

7.3 Audit review of SARDA stores procurement procedures has found that there are areas where improvements can be made (see paras. 7.4 to 7.13).

Audit observations and recommendations

Need to obtain approval before making purchases

7.4 SARDA Stores Regulations require its staff to seek approval from the proper authority for requisition of stores. However, the approving authority has not been laid down. In practice, all requisitions need to be endorsed by the Administrative Secretary and approved by the ED. The Stores Regulations also provide that, in exceptional cases, purchases may be made by obtaining verbal approval from the Administrative Secretary. Such verbal approval should be stated on the purchase requisition form for subsequent approval by the ED.

7.5 Audit selected all payment vouchers for the month of September 2007 for examination, which involved 165 purchases made by SARDA offices. Of the 165 purchases, 109 (66%) were made before ED approval was obtained. The purchase requisition forms for these purchases also did not record any verbal approval given by the Administrative Secretary. In all these cases, ED covering approval was subsequently obtained.

7.6 It appeared that the practice for all purchases to be approved by just one authorised person (i.e. the ED) might be a reason for the large number of cases requiring covering approval. **Audit considers that SARDA may consider delegating the authority for approving purchases to other designated officers (e.g. the Administrative Secretary). SARDA also needs to stipulate in its Stores Regulations the financial limits for such delegated authority.**

Need to comply with quotation and tender requirements

7.7 SARDA Stores Regulations require its staff to obtain quotations before making purchases. The quotations required for purchases are as follows:

- (a) for stores costing not more than \$600, no quotation is required;
- (b) for stores costing over \$600 but not exceeding \$50,000, more than one quotation is required; and
- (c) for stores costing over \$50,000 but not exceeding \$120,000, at least five quotations are required.

Furthermore, according to the DH Purchasing Guidelines, tendering by SARDA Head Office is required for the purchase of stores costing more than \$120,000.

7.8 *Sufficient quotations not obtained.* Of the 165 purchases selected for audit examination (see para. 7.5), 117 were purchases costing over \$600 each and therefore quotations were required. Audit found that 73 (62%) of the 117 purchases were made without obtaining the required number of quotations in accordance with SARDA Stores Regulations. Furthermore, in 21 (29%) of these 73 purchases, no reason was given for not complying with the Stores Regulations. Table 11 shows the details.

Table 11

Purchases without obtaining the required number of quotations

Reason	Number of purchases
Sole agent (e.g. repairs by authorised dealers)	3
Contract item	3
Special arrangement with supplier	46
No reason was given	21
Total	73

Source: *Audit analysis of SARDA records*

7.9 Audit scrutiny of those cases where the required number of quotations was not obtained showed that, in some cases, the same suppliers were used in the last few years (e.g. Companies 4 and 5 in Table 12 in para. 7.11).

7.10 *Tender procedures not followed.* Centre A has established a selection committee (Note 12) to engage, on a yearly basis, suppliers for the provision of food. Audit noted that the selected suppliers provided food to Centre A, costing over \$120,000 a year. This was not in compliance with DH Purchasing Guidelines, which stipulated that tendering by the Head Office would be required for the purchase of stores costing over \$120,000 (see para. 7.7).

Use of same suppliers continuously

7.11 In examining the procurement of stores, Audit noted that there were some cases where the same suppliers had either been selected in three consecutive years for providing the same goods/services to SARDA centres without obtaining the required number of quotations (see para. 7.9), or been selected by the selection committee of Centre A without going through proper tender procedures. Table 12 shows examples of such cases where the same suppliers were engaged in the years 2005-06 to 2007-08.

Note 12: *The selection committee comprises the Superintendent of the Centre, a Senior Group Leader, two Clerical Officers, and an Assistant Clerical Officer.*

Table 12

**Examples of the use of the same supplier for providing goods/services
(2005-06 to 2007-08)**

Supplier	SARDA Centre	Goods/services provided	2005-06 (\$'000)	2006-07 (\$'000)	2007-08 (up to October 2007) (\$'000)
Company 1	A	Vegetables and meat	1,063	1,048	604
Company 2	A	Fish	461	448	258
Company 3	A	Fruits	63 (Note)	125	65
Company 4	B	Liquefied petroleum gas, rice and cooking oil	44	26	20
Company 5	C	Liquefied petroleum gas, maintenance of gas stores and repairs of kitchen equipment	53	50	26

Source: Audit analysis of SARDA records

Note: Company 3 provided fruits to Centre A with effect from September 2005.

7.12 For the selection of regular suppliers of goods and services, Audit considers that SARDA needs to seek competitive quotations or, for cases involving amounts over \$120,000, by tendering through the Head Office.

Audit recommendations

7.13 Audit has recommended that SARDA should:

Need to obtain approval before making purchases

- (a) consider delegating the authority for approving purchases to other designated officers (e.g. the Administrative Secretary), and stipulating in the Stores Regulations the financial limits for such delegated authority;

- (b) ensure that proper approval is obtained before making purchases. If it is not feasible to do so, verbal approval from the proper authority should be obtained and documented on the purchase requisition form for covering approval;

Need to comply with quotation and tender requirements

- (c) ensure that the quotation and tender procedures stipulated in the SARDA Stores Regulations and DH Purchasing Guidelines are followed. If it is not feasible to do so, the reasons should be documented for record purpose; and

Use of same suppliers continuously

- (d) for the selection of regular suppliers of goods and services, seek competitive quotations or issue tenders through the Head Office for cases involving amounts over \$120,000.

Response from SARDA

7.14 SARDA accepts the audit recommendations. The ED, SARDA has said that these recommendations are noted for immediate implementation.

Management of inventory and consumable stores

7.15 In 2006-07, SARDA spent some \$1.5 million on acquiring inventory items, such as furniture and equipment. The Supplies Assistant of the Head Office is responsible for maintaining up-to-date inventory records of all SARDA offices.

7.16 Consumable stores held by SARDA centres include drugs, cleaning materials, stationery, and kitchen materials. As at 31 March 2007, SARDA had a stock of consumable stores of \$325,000, of which \$108,000 (33%) were drugs and \$217,000 (67%) were other consumable stores. A store ledger is maintained in each centre to record the receipt and issue of stores held in stock.

7.17 Audit examined the inventory recording procedures in SARDA Head Office, and visited Centre A and Centre B to carry out inventory checking and stock inspection on a sample basis. Audit has found that there are areas where improvements can be made in the management of inventory and consumable stores (see paras. 7.18 to 7.25).

Audit observations and recommendations

Timely recording of inventory stores

7.18 According to SARDA Stores Regulations, the officer-in-charge of the offices is required to submit an inventory return to SARDA Head Office at the end of each month. Based on the monthly returns from the offices, the Supplies Assistant of SARDA Head Office will update the inventory records accordingly.

7.19 Audit noted that the officers-in-charge of some SARDA offices did not report the receipt of inventory items in a timely manner. Example 4 shows that the officer-in-charge of Centre B reported the receipt of an inventory item to SARDA Head Office some seven months after the item was received.

Example 4

Failure to report receipt of inventory stores in a timely manner

In Centre B, a set of wooden table with four chairs, costing \$1,990, was received in January 2007. The receipt of this item was only recorded in the inventory return for the month of August 2007, which was submitted to the Head Office in September 2007. The item was recorded in the inventory register by the Supplies Assistant in October 2007.

Source: SARDA records

7.20 Audit also noted that the officer-in-charge of Centre B did not submit the inventory return on a monthly basis. In 2007 (up to 1 December 2007), only four monthly inventory returns (i.e. for the months of February, April, July and August 2007) were submitted to the Head Office. In the monthly return for August 2007, the reported items were received between January and August 2007.

7.21 **Audit considers that the officers-in-charge of SARDA offices need to submit monthly inventory returns to the Head Office and report the receipt of inventory stores in a timely manner.**

Recording of donated assets

7.22 According to SARDA Stores Regulations and the DH Purchasing Guidelines, donations in kind should be recorded on the inventory list. Audit selected 10 items in the offices of Centre A and checked to the inventory list. Audit noted that four (40%) of the selected items had not been recorded on the list. These items were conference table, air-conditioner, whiteboard and fan. The responsible officer of Centre A informed Audit in November 2007 that these items were donated assets which were in poor condition upon receipt from the donors, and were put to usable condition only after restoration and repair. **Audit considers that, for proper accounting of inventory stores, all donated assets (including used assets) should be recorded on the inventory list.**

Stockholding level for electrical appliances

7.23 In Audit stock inspection of Centre A on 30 November 2007, four types of electrical appliances held in stock were selected for examination. Audit noted that some of the electrical appliances were purchased more than two years ago (see Table 13).

Table 13

**Ageing analysis of electrical appliances selected
by Audit for stock inspection
(30 November 2007)**

Electrical appliances	Number held in store	Cost per unit	Date of receipt	Stock holding period
Rice Cooker	7	\$664	Feb 2005	2 years 9 months
Electric ceiling fan	3	\$450	Feb 2006	1 year 9 months
	6	\$420	Feb 2007	9 months
	Total	9		
Dehumidifier	7	\$2,690	Mar 2006	1 year 8 months
Air-conditioner	1	\$2,547	Feb 2007	9 months
	2	\$2,819	Aug 2007	3 months
	Total	3		

Source: *Audit analysis of SARDA records*

7.24 Audit notes that these electrical appliances can be easily purchased when the need arises. Besides, their free warranty period normally expires one year after purchase. Audit considers it questionable for SARDA to hold a stock of these electrical appliances. If there is really a need to hold a stock of these items, SARDA needs to determine the appropriate stockholding level to avoid excessive stock.

Audit recommendations

7.25 **Audit has recommended that SARDA should:**

Timely recording of inventory stores

- (a) **require the officers-in-charge of SARDA offices to submit monthly inventory returns to SARDA Head Office and report the receipt of inventory stores in a timely manner;**

Recording of donated assets

- (b) **ensure that all assets received from donations are recorded on the inventory list;**

Stockholding level for electrical appliances

- (c) **review the need for holding a stock of electrical appliances; and**
- (d) **determine the stockholding level for electrical appliances.**

Response from SARDA

7.26 SARDA accepts the audit recommendations. The **ED, SARDA** has said that these recommendations are noted for immediate implementation.

PART 8: PERFORMANCE MEASUREMENT AND REPORTING

8.1 This PART examines performance measurement and reporting of SARDA.

Performance management

8.2 Performance management, including setting performance targets/indicators and their reporting, provides a means to measure how well an organisation has performed, and helps enhance its performance, transparency and accountability. Since January 2004, SARDA has compiled performance information, on a quarterly or yearly basis, for submission to the DH. A list of performance indicators compiled by SARDA is shown at Appendix G. These indicators are mainly for internal use by both SARDA and the DH. Only some of them have been published in SARDA Annual Report, and/or DH Controlling Officer's Report (COR) and website.

Audit observations and recommendations

Performance information published by SARDA

8.3 Audit examination of the performance information published by SARDA shows that:

- (a) ***Few performance indicators included in SARDA Annual Report.*** Although SARDA compiles many different performance indicators for submission to the DH (see Appendix G), only the following three indicators have been included in its Annual Report:
 - (i) number of group counselling sessions (of the MTP) and their corresponding number of target participants;
 - (ii) number of MTP patients receiving counselling services; and
 - (iii) number of admissions to each T&R centre (see items 7 to 9 at Appendix G);
- (b) ***Lack of outcome indicators.*** In addition to (a) above, SARDA has also included some other performance information in its Annual Report (see Appendix H). However, such information mainly relates to the workload or output of SARDA. There is a lack of outcome indicators, e.g. customer satisfaction rate, detoxification rate, employment status, abstinence rate, and cost per bed-day (see items 2, 3, 6, 11 and 13 at Appendix G), that measure the efficiency or effectiveness of SARDA in meeting its objective of providing T&R services to drug abusers;

- (c) ***Scope for improvement in presentation of performance information.*** The performance information published in the Annual Report only shows the situation in the year under review. There is no benchmarking of performance indicators over a number of years. Furthermore, the performance information is presented in narrative form only. For example, as stated in SARDA Annual Report 2006-07, “*last year, a total of 29 adult females were admitted into the Centre*”. SARDA may consider improving the presentation of performance information by including a list of performance indicators showing its performance over a number of years (similar to the practice of the DH — see para. 8.4);
- (d) ***Performance indicators not disclosed in SARDA website.*** Neither detailed performance information nor key performance indicators are shown in SARDA website for public information; and
- (e) ***Performance targets not set.*** SARDA does not set and publish performance targets in its Annual Report or website to facilitate comparison of actual against target performance.

Performance targets and indicators published by the DH

8.4 The DH has published performance targets and indicators relating to residential T&R services for drug abusers (including SARDA programmes) over three years in its COR and website (see Appendix I). However, these targets/indicators only comprise completion rates (for detoxification and rehabilitation programmes) and other output indicators (i.e. patients admitted and bed-days occupied). The DH does not publish other outcome indicators, particularly those showing the effectiveness of SARDA in meeting its objective of providing T&R services to drug abusers, such as customer satisfaction rate, abstinence rate, and cost per bed-day (see items 2, 11 and 13 at Appendix G). In comparison, Audit notes that the CSD has adopted the success rate of its drug addiction treatment centres (i.e. non-conviction and free from drugs one year after discharge), which is similar to the abstinence rate for SARDA (see item 11 at Appendix G), as a key performance indicator for disclosure in its COR.

8.5 **Given that subvention to SARDA has accounted for a large part of the DH expenditure on the T&R of drug abusers (see para. 1.4), the DH needs to enhance its reporting of SARDA performance (including the effectiveness of SARDA programmes).**

Need to monitor closely the abstinence rate achieved by SARDA programmes

8.6 The long-term success of a drug T&R programme hinges on non-relapse of the rehabilitated drug abusers. A useful performance indicator showing the effectiveness of SARDA programmes is the abstinence rate, i.e. the percentage of SARDA patients who remained abstinent (i.e. free from drugs) for one year at the close of aftercare period. While neither SARDA nor the DH discloses to the public the abstinence rate achieved by SARDA programmes (see paras. 8.3(b) and 8.4), such performance information is compiled by SARDA periodically for submission to the DH (see item 11 at Appendix G).

8.7 Audit noted that the abstinence rate achieved by SARDA programmes in recent years showed a steady decline (see item 11 at Appendix G). For example, the abstinence rate dropped from 62.3% in 2004-05 to 56% in 2006-07 for male patients. For female patients, the abstinence rate dropped from 63.2% in 2004-05 to 55.2% in 2006-07. While this declining trend is in line with a similar trend reported by the CSD on the success rate of its drug addiction treatment centres (see para. 8.4), which dropped from 63.6% in 2004 to 56.3% in 2006, this is a cause for concern for SARDA as its programmes appear to have become, over the years, less effective in helping drug abusers stay free from drugs. **SARDA needs to monitor closely the declining trend of the abstinence rate achieved by its programmes.**

Audit recommendations

8.8 **Audit has recommended that SARDA should:**

- (a) **set performance targets and publish more performance indicators (including outcome indicators showing the efficiency and effectiveness of SARDA programmes for T&R of drug abusers) in its Annual Report and website;**
- (b) **improve the presentation of performance information in its Annual Report, including the benchmarking of performance indicators over a number of years; and**
- (c) **monitor closely the abstinence rate achieved by its programmes and take measures for continuous improvement of the effectiveness of its services.**

8.9 **Audit has also recommended that the Director of Health should publish more performance targets and indicators, including outcome indicators showing the efficiency and effectiveness of SARDA programmes, in the COR and website of the DH.**

Response from SARDA

- 8.10 SARDA accepts the audit recommendations. The **ED, SARDA** has said that:
- (a) these recommendations are noted for immediate action where appropriate; and
 - (b) the presentation of performance information, for example, will be included in the 2007-08 Annual Report of SARDA.

Response from the Administration

8.11 The **Director of Health** agrees with the audit recommendation. He has said that he will discuss with the ND on the appropriate outcome indicators to be included in the COR and website of the DH.

Questionnaire survey of patients

8.12 The customer satisfaction rate (see item 2 at Appendix G) is a key performance indicator showing the effectiveness of SARDA programmes. This is calculated based on a self-reporting questionnaire survey. When a patient is discharged from a SARDA centre, he is required to complete a questionnaire on its counselling service and rehabilitation programme. Among other things, he is required to state in the questionnaire whether he is satisfied with the service and programme. The ratings that he is asked to give are “very satisfied”, “satisfied”, “unsatisfied” or “very unsatisfied”.

8.13 Audit reviewed the questionnaire results for the years 2005 to 2007 (up to September 2007). Table 14 shows the details.

Table 14
Results of SARDA customer satisfaction surveys
(2005 to 2007)

Year	Questionnaire completed by patients (No.)	Counselling service				Rehabilitation programme			
		Satisfied or very satisfied		Unsatisfied or very unsatisfied		Satisfied or very satisfied		Unsatisfied or very unsatisfied	
		(No.)	(%)	(No.)	(%)	(No.)	(%)	(No.)	(%)
2005	667	662	99.3%	5	0.7%	665	99.7%	2	0.3%
2006	660	652	98.8%	8	1.2%	653	98.9%	7	1.1%
2007 (up to September)	437	436	99.8%	1	0.2%	437	100%	—	—

Source: *Audit analysis of SARDA records*

Audit observations and recommendation

8.14 As can be seen from Table 14, according to SARDA questionnaire surveys, the level of customer satisfaction on its counselling services and rehabilitation programmes in the period 2005 to September 2007 was high, ranging from 98.8% to 100%.

Low coverage of questionnaire surveys

8.15 However, Audit examination of the methodology of SARDA questionnaire surveys revealed that not all patients discharged from its centres are required to complete a questionnaire. **Upon enquiry, SARDA informed Audit in November 2007 that only a patient who successfully completed both the detoxification and the rehabilitation programmes was requested to complete a questionnaire.** In other words, the questionnaire surveys did not cover patients who were “self-discharged” (i.e. leaving the centre without completing its programme), “dishonourably discharged” (e.g. because of fighting or other illegal activities), or “discharged for medical or social reasons” (e.g. death of a family member).

8.16 Based on the questionnaire surveys conducted in 2006 and 2007 (up to September 2007) by Centres A and B (see para. 8.13), Audit calculated the survey coverage, taking into account all patients that were discharged from the centres for various reasons. Table 15 shows the details.

Table 15
Coverage of questionnaire surveys conducted for Centres A and B
(2006 and 2007)

Year	Centre A			Centre B		
	Patient discharged	Questionnaire completed by patients	Survey coverage	Patient discharged	Questionnaire completed by patients	Survey coverage
	(a)	(b)	(c) = (b)/(a) × 100%	(d)	(e)	(f) = (e)/(d) × 100%
	(No.)	(No.)	(%)	(No.)	(No.)	(%)
2006	1,323	537	41%	117	24 (Note)	21%
2007 (up to September)	999	368	37%	69	23 (Note)	33%

Source: Audit analysis of SARDA records

Note: There were four patients in 2006 and three in 2007, who completed the programme in Centre B but did not complete the questionnaire upon discharge.

8.17 As shown in Table 15, the survey coverage was not high. For example, in 2006, the survey coverage was only about 40% for Centre A and about 20% for Centre B.

Need to seek opinions of patients who did not complete the programmes

8.18 Audit analysed the reasons for the discharge of patients of Centres A and B in 2006 and 2007 (up to September 2007). Table 16 shows the details.

Table 16

**Reasons for the discharge of patients
(2006 to September 2007)**

Reason	Centre A				Centre B			
	2006		2007 (up to September)		2006		2007 (up to September)	
	(No. of patients)	(%)	(No. of patients)	(%)	(No. of patients)	(%)	(No. of patients)	(%)
Completed the programme	537	41%	368	37%	28	24%	26	38%
Self-discharged	684	52%	549	55%	88	75%	37	54%
Dishonourably discharged	76	5%	70	7%	—	—	3	4%
Discharged for medical or social reasons	26	2%	12	1%	1	1%	3	4%
Total	1,323	100%	999	100%	117	100%	69	100%

Source: *Audit analysis of SARDA records*

8.19 Audit noted that a large number of patients left Centres A and B of their own accord, without completing SARDA programmes. These “self-discharged” patients constituted the majority (ranging from 52% to 75% — see Table 16) of the total number of patients discharged. **Audit considers it necessary for SARDA to also seek the opinions of those patients who did not complete the T&R programmes.**

Audit recommendation

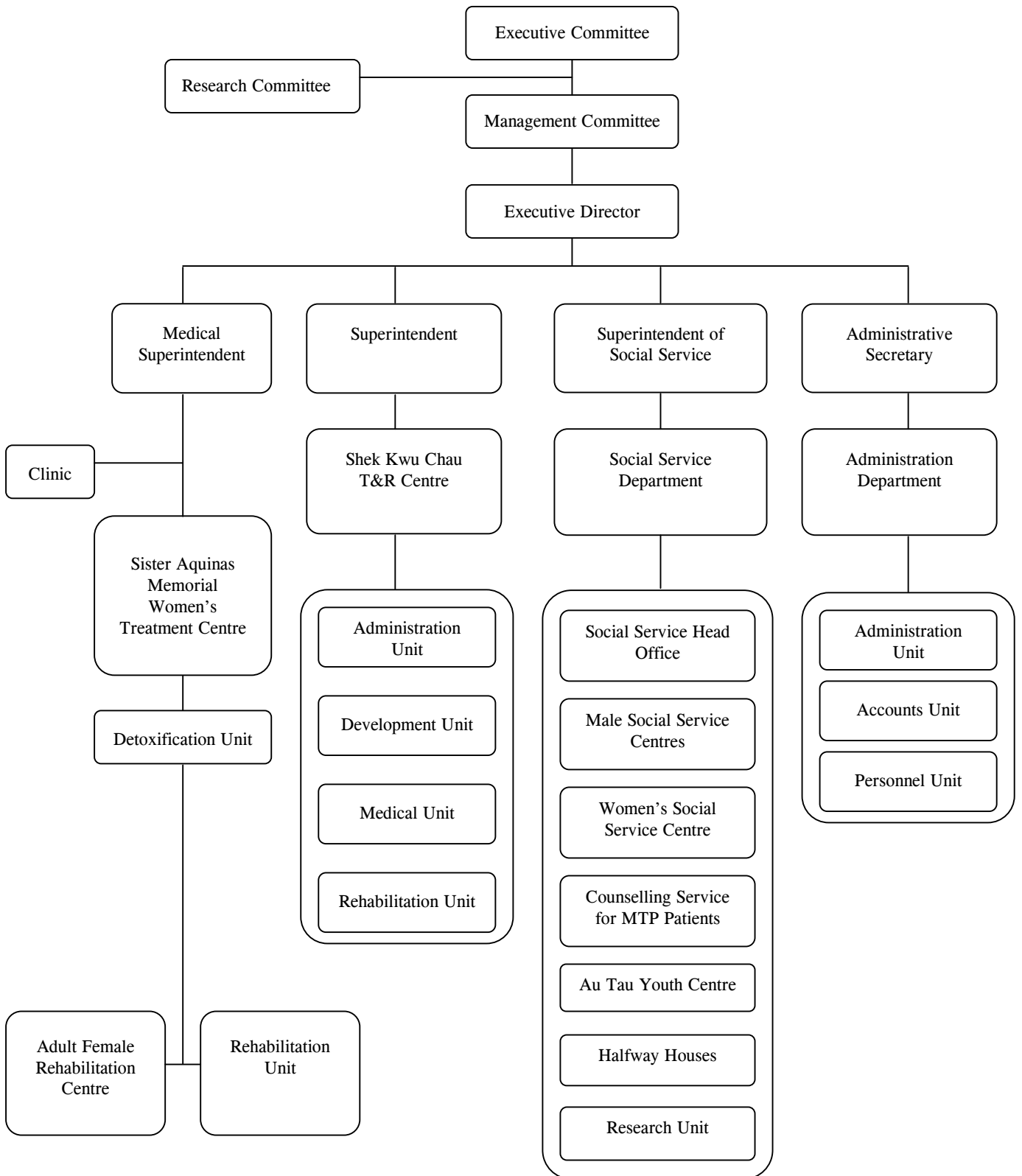
8.20 **Audit has recommended that SARDA should consider extending the questionnaire survey to also cover those patients who have not successfully completed SARDA programmes, so as to:**

- (a) **ascertain the reasons for discontinuing the programmes;**
- (b) **gauge their level of satisfaction with the programmes; and**
- (c) **seek their views on how to further improve the T&R services.**

Response from SARDA

8.21 SARDA accepts the audit recommendation. The **ED, SARDA** has said that this recommendation is noted for immediate implementation where appropriate.

Organisation chart of SARDA
(1 January 2008)



Source: SARDA records

Key provisions of the Notes for Guidance on the authority of the Director of Health

The Director of Health shall, among other things:

- (a) have the right to be formally represented on the EC of SARDA;
- (b) exercise control over subvented funds through his day-to-day dealings with SARDA;
- (c) require the submission of financial and accounting returns, forecasts and reports from SARDA in such formats and at such intervals as he may specify (e.g. the DH requires SARDA to submit monthly financial statements, quarterly and yearly performance indicators, etc.);
- (d) have the right to modify, adjust, or change the budget of SARDA;
- (e) require SARDA to keep separate records for subvented and non-subvented activities;
- (f) require SARDA to draw up, to his satisfaction, guidelines and procedures for the EC to discharge its functions;
- (g) have the right of access to records and accounts of the subvented activities and require an explanation of any matters relating to the receipt, expenditure or custody of any money derived from public funds; and
- (h) declare offending expenditure as inadmissible for subvention purpose if there is a non-compliance by SARDA with the laid down requirements.

Source: DH records

Results of Audit questionnaire survey

Impacts of the disputes

1. According to the results of Audit questionnaire survey:
 - (a) the majority (17 i.e. 65%) of the respondents (Note) indicated that the disputes between SARDA and the DH had adversely affected the efficiency and effectiveness of SARDA, or both SARDA and the DH, in performing its/their duties; and
 - (b) some respondents (Note) mentioned that a lot of resources were wasted in the lengthy correspondence between SARDA and the DH, and in attending EC meetings to deal with the disputes, and the morale of SARDA staff and EC members was adversely affected.

Causes of the disputes

2. In the audit survey, EC members and government representatives were asked about the main causes of the disputes. Their views are as follows:
 - (a) 17 (i.e. 65%) of the respondents (Note) mentioned that disputes arose mainly because SARDA considered that the prerogative to handle its internal affairs should rest with the EC, and therefore did not expect the DH to get involved in SARDA internal affairs; and
 - (b) 4 (i.e. 15%) of the respondents (Note) indicated that the guidelines/instructions given by the DH were inadequate. They considered that the Notes for Guidance mainly related to financial matters and did not stipulate the ways other matters (e.g. handling of complaints) should be handled and the authority for handling such matters.

SARDA obligation to follow DH directives

3. When asked whether, pursuant to section 12 of the Public Finance Ordinance, SARDA has the obligation to follow the directives from the DH, the majority (22 i.e. 85%) of the respondents (Note) gave a positive answer. Some of them added that:
 - (a) instead of micro-managing the day-to-day activities of SARDA, the DH could play a steering role in dealing with SARDA affairs;
 - (b) the DH should take a sympathetic, supportive and helpful approach (rather than adopting a “coercive” attitude) in working with SARDA; and
 - (c) the directives should be reasonable and within the DH’s authority.

Measures to avoid potential disputes in future

4. **The audit survey revealed that 17 (i.e. 65%) of the respondents (Note) believed that the establishment of an FSA between SARDA and the DH would help avoid potential disputes in future and foster a more harmonious working relationship, and welcomed such an agreement to be established.** They also considered that such an FSA should stipulate:

- (a) the role of the Controlling Officer;
- (b) the need for open recruitment exercise for specified posts;
- (c) the procedures for handling deployment of staff to other entities which are independent of SARDA;
- (d) the procedures for handling complaints, including the need to deal with anonymous complaints where justified;
- (e) the general principles of good governance; and
- (f) the provision for resolving disputes between SARDA and the DH.

5. In addition to the FSA, 4 (i.e. 15%) of the respondents (Note) considered that regular meetings between SARDA and the DH would help avoid potential disputes and foster a better relationship.

Source: Audit questionnaire survey

Note: Respondents to Audit questionnaire survey included EC members of SARDA and government representatives in the EC.

Department of Health's response to Audit questionnaire survey

The DH representative completed the Audit questionnaire on behalf of the DH. The views of the DH are summarised as follows:

- (a) ***Impacts of the disputes.*** The DH indicated that the disputes between SARDA and the DH had adversely affected the efficiency and effectiveness of both SARDA and the DH in performing their duties, as much time and effort were wasted on arguing issues which should have been clear to any reasonable party. Furthermore, the disputes had adversely affected the relationship between SARDA and the DH;

- (b) ***Causes of the disputes.*** According to the DH:
 - (i) disputes arose mainly because SARDA considered that the prerogative to handle its internal affairs should rest with the EC and, therefore, SARDA did not expect the DH to get involved in SARDA internal affairs. SARDA considered itself to be an independent organisation. In SARDA's view, the DH was meddling into its internal affairs even in situations where use of subvention money was involved. SARDA maintained its stance notwithstanding that the DH had referred to its authority as Controlling Officer under the Notes for Guidance and under the Public Finance Ordinance;

 - (ii) between November 2006 and May 2007, there were two major disputes between SARDA and the DH. SARDA challenged the DH on the latter's authority to require SARDA to conduct an open recruitment exercise upon the ED reaching retirement age (see para. 2.8(b)(ii) of the report); and to ask SARDA to investigate an anonymous staff complaint against a senior staff and to submit an investigation report (see para. 2.8(c) of the report); and

 - (iii) the DH was adamant that it was not lack of guidelines or instructions from the DH that had resulted in the disputes. Neither was it because some guidelines/instructions had been issued in an ad hoc manner in response to emerging situations. The DH did not consider any of the advice/instructions which the DH had given were provided in a piecemeal manner. From time to time, the DH provided advice on good management practices to subvented bodies including SARDA. When problems arose, the DH exhaustively discussed with the subvented bodies and provided further guidance. The latest advice the DH tendered to SARDA was on management of resources and obtaining value for money with regard to its proposal arising from the Civil Service Starting Salaries Survey findings. In DH view, there could not have been any misunderstanding for the two major disputes (see (ii) above);

- (c) ***SARDA obligation to follow DH directives.*** When asked whether SARDA had the obligation to follow the directives from the DH, the DH gave a positive answer;

- (d) ***Measures to avoid potential disputes in future.*** The DH believed that the establishment of an FSA between SARDA and the DH would help avoid potential disputes in future and foster a more harmonious working relationship, and welcomed such an agreement to be established. The DH considered that the proposed FSA would cover, but not limited to:
- (i) the role of the Controlling Officer;
 - (ii) the need for open recruitment exercise for specified posts;
 - (iii) the procedures for handling deployment of staff to other entities which are independent of SARDA; and
 - (iv) the procedures for handling complaints, including the need to deal with anonymous complaints where justified.

The DH also considered that real improvements were likely to come about when the EC accepted the role, authority and responsibility of the Controlling Officer; and

- (e) ***Mode of subvention.*** The DH considered that SARDA should not continue to be funded by the deficiency grant. The DH considered that:
- (i) in line with the general policy of giving subvented bodies more autonomy in its operations to meet the changing environment and to provide flexibility in resource deployment, the DH was all for the introduction of a lump sum grant. But the new mode of subvention required more financial discipline by the subvented organisations;
 - (ii) in late 2003, the DH sought the views of organisations receiving subvention from the DH. With regard to SARDA which was by far the body receiving the largest subvention, the then Commissioner for Narcotics convened a meeting in August 2005 to discuss the matter. Both the DH and SARDA were represented. At the EC meeting held on 31 October 2005, SARDA resolved to retain the deficiency grant mode of subvention; and
 - (iii) the Administration was about to set up a Lump Sum Grant Independent Review Committee to examine the operation of the system. The DH would keep in view the development.

Source: Audit questionnaire survey

Narcotics Division's response to Audit questionnaire survey

ND representative completed the Audit questionnaire on behalf of the ND. The views of the ND are summarised as follows:

- (a) ***Impacts of the disputes.*** The ND indicated that there were prolonged discussions and correspondence on the subjects as well as extra meetings conducted. The disputes between SARDA and the DH had adversely affected the efficiency and effectiveness of both SARDA and the DH in performing their duties;
- (b) ***Causes of the disputes.*** According to the ND, disputes arose mainly because SARDA considered that the prerogative to handle its internal affairs should rest with the EC and, therefore, SARDA did not expect the DH to get involved in SARDA internal affairs;
- (c) ***SARDA obligation to follow DH directives.*** When asked whether SARDA had the obligation to follow the directives from the DH, the ND gave a positive answer. The ND indicated that a Controlling Officer was responsible and accountable for the proper use of public funds under his control in accordance with the Public Finance Ordinance, government circulars and guidelines;
- (d) ***Measures to avoid potential disputes in future.*** **The ND believed that the establishment of an FSA between SARDA and the DH would help avoid potential disputes in future and foster a more harmonious working relationship, and welcomed such an agreement to be established.** The ND considered that the proposed FSA should cover such things as:
 - (i) the role of the Controlling Officer;
 - (ii) the need for open recruitment exercise for specified posts;
 - (iii) the procedures for handling deployment of staff to other entities which are independent of SARDA; and
 - (iv) the procedures for handling complaints, including the need to deal with anonymous complaints where justified.

The ND also considered that reference could be made to the FSA between NGOs and the SWD, including objectives, service targets, service and performance indicators, and output/outcome indicators; and

- (e) ***Mode of subvention.*** The ND considered that SARDA should not continue to be funded by the deficiency grant. The ND also considered that:
- (i) the existing funding mode was not flexible for SARDA to respond to the changing environment. The ND had arranged a meeting with the EC members in August 2005, with the presence of representatives from the DH, to discuss a number of management issues (including funding arrangement) faced by SARDA. At the meeting, the DH proposed a block grant system (similar to the lump sum grant), but SARDA subsequently resolved to stick to the existing funding arrangement; and
 - (ii) the proposed new mode of subvention had greater flexibility for SARDA to respond to the changing demands arising from the changing drug scene.

Source: Audit questionnaire survey

Appendix F
 (paras. 5.12 and 5.13,
 Note 9 to para. 5.14,
 Table 9 in para. 5.16 and
 5.22(a) refer)

Time taken to process applications of incremental credit for experience

Case	Post	Date of acceptance of job offer by applicant (a)	Date of submission of ICE application by SARDA (Note 1) (b)	Time span between dates of acceptance of job offer and ICE submission (c) = duration between (a) and (b) (Day)	Date of approval by the DH (d)	Time span between dates of ICE submission and DH approval (e) = duration between (b) and (d) (Day)
1	Nurse	26 November 2004	11 March 2005	105	1 August 2005	143
2	Nurse	12 July 2005	29 August 2005	48	1 November 2005	64
3	Nurse	15 July 2005	28 October 2005	105	6 December 2005	39
4	Nurse	26 June 2006	11 July 2006	15	11 August 2006	31
5	Nurse	30 July 2006	11 September 2006	43	21 September 2006	10
6	Nurse	4 August 2006	5 September 2006	32	18 September 2006	13
7	Nurse	14 August 2006	4 September 2006	21	18 September 2006	14
8	Nurse	24 October 2006	20 October 2006	— (Note 2)	25 October 2006	5
9	Nurse	5 December 2006	7 November 2006	— (Note 2)	22 November 2006	15
10	Nurse	3 January 2007	12 February 2007	40	5 March 2007	21
			Average:	41		36

Source: Audit analysis of SARDA records

Note 1: This was the date on which the application and all supporting documents were submitted to the DH.

Note 2: The date of submission of ICE application by SARDA was **earlier** than the date of acceptance of job offer by applicant. This was because the applicant wanted to know her ICE before accepting the job offer.

Appendix G
(paras. 8.2 to 8.4, 8.6, 8.7,
8.12 and Appendix H refer)

**Performance indicators compiled by SARDA
for submission to Department of Health**

Performance indicator	Definition	2005	2006	2007	
<i>Quarterly statistics</i>					
1. Criminal rate	Those who have been convicted by a court of law during the aftercare period (based on self-reporting)	1%	4%	5%	
2. Customer satisfaction rate	Based on a self-reporting questionnaire	Rehabilitation Programme:	100%	99%	100%
		Counselling Programme:	100%	99%	100%
3. Detoxification rate	Those who successfully wean off from methadone i.e. reducing daily intake of methadone to nil	79%	80%	83%	
4. Rehabilitation rate	Those who have completed the agreed period of stay in the rehabilitation programme	72%	72%	74%	
5. Re-application rate	Those who have applied to re-enter SARDA drug treatment facilities	5%	4%	4%	
6. Employment status	Those who are in full-time or part-time employment after discharge	53%	47%	48%	
7. MTP — Group programmes	Number of group counselling sessions and their corresponding number of target participants	404	507	566	
		11,103	19,824	12,914	
8. MTP — Individual counselling caseload	Number of MTP patients receiving counselling services	1,930	1,857	1,921	
9. Number of admissions	Number of patients admitted to T&R centres	1,833 (Note)	1,544 (Note)	1,525	
10. Number of bed-days occupied/ Number of bed-days available	Proportion of available bed-days of T&R centres occupied by patients	93,697/ 139,590 (Note)	97,645/ 144,570 (Note)	101,764/ 146,730	

Appendix G
 (Cont'd)
 (paras. 8.2 to 8.4, 8.6, 8.7,
 8.12 and Appendix H refer)

Performance indicator	Definition	2004-05	2005-06	2006-07	
<i>Yearly statistics</i>					
11. Abstinence rate	Those who remained free from drugs for one year at the close of aftercare period, based on the result of the final urine test	Male:	62.3%	58.9%	56%
		Female:	63.2%	60%	55.2%
12. Aftercare completion rate	Those who have successfully completed the required aftercare period (whether relapsed or remaining abstinent)	75.7%	80.7%	89.9%	
13. Cost per bed-day	This includes both cash costs (e.g. direct staff costs and departmental expenses) and non-cash costs (e.g. depreciation and accommodation)	\$271.95	\$293.27	\$281.66	

Source: SARDA records

Note: The Adult Female Rehabilitation Centre was subvented by the DH with effect from 1 April 2006. The figure therefore does not include the number of admissions prior to 1 April 2006.

Performance information in SARDA 2006-07 Annual Report

The following performance information was shown in narrative form:

- (a) number of group counselling sessions (of the MTP) and their corresponding number of target participants (see item 7 at Appendix G);
- (b) number of MTP patients receiving counselling services (see item 8 at Appendix G);
- (c) number of admissions to each T&R centre (see item 9 at Appendix G);
- (d) number of participants of the preventive education programmes run by SKC Centre;
- (e) number of MTP patients referred for admission into the T&R centres;
- (f) number of admissions to the T&R centres through registration at the social service centres;
- (g) number of interviews, visits and group sessions conducted by social workers of the social service centres and number of attendance to the group sessions;
- (h) number of applicants registered for treatment through outreaching services by the social service centres;
- (i) number of ex-patients admitted into the halfway houses and the average utilisation rate of halfway houses;
- (j) number of job orders of removal and delivery service under the SES;
- (k) number of members registered as community volunteers, number of outdoor and indoor services organised and number of participants;
- (l) number of outreaching sessions and number of contacts with street addicts under the AIDS Prevention project; and
- (m) number of urine tests carried out by the out-patient clinic.

Source: SARDA records

**Performance targets and indicators published by Department of Health
(2007-08)**

Performance target	Target	2005 (Actual)	2006 (Actual)	2007 (Plan)
Completion rate of SARDA in-patient treatment courses				
Detoxification (%)	> 70	79	80	> 70
Rehabilitation (%)	> 60	72	72	> 60
Performance indicator		2005 (Actual)	2006 (Actual)	2007 (Estimate)
Patients admitted for residential treatment		2,000	1,700	1,700
Bed-days occupied at residential T&R centres		105,000	114,000	114,000

Source: 2007-08 COR and website of the DH

Acronyms and abbreviations

ASWOs	Assistant Social Work Officers
Audit	Audit Commission
CAEDT	Centre for Anti-drug Education and Disciplinary Training
COR	Controlling Officer's Report
CSD	Correctional Services Department
CSWO	Chief Social Work Officer
DH	Department of Health
EC	Executive Committee
ED	Executive Director
FSA	Funding and service agreement
FSTB	Financial Services and the Treasury Bureau
ICAC	Independent Commission Against Corruption
ICE	Incremental credit for experience
MAA	Memorandum of Administrative Arrangements
MC	Management Committee
MTP	Methadone treatment programme
ND	Narcotics Division
NGOs	Non-governmental organisations
PHSHA	Pui Hong Self-Help Association
RAE	Resource Allocation Exercise
RC	Research Committee
SARDA	Society for the Aid and Rehabilitation of Drug Abusers
SES	Supported Employment Service
SFIs	Standing Financial Instructions
Sister Aquinas Centre	Sister Aquinas Memorial Women's Treatment Centre
SKC Centre	Shek Kwu Chau Treatment and Rehabilitation Centre
SWD	Social Welfare Department
T&R	Treatment and rehabilitation