

CHAPTER 7

Education Bureau

The Quality Education Fund

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

Report No. 52 of the Director of Audit contains 7 Chapters which are available on our website at <http://www.aud.gov.hk>.

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THE QUALITY EDUCATION FUND

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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

1.2 In September 1997, the Education Commission (EC) in its Report No. 7 on Quality School Education recommended that the Government should establish a development fund to finance one-off projects for the improvement of education quality on a competitive basis. In his October 1997 Policy Address, the Chief Executive of the Hong Kong Special Administrative Region announced the establishment of the Quality Education Fund (QEF) with a funding of \$5 billion. In December 1997, the then Provisional Legislative Council approved the funding.

1.3 The QEF was established in January 1998. It caters for worthwhile non-profit-making initiatives within the ambit of pre-primary, primary, secondary and special education. Schools, educational bodies, teaching professionals, organisations and individuals may apply for QEF funding to undertake one-off projects for the promotion of quality school education at all levels.

Administration of the Quality Education Fund

1.4 The QEF is administered under a trust. The Permanent Secretary for Education Incorporated is the Trustee of the QEF, who approves grants for worthwhile projects and signs with each grantee an agreement setting out the terms and conditions of the grant (Note 1). A number of committees and a secretariat were established to help operate the QEF, as follows:

- (a) ***QEF Committees and Sub-committees.*** A QEF Steering Committee (SC) was set up under the EC to advise the Government on policies and procedures governing the operation of the QEF. The SC is chaired by a non-government official and is supported by members from the EC, the school sector, the professional sector and the business community. A QEF Investment Committee (IC) was set up alongside the SC to set policies for and monitor the investment of the QEF. The SC also established two sub-committees, namely:

Note 1: *The QEF Trustee may delegate to other persons (e.g. the Deputy Secretary for Education) the authority to approve QEF projects and sign grant agreements.*

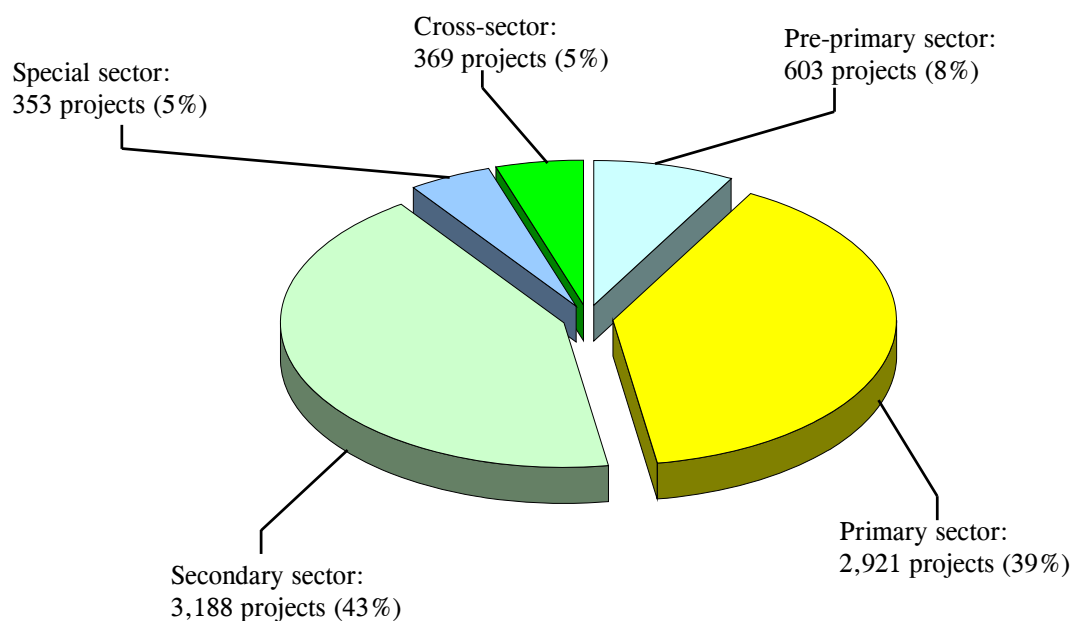
- (i) ***Assessment and Monitoring Sub-committee (AMS).*** The AMS helps assess applications and monitor projects; and
 - (ii) ***Dissemination and Promotion Sub-committee (DPS).*** The DPS helps formulate dissemination and promotion strategies for projects and oversee the implementation of the strategies; and
- (b) ***QEF Secretariat.*** A QEF Secretariat was set up under the Education Bureau (EDB) to assume overall management responsibility for the QEF. It provides secretariat support to the SC and carries out functions such as processing applications, monitoring projects, and disseminating good practices and experiences resulting from the projects.
- 1.5 From its establishment in January 1998 to August 2008 (i.e. end of the 2007/08 school year — Note 2), the QEF approved \$3,620 million for 7,434 projects (see Figure 1).

Note 2: *Unless otherwise specified, all years mentioned hereinafter refer to school years which commence on the first day of September.*

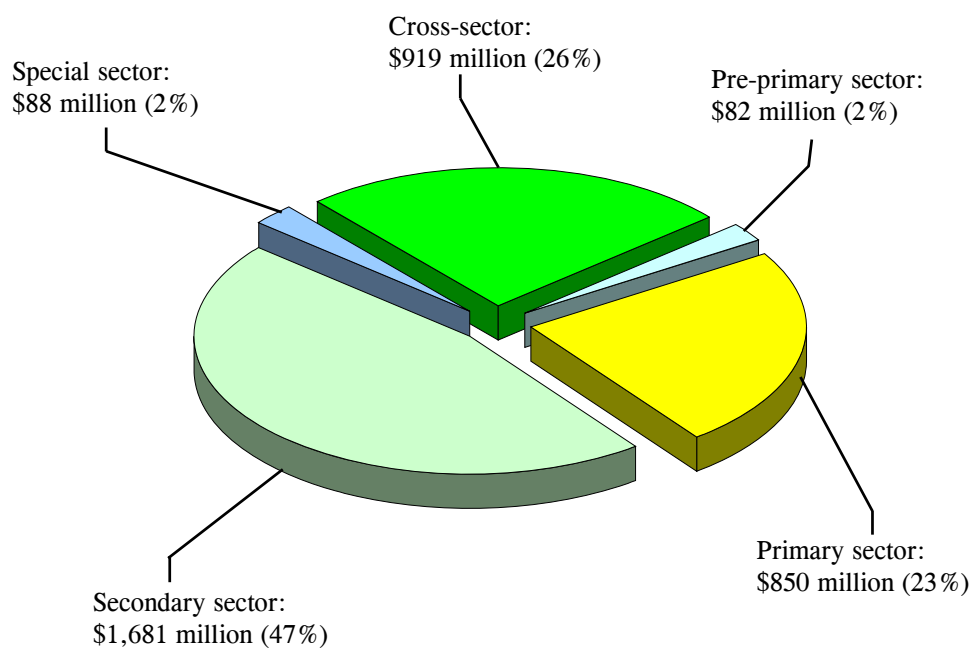
Figure 1

**QEF projects
(January 1998 to August 2008)**

(a) Number of projects (Total: 7,434 projects)



(b) Approved funding (Total: \$3,620 million)



Source: QEF records

Audit review

1.6 **2001 audit review of the QEF.** In 2001, the Audit Commission (Audit) conducted a review to examine the administration of the QEF in its early years of operation. In the Director of Audit's Report No. 37 of October 2001, Audit reported that there was room for improvement in the QEF administration, such as the need for developing a strategic plan, streamlining the assessment of applications for QEF funding, improving project monitoring, and taking a strategic approach to disseminating the useful experience of projects funded by the QEF.

1.7 **Revised practices.** Subsequent to the 2001 review, the QEF has drawn up strategic plans, streamlined the assessment procedures, stepped up its monitoring mechanism and taken measures to better disseminate good practices. The QEF has also identified project themes (Note 3) to address prevailing educational priorities. The QEF gives priority consideration to applications which are in line with the identified themes.

1.8 Audit has recently conducted another review of the QEF. Taking into account the revised practices implemented by the QEF in the past few years, the review aims to identify areas for improvement in the Fund's administration. The review has focused on the following areas:

- (a) governance and strategic management (PART 2);
- (b) administration of information technology (IT) equipment projects (PART 3);
- (c) project management (PART 4); and
- (d) dissemination and commercialisation of project deliverables (PART 5).

Note 3: *The current project themes are: (1) effective learning; (2) support for the new senior secondary education reform; (3) moral and civic education; (4) national education; (5) creative arts education; (6) healthy campus; (7) supporting youth development; (8) care for pre-primary children; (9) wellness programmes for teachers; (10) review of school administrative work; and (11) use of new technology for school administrative work.*

General response from the Administration

1.9 The **Secretary for Education** has said that the QEF welcomes the audit review. It is timely and has provided invaluable recommendations, facilitating the QEF's planning of measures to bring further improvements and formulation of strategic roadmap to its sustainable development. The QEF will consider the audit recommendations and take follow-up actions as appropriate. He has also said that:

- (a) the improvement to the administration of the QEF is an on-going process. The QEF is committed to continuing its efforts to make improvements;
- (b) as regards dissemination of experience, the QEF is considering various new measures to enhance the sustainable development of projects and capacity building of schools;
- (c) the QEF needs to strike a balance between accountability and avoidance of creating undue workload for teachers. To upkeep accountability for public funds, the QEF Secretariat implements stringent internal procedures to ensure consistency in assessing and vetting applications. Monitoring visits by Secretariat staff and members of the SC and the AMS are arranged regularly; and
- (d) the QEF attaches great importance to views expressed by stakeholders for improvements. Taking the opportunity of its 10th Anniversary in 2008, the QEF commissioned a consultant to conduct an Impact Study to review its accomplishments and evaluate its impact in promoting quality education in Hong Kong.

Acknowledgement

1.10 Audit would like to acknowledge with gratitude the full cooperation of the staff of the QEF Secretariat during the course of the audit review.

PART 2: GOVERNANCE AND STRATEGIC MANAGEMENT

2.1 This PART examines the governance and strategic management of the QEF.

Procedures for Committee and Sub-committee meetings

2.2 It is a good governance practice for an organisation to define clearly the working procedures for its board, committees and sub-committees. According to the Declaration of Trust under which the QEF was established, the SC may establish procedures for its meetings. However, the SC has not laid down detailed procedures governing the proceedings of the QEF Committee and Sub-committee meetings. Audit found that the QEF Committees and Sub-committees adopted different practices in conducting their meetings, including:

- (a) frequency of meetings (paras. 2.3 and 2.4);
- (b) quorum requirements (para. 2.5); and
- (c) submission of discussion papers (paras. 2.6 and 2.7).

Audit observations and recommendations

Frequency of meetings

2.3 Before May 2006, the SC did not stipulate its frequency of meetings. To cater for the new mode of accepting applications on a year-round basis starting from September 2006, the SC stipulated in May 2006 that both SC and AMS members should attend meetings once every three months. However, it does not lay down the frequency of meetings for the DPS. Similarly, the IC does not stipulate the number of meetings to be held annually.

2.4 According to the guidelines “Corporate Governance for Public Bodies — A Basic Framework” issued by the Hong Kong Institute of Certified Public Accountants (HKICPA) in 2004, it is important that meetings are organised regularly, at least once every six months and in most cases more frequently. However, on three occasions, the interval between meetings was more than six months (see Table 1).

Table 1
Interval between meetings

Committee/ Sub-committee	Date of two consecutive meetings		Months between meetings
SC	11.5.2006	25.1.2007	8.5
AMS	23-24.3.2004	14.10.2004	6.7
DPS	25.5.2006	6.3.2007	9.3

Source: QEF records

Quorum requirements

2.5 For SC meetings, the QEF stipulates that over 50% of the membership, or 7 members of the SC (currently there are 13 members) will constitute a quorum. However, the QEF does not specify quorum requirements for IC, AMS and DPS meetings.

Submission of discussion papers

2.6 According to the HKICPA's corporate governance guidelines (see para. 2.4), public bodies should ensure that governing board members are provided with all the information that they need to properly consider issues to be discussed at a board meeting, in good time before the meeting.

2.7 The QEF has not specified the number of days prior to a meeting that discussion papers should reach members. Of the 34 papers discussed at Committee and Sub-committee meetings in 2006/07 and 2007/08, 17 (50%) were sent to members two calendar days or less before the meetings. In particular, 10 (29%) discussion papers were sent to members just one day before the meetings.

Audit recommendations

2.8 **Audit has recommended that the Secretary for Education should establish detailed procedures for the proceedings of the QEF Committee and Sub-committee meetings. In particular, the procedures should:**

- (a) stipulate a minimum frequency of meetings for the IC and the DPS;
- (b) set quorum requirements for all Committee and Sub-committee meetings;
 and
- (c) ensure that discussion papers are sent to members in good time before the meetings.

Response from the Administration

2.9 The **Secretary for Education** agrees with the audit recommendations. He has said that:

- (a) the QEF will stipulate a minimum frequency of meetings for the IC and the DPS;
- (b) the IC, AMS and DPS have followed the SC's practice on quorum requirement. The QEF will document the practice and continue to observe the requirement;
 and
- (c) the QEF will ensure the availability of discussion papers to members in good time before the meetings.

Attendance at Committee and Sub-committee meetings

2.10 The overall effectiveness of the governing body of any organisation to fulfil its responsibilities is largely dependent on its members' knowledge, experience, competency and, most important of all, their commitment to serving the organisation. Attendance at meetings is a key indicator of members' commitment to serving the QEF. Table 2 shows an analysis of the attendance rate of members at meetings in 2002/03 to 2007/08.

Table 2
Attendance rate of members at meetings
(2002/03 to 2007/08)

School year	SC meeting	IC meeting	AMS meeting	DPS meeting
2002/03	82 %	95 %	86 % (Note)	83 % (Note)
2003/04	90 %	100 %	79 %	61 %
2004/05	75 %	100 %	77 %	76 %
2005/06	82 %	88 %	80 %	65 %
2006/07	74 %	83 %	82 %	63 %
2007/08	79 %	92 %	80 %	72 %
Average	80 %	93 %	81 %	70 %

Source: Audit analysis of QEF records

Note: The AMS and the DPS were established in January 2003.

Audit observations and recommendations

Low attendance of some DPS members

2.11 The average attendance rate of QEF Committee and Sub-committee meetings from 2002/03 to 2007/08 was 70% or more. However, the attendance of three DPS members (Members A to C) was on the low side (29% to 47%). Details are shown at Appendix A.

2.12 Apart from the DPS, Members A to C had each joined one DPS working group in 2007 and 2008. Their attendance rates at working group meetings were 33%, 100% and 80% respectively. Notwithstanding their participation in the working groups, their low attendance at the DPS meetings was a matter of concern. **Without the benefits of the expertise and experience of such members who were absent from the DPS meetings, the effectiveness of the DPS might have been undermined.**

Audit recommendations

2.13 **Audit has recommended that the Secretary for Education should:**

- (a) **remind QEF Committee and Sub-committee members with low attendance at meetings to make an effort to attend meetings in future; and**
- (b) **ensure that due regard is given to the attendance records of the QEF Committee and Sub-committee members when considering their reappointment to the Committees and Sub-committees.**

Response from the Administration

2.14 The **Secretary for Education** agrees with the audit recommendations. He has said that when considering the reappointment of a serving member to the Committee or Sub-committee, the QEF considers a number of factors including the expertise of the member, and his/her contributions to the various ad hoc working groups formed under the Committee or Sub-committee. The member's attendance record is also one of the factors for consideration.

Management of conflicts of interest

2.15 In general, there are two systems for the declaration of interests. Under the **one-tier reporting system**, when a member perceives a potential conflict of interest in a matter placed before the board or committee, he should make a full disclosure of his interest. Under the **two-tier reporting system**, a member is required to disclose his **general interests**, direct or indirect, pecuniary or otherwise, on appointment/reappointment to the board or committee, in addition to the report on conflicts of interest at meetings as and when they arise.

2.16 The AMS adopts a two-tier reporting system. In addition to the general declaration of interests on those related to education and assessment tasks, the AMS members are required to declare interests in respect of individual cases where there are possible conflicts of interest. However, the SC, IC and DPS adopt a one-tier reporting system for the declaration of interests. No declarations of general interests are required when members are appointed. There is also no requirement for declarations to be made on an annual basis.

Audit observations and recommendation

2.17 According to the Home Affairs Bureau's guidelines on the criteria for adopting the two-tier reporting system, a board or committee should adopt this system if it:

- (a) has a high degree of management and financial autonomy;
- (b) has extensive executive powers in matters of public interest; or
- (c) is responsible for the control and disbursement of substantial public funds.

To a large extent, the QEF Committees and Sub-committees meet the above criteria.

Audit recommendation

2.18 **Audit has recommended that the Secretary for Education should consider whether the SC, IC and DPS need to adopt the two-tier reporting system, in order to enhance transparency and accountability in the management of conflicts of interest.**

Response from the Administration

2.19 The **Secretary for Education** agrees with the audit recommendation. He has said that the QEF will invite members of the SC, IC and DPS to consider adopting the two-tier reporting system similar to that for the AMS.

Importance of strategic management

2.20 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. The organisation also needs to identify the necessary resources to deliver services that meet its strategic objectives and priorities.

Strategic planning

2.21 In April 2005, the SC formulated a roadmap for 2005/06 and beyond, which highlighted the QEF's role, strengths, challenges and objectives. Based on the roadmap, the QEF Secretariat drew up a strategic planning document "Objectives and Plans for 2006-2008" (2006-2008 Strategic Plan). This planning document was endorsed by the EC in December 2005. In 2008, the QEF prepared the strategic plan for the three-year period 2009 to 2011, which was endorsed by the EC in the same year.

Audit observations and recommendation

2.22 Strategic planning is a dynamic and continuous process. The strategic plan is therefore a living document, which needs to be reviewed and updated periodically as shorter-term objectives are achieved or changing circumstances and opportunities require adjustments to objectives and strategies. In this connection, the SC had reviewed the strategic objectives of the 2006-2008 Strategic Plan at various meetings during the planning period. However, the QEF had not updated the Plan to reflect the changes in its operating environment and latest developments. As a result, some of the proposals mentioned in the 2006-2008 Strategic Plan had become outdated. For example, the Plan stated that the QEF planned to:

- (a) maintain the system of one call for applications a year; and
- (b) give special incentives outside the annual application cycle to worthwhile initiatives (e.g. projects in support of the curriculum and the senior secondary education reform) that could potentially change the ecology of Hong Kong education.

2.23 In practice, after obtaining endorsement from the SC in March 2006, the QEF has been accepting applications all year round since September 2006. The QEF has also included “Support for the new senior secondary education reform” in the priority project themes since March 2007.

Audit recommendation

2.24 **Audit has recommended that the Secretary for Education should ensure that the QEF’s strategic plan is updated periodically (say on a yearly basis) within the three-year planning period.**

Response from the Administration

2.25 The **Secretary for Education** agrees with the audit recommendation. He has said that the QEF will conduct an annual update of the strategic plan.

Business planning and budgeting

2.26 Based on the strategic plan, an annual business plan is developed for the implementation of the strategic objectives. It is a good practice in planning that strategies are linked to the budget through the annual planning and budgetary cycle. It provides a clear linkage between the strategic plan and annual budgets. It also ensures that the

strategic plan can be effectively translated into operational and budget plans to meet strategic objectives.

2.27 In the 2001 audit review (see para. 1.6), Audit recommended that the QEF should set a formal budget for all aspects of QEF operation, including the grants programme, the awards programme and the cost of the QEF administration. In this connection, the SC decided that:

- (a) there should be annual budgets for the operation of the QEF; and
- (b) the budget should include the maximum of grant payments for each call of applications, and the expenditure for dissemination and promotional activities.

Audit observations and recommendations

Need to assess financial resources required

2.28 The AMS and the DPS had prepared separate business plans for implementing the relevant strategic objectives. The DPS's plan for 2007/08 included an estimate of the financial resources required to accomplish the objectives, which provided a linkage to the 2006-2008 Strategic Plan on the deployment of resources. However, the AMS's plan did not provide a similar estimate. As a good planning practice, the AMS needs to assess the financial resources required for implementing the objectives set out in its business plan to ensure that the grant payments will not exceed the funds available.

Need to include budget of grant payments in QEF's annual budget

2.29 It is the practice of the QEF Secretariat to submit an annual budget to the Permanent Secretary for Education for endorsement. The QEF's annual budget incorporates mainly the budget of the DPS, which includes the expenditure for dissemination and publicity activities, and other activities such as the Chief Executive's Award for Teaching Excellence. It does not include the AMS's budget on grant payments. **This arrangement is not in compliance with the SC's decision mentioned in paragraph 2.27 that the QEF's annual budget should include the maximum of grant payments.**

2.30 Upon Audit enquiry, the Secretariat explained that as applications for QEF grants were bottom-up initiatives, it was difficult to assess the financial resources required and include the AMS's budget of grant payments for each application year in the QEF's annual budget. The total grant approved for each year depended on the number of applications, and most importantly, the quality of the proposed projects. With the introduction of the year-round mode of application that was welcome and proved beneficial

for the school sector, the QEF was ready to consider any quality projects. Approval of such projects would not be limited by budget constraint.

2.31 Budgeting is a generally accepted key control process in both the public and private sectors. Many government funding schemes which operate on a bottom-up basis similar to the QEF have prepared annual budgets of their grants/payments. Examples include the financial assistance schemes of the Student Financial Assistance Agency and the Comprehensive Social Security Assistance Scheme of the Social Welfare Department. It is a good management practice for the QEF to prepare an annual budget of grant payments indicating the use of available resources. Linking to the strategic plan and business plans, the budget will facilitate more effective oversight of the operation of the QEF.

Audit recommendations

2.32 **Audit has recommended that the Secretary for Education should explore the feasibility of introducing improvement to the QEF's business planning and budgeting process by:**

- (a) **assessing the financial resources required for implementing the objectives set out in its strategic plan; and**
- (b) **including the AMS's budget of grant payments in the QEF's annual budget so as to comply with the SC's decision to cover grant payments in the budget and to facilitate effective oversight of the operation of the QEF.**

Response from the Administration

2.33 The **Secretary for Education** agrees with the audit recommendations. He has said that without compromising the objective of funding worthwhile and innovative projects, the QEF will explore the feasibility of introducing the improvement measures and seek directions from the SC.

Funding projects for pre-primary sector

Government assistance to pre-primary education

2.34 While the Government does not operate any kindergartens, it provides funding for kindergarten education. Prior to 2007/08, the Government assistance to pre-primary education was mainly in the form of fee remission to the parents, subsidy to the eligible kindergartens and reimbursement of rents, rates and government rents to them.

2.35 Given the positive impact of pre-primary education on children's development, the Government considers it appropriate to invest more in pre-primary education. In 2007/08, the Government introduced the Pre-primary Education Voucher Scheme to provide direct fee subsidy for parents to meet part of the school fees for pre-primary education of their children in eligible kindergartens. The introduction of the Scheme shows the Government's commitment to further strengthening the quality of pre-primary education.

QEF funding for pre-primary sector

2.36 The primary objective of the QEF is to promote quality school education **at all levels**. An analysis of the cumulative number of approved projects and the funding for different sectors since its establishment in January 1998 to August 2008 is shown in Table 3.

Table 3
Funding of approved projects for different sectors
(January 1998 to August 2008)

Sector	Number of schools (Note) (a)	Number of projects (b)	Approved funding (c) (\$ million)	Number of projects per school (d) = (b)/(a)	Average funding per school (e) = (c)/(a) (\$ million)
Pre-primary	842	603 (8%)	82 (2%)	0.72	0.10
Primary	765	2,921 (39%)	850 (23%)	3.82	1.11
Secondary	507	3,188 (43%)	1,681 (47%)	6.29	3.32
Special	70	353 (5%)	88 (2%)	5.04	1.26
Cross-sector	—	369 (5%)	919 (26%)	—	—
Overall	2,184	7,434 (100%)	3,620 (100%)	3.40	1.66

Source: Audit analysis of QEF and EDB records

Note: These are the 10-year average figures from 1998/99 to 2007/08.

Audit observations and recommendations

2.37 Table 3 shows that the proportion of projects and funding for the pre-primary sector was low. **In this regard, the 2006-2008 Strategic Plan stated that “it would formulate plans to help specific sectors (e.g. pre-primary sector), which had been relatively weak in drafting proposals or applications.”**

2.38 Since the implementation of the 2006-2008 Strategic Plan in January 2006, the QEF has been providing more intensive support to the pre-primary sector in the drafting of application proposals. This included:

- (a) the organisation of special briefing sessions for the sector to share with successful applicants their experience in proposal writing skills; and
- (b) the arrangement of individual consultation sessions in which individual attention was given to potential applicants.

Up to mid-October 2008, the QEF had held three special briefing sessions and three individual consultation sessions. In addition, potential applicants can also call the QEF hotline or email the QEF for enquiries and assistance.

2.39 Despite the additional support given to the pre-primary sector since January 2006:

- (a) the number of applications for the pre-primary sector decreased from 117 in 2005/06 to 24 in 2007/08 (see Table 4); and
- (b) the success rate of such applications increased slightly from 41% in 2005/06 to 46% in 2007/08 (see Table 5).

It appears that the additional support might not have been fully effective in encouraging applications for the pre-primary sector.

Table 4
Number of applications for pre-primary sector
(2005/06 to 2007/08)

School year	Number of applications		Percentage of applications for pre-primary sector (c) = (b)/(a) x 100%
	All sector (a)	Pre-primary sector (b)	
2005/06	1,046	117	11.2 %
2006/07	731	30	4.1 %
2007/08	648	24	3.7 %

Source: QEF records

Table 5
Success rate of applications for pre-primary sector
(2005/06 to 2007/08)

School year	Number of applications		Success rate (c) = (b)/(a) x 100%
	Received (a)	Approved (b)	
2005/06	117	48	41 %
2006/07	30	12	40 %
2007/08	24	11	46 %

Source: QEF records

Audit recommendations

2.40 **Audit has recommended that the Secretary for Education should identify more effective measures to:**

- (a) **encourage more applications for the pre-primary sector; and**
- (b) **help the sector develop better application proposals to improve the success rate.**

Response from the Administration

2.41 The **Secretary for Education** agrees with the audit recommendations. He has said that:

- (a) front line teachers of kindergartens and child care centres have great motivation to participate in projects organised for them by institutions like universities, non-governmental organisations (NGOs) and school sponsoring bodies;
- (b) in the past few years, the QEF has encouraged universities, NGOs and school sponsoring bodies to submit proposals to benefit the pre-primary sector;
- (c) various measures including the conduct of tailor-made consultation sessions and briefing for the pre-primary sector have been adopted to assist the sector in writing proposals; and
- (d) the QEF will continue to conduct tailor-made consultation sessions and briefing for the pre-primary sector to encourage more bottom-up initiatives that tailor for the sector's developmental needs.

Performance management

2.42 Performance management provides a means to measure how well an organisation has performed, and helps enhance its performance, transparency and accountability. The HKICPA's corporate governance guidelines also state that the governing board of a public organisation should establish and report on relevant financial and non-financial performance measures to ensure and demonstrate the efficient and effective use of resources.

Audit observations and recommendations

Need to establish outcome targets/indicators

2.43 The QEF Secretariat compiles periodically performance information for submission to the QEF Committees and Sub-committees (e.g. the number of applications received and processed and the number of seminars held). Despite the compiling of such performance information, the QEF has not established any outcome targets and indicators that can help measure its effectiveness. Examples of such outcome targets/indicators include stakeholder satisfaction rate and the number of projects achieving the preset targets. Without such information, the extent of the QEF in meeting its educational objectives cannot be assessed objectively. This is particularly important for mapping out the future strategy of the QEF.

Need to report performance

2.44 At present, apart from submitting its audited accounts to the Legislative Council (LegCo), there are no arrangements for the QEF to report its performance information to the legislature. As the QEF does not publish any annual reports, its website is the only channel through which the public can obtain relevant information about it.

Audit recommendations

2.45 **Audit has recommended that the Secretary for Education should:**

- (a) **establish performance measures for measuring the QEF's effectiveness, such as outcome targets and indicators; and**
- (b) **publish performance information of the QEF, for example, on the QEF website for information of stakeholders and the public to enhance transparency and public accountability.**

Response from the Administration

2.46 The **Secretary for Education** agrees with the audit recommendations. He has said that it is the QEF's current practice to upload the annual audited accounts, press releases, approved project proposals, etc. on its website for reference of stakeholders and the public. It will continue to explore the feasibility of establishing and publishing certain performance measures on the website.

PART 3: ADMINISTRATION OF INFORMATION TECHNOLOGY EQUIPMENT PROJECTS

3.1 This PART reports the audit findings on the QEF's administration of projects for the acquisition of IT equipment and systems.

Enhancement of IT infrastructure

IT in Education Strategy

3.2 In March 2004, the Government issued a document "Information Technology in Education Strategy — Way Forward" to consult the public on further embedding IT in learning and teaching. The funding of projects under the category of "enhancement of IT infrastructure" was a QEF initiative to tie in with the strategy in the consultation document.

Matching grants for enhancement projects

3.3 The QEF funding for enhancement of IT infrastructure was designed to be a matching grant. Schools needed to contribute 50% of the costs for their enhancement work. To match with the school's contribution, the QEF would provide grants up to \$300,000 for a secondary school, \$150,000 for a primary school and \$120,000 for a special school.

3.4 In July 2004, the EDB (known as the Education and Manpower Bureau at that time) obtained the approval of the Finance Committee (FC) of LegCo for funding to implement the IT in Education Strategy. The approved non-recurrent funding included a grant of \$126.5 million (Note 4) for individual schools to replace and upgrade IT facilities. The EDB allowed schools to use the non-recurrent grant on the enhancement work for obtaining the QEF matching grants. Schools needed to apply for both grants at the same time. Table 6 shows the different sources of funding for the enhancement of IT infrastructure.

Note 4: *The FC approved a non-recurrent grant of \$171.5 million for the enhancement of IT facilities in public sector schools. The grant comprised three elements: (a) \$92 million for replacing or upgrading computer hardware; (b) \$34.5 million for provision of wireless technology; and (c) \$45 million for providing liquid crystal display projectors. Items (a) and (b), totalling \$126.5 million, related to the enhancement of IT infrastructure.*

Table 6
Sources of funding for enhancement of IT infrastructure

Sector	Maximum funding for a school (\$)			
	Non-recurrent grant approved by the FC	Other resources of the school (Note)	Total contribution from the school	QEF matching grant
	(a)	(b)	(c) = (a) + (b)	
Primary	105,400	44,600	150,000	150,000
Secondary	128,300	171,700	300,000	300,000
Special	105,400	14,600	120,000	120,000

Source: QEF records

Note: Schools were not allowed to use other EDB subventions on the enhancement work.

3.5 In the last quarter of 2004, the QEF invited schools to apply for funding to enhance their IT facilities (Note 5). Schools could use the funding to replace/upgrade their computers and install a wireless computer network. By the close of the application period in December 2004, the QEF received 902 applications. The QEF identified 884 applications which would qualify for grants and earmarked \$182 million for the applications. To even out the cash flow, the QEF approved 868 applications for grants amounting to \$180 million over three school years (from 2004/05 to 2006/07).

Audit observations and recommendation

Need to provide relevant information to FC

3.6 When seeking the FC's approval for the non-recurrent grant of \$126.5 million (see para. 3.4), the Administration did not provide information about the QEF matching grant in the relevant FC papers. Appendix B summarises the chronology of key events of the implementation of the IT in Education Strategy.

Note 5: The application was open to schools established before 2002/03, including government schools, aided schools, caput schools and schools operating under the Direct Subsidy Scheme.

3.7 In April 2004, details of the QEF matching grant were deliberated by the SC. **However, information about the matching grant was not provided in the FC paper (FCR(2004-05)27) of July 2004.** The EDB mentioned to the FC the matching grant only when seeking additional funding in June 2005. As the QEF played a key role in the enhancement of school IT infrastructure (see Table 6), information about the QEF's involvement (e.g. its total commitment in the form of a matching grant) would have been useful for the FC in considering the funding proposal of July 2004.

Audit recommendation

3.8 **Audit has recommended that the Secretary for Education should ensure that, when seeking FC approval for funding initiatives involving QEF contributions in future, full details about the total commitment of the QEF are provided in the relevant FC papers.**

Response from the Administration

3.9 The **Secretary for Education** agrees with the audit recommendation. He has said that:

- (a) during the discussion of the funding for the IT in Education Strategy at the LegCo Panel on Education meeting in June 2004, the then Deputy Secretary (Education and Manpower) informed the Panel that “subject to justified needs, QEF would provide a matching grant for schools to upgrade or replace their computer hardware to improve learning and teaching”; and
- (b) when approving the funding application at its meeting in July 2004, the FC noted that the Panel on Education had been consulted on the proposal.

Use of new technology for school administrative work

Ways to relieve teachers' workload

3.10 In December 2006, the Committee on Teachers' Work (Note 6) issued a report on teachers' workload and stress. A recommendation of the report was that “schools could make optimal use of what technology has to offer to improve efficiency and reduce the administrative burden of teachers, e.g. the use of smart card and web administration, etc. One-off funding could be made available, on application from schools, to top up their IT provisions for administrative purpose.”

Note 6: *The Committee on Teachers' Work was set up by the Government in 2006. Members of the Committee included academics, civil servants and a medical practitioner.*

Launching a new project theme

3.11 The QEF considered that it had the potential to play a more important role in alleviating teachers' workload. In February 2007, the SC deliberated the introduction of a new project theme, namely "Use of new technology for school administrative work", in response to the recommendations in the report of the Committee on Teachers' Work. Under this project theme, schools could apply for funding, e.g. installation of a smart card system to take student attendance, for reducing the administrative burden of teachers (Note 7). The QEF Secretariat informed the SC that if all 1,200 eligible schools applied for funding for a smart card system (Note 8), the total funds required would amount to about \$140 million. The SC agreed to introduce the new project theme with effect from March 2007.

Audit observations and recommendation

Need to encourage applications from schools

3.12 Up to the end of 2007/08, the QEF only received 429 applications. The QEF approved 425 applications totalling \$45 million. About two-thirds of the 1,200 schools had not yet applied for funding under the project theme. The number of applications for funding to use new technology for school administrative work was less than satisfactory.

Audit recommendation

3.13 **Audit has recommended that the Secretary for Education should take steps to encourage schools to apply for QEF funding to use new technology for school administrative work.**

Response from the Administration

3.14 The **Secretary for Education** agrees with the audit recommendation. He has said that the project theme "Use of new technology for school administrative work" is just one of the measures to help relieve teachers' workload. About 20% of the schools have already acquired administrative systems before the roll out of the project theme. Besides, schools may choose other themes which may also help reduce administrative burden of teachers. Nevertheless, the QEF will continue to encourage schools to consider applying for funding to use new technology suitable for their specific needs.

Note 7: *The QEF would provide: (a) funding up to \$75,000 for 50% of the initial set up cost of a smart card system; and (b) 100% funding up to \$40,000 for the additional manpower required for installing the system. The QEF would not bear any recurrent costs of the smart card system.*

Note 8: *The QEF Secretariat estimated that, of the 1,200 schools, about 20% had already installed a smart card system. These schools could use the funding to enhance their existing systems.*

PART 4: PROJECT MANAGEMENT

4.1 This PART examines the monitoring of projects by the QEF and the management practices of grantees.

Project monitoring

4.2 The QEF assesses grantees' applications for project funding and submits the assessments for approval by the QEF Trustee. Measures taken by the QEF to monitor and improve the management of projects include issuing guidelines to grantees on project management, requiring grantees to report on project progress, vetting financial reports of projects, paying visits to grantees, and conducting project-end evaluation.

4.3 Audit reviewed the monitoring of projects by the QEF and conducted case studies of the monitoring practices in selected projects. There is room for improvement in the monitoring of projects (see paras. 4.4 to 4.30).

Submission of monitoring reports

4.4 According to the conditions of the QEF grant, grantees should report project progress regularly to the QEF. The QEF usually requires grantees to submit the following monitoring reports:

- (a) half-yearly progress reports and interim financial reports until a project is completed (Note 9); and
- (b) a final progress report and a final financial report within three months after the completion of a project.

The QEF may also require special reports from grantees, e.g. when there are perceived risks in their projects.

Note 9: *The first progress report and the first interim financial report are due for submission on the last day of the sixth month after project commencement.*

Audit observations and recommendations

Need to encourage prompt submission of monitoring reports

4.5 To ensure the timely submission of monitoring reports, the QEF Secretariat issues reminders to grantees and takes follow-up actions. For projects approved after 2003/04, the QEF's computer system automatically issues reminders to grantees for overdue monitoring reports (Note 10). For other projects, the Secretariat issues reminders manually. **In 2007/08, of 1,613 monitoring reports due for submission, 861 (53%) were not submitted until the Secretariat issued reminders.** In particular, 201 (12%) reports were submitted after a second reminder had been issued, and 191 (12%) were submitted after the final reminder had been issued. Late submission of monitoring reports by grantees affects the timeliness of the monitoring work and increases the administrative work.

Need to deter repeated late submission of monitoring reports

4.6 At present, if a grantee has received a final reminder for monitoring reports in three or more different projects, the QEF will assign an "unsatisfactory label" to the grantee's track record. The label is a factor which the QEF will consider in assessing the grantee's applications for funding in future.

4.7 The current practice of assigning an "unsatisfactory label" only for the issue of final reminders in three or more different projects may not be adequate to give a deterrent effect to the grantees. Case 1 shows that in a project, the repeated late submission of monitoring reports by the grantee would not result in an "unsatisfactory label" on the grantee's track record (see Appendix C).

4.8 Upon enquiry, the QEF Secretariat informed Audit that, in most cases, monitoring reports were submitted before the issue of final reminders. Some grantees had school/institution-based circumstances (e.g. change of the project leader) that would require a longer time to prepare and submit the reports. However, Audit considers that there is a need to take effective measures to deter grantees from repeated late submission of monitoring reports.

Note 10: *When a monitoring report has been overdue for a month, the QEF's computer system will issue a first reminder on the next day, a second reminder after three weeks, and a third-cum-final reminder after another three weeks. After the final reminder, the QEF may issue a warning letter or terminate the project.*

Need to ensure submission of monitoring reports before full grant payments

4.9 The QEF normally agrees with each grantee a payment schedule and releases grants by instalments. As a condition of the grant, the QEF may withhold grant payments if any of the monitoring reports are not satisfactory. The QEF Secretariat staff have to judge whether a grant payment should be made as scheduled or not. In practice, the QEF releases all grant payments before receiving the final monitoring reports (see Case 2 at Appendix D).

4.10 Withholding grant payments could send a strong message to remind grantees of the need to promptly report on their projects. To ensure that grantees submit their monitoring reports before full payments of grants, the QEF Secretariat may consider withholding an amount in the payment schedule as retention money which will be released only upon receiving the final monitoring reports.

Audit recommendations

4.11 **Audit has recommended that, to encourage timely submission of monitoring reports by grantees and to improve the effectiveness in project monitoring, the Secretary for Education should:**

- (a) **remind grantees of the need to submit monitoring reports promptly; and**
- (b) **consider taking more effective measures to deter repeated delays in submission of monitoring reports. For example, the QEF may:**
 - (i) **take into account the number of first and second reminders issued when considering the assignment of an “unsatisfactory label” to grantees; or**
 - (ii) **implement a retention money system for withholding grant payments.**

Response from the Administration

4.12 The **Secretary for Education** agrees with the audit recommendations. He has said that:

- (a) the QEF Secretariat will keep in view the issue of late submission of monitoring reports. It will spell out clearly the consequences of late submission in its correspondence with grantees from the early stage. It has to maintain the balance between the need to tighten the reminder system and the actual circumstances; and

- (b) the QEF will consider carefully the implications of the proposed retention money system on the grantees because they have to pay their staff and other expenses of the projects.

Monitoring delivery of project deliverables

4.13 In submitting an application, a grantee has to specify the expected project deliverables (e.g. publications or educational resources developed from the project). Depending on the amount of funding involved, the application may need the endorsement of different QEF authorities, such as the SC.

Audit observations and recommendation

4.14 The QEF has not laid down procedures for seeking endorsement of the relevant QEF authorities for variations of project deliverables. Case 3 shows that in a project, the grantee sought approval for a variation of a key project deliverable (see Appendix E). Audit considers that a key deliverable is a crucial feature of a project. The variation of a key deliverable needs to have the support of the QEF authority that originally endorsed the project.

4.15 Upon enquiry, the QEF Secretariat informed Audit that the QEF has an established practice. For normal cases of variation of project deliverables, the officer handling the case puts it to the section head for endorsement, or for escalation to a higher level for consideration/endorsement. For serious cases, they are passed to the SC for consideration. However, the practice is not formalised.

Audit recommendation

4.16 **Audit has recommended that the Secretary for Education should take steps to improve and formalise the present practice for endorsing variations of project deliverables (e.g. the non-delivery of a key deliverable) by the relevant authorities.**

Response from the Administration

4.17 The **Secretary for Education** agrees with the audit recommendation. He has said that the QEF will improve and formalise the present practice.

Controlling project expenditure

4.18 According to the conditions of grant, grantees may reallocate funds from an item of the approved budget to another if certain conditions are met (e.g. the amount of reallocation does not exceed a specified limit). If the conditions are not met, grantees have to seek the QEF Trustee's written approval before reallocating the funds. The QEF has authorised its Secretariat to approve applications for reallocation of funds. Without prior approval, the expenditure on items not listed in the budget shall be charged to the grantee's own account. The Secretariat may issue a warning to the grantee for reallocating funds without the QEF's prior approval. The warning would affect the grantee's future applications for funding.

4.19 In January 2006, the SC discussed the matter. While generally supporting the need for some flexibility in using funds by grantees, the SC considered that suitable control mechanisms should be in place to ensure that funds were spent appropriately. The SC decided that the existing warning system should be maintained. The SC required the QEF Secretariat to seek more detailed explanations from the grantees concerned if necessary, and to decide if reminders on the need to seek prior approval should be issued to them.

Audit observations and recommendations

Need to step up control on reallocation of funds

4.20 From July 2007 to June 2008, the Secretariat approved 23 applications for reallocation of funds. **Of the 23 applications, 16 (70%) were applications for covering approval.** Despite the SC's decision to maintain the existing warning system (see para. 4.19), the Secretariat did not issue any warnings to the grantees in all the cases. Occasionally, the Secretariat reminded the grantees concerned of the need to seek prior approval. Case 4 shows that the grantee had reallocated the funds before seeking approval (see Appendix F). In this case, the Secretariat should have sought more detailed information from the grantee before giving covering approval.

Audit recommendations

4.21 **Audit has recommended that the Secretary for Education, in handling the reallocation of funds, should:**

- (a) **remind grantees periodically that they should obtain prior approval;**
- (b) **issue warnings or reminders on the need to seek prior approval to grantees applying for covering approval; and**
- (c) **seek more detailed information from grantees before approving applications.**

Response from the Administration

4.22 The **Secretary for Education** agrees with the audit recommendations. He has said that the QEF will continue to remind grantees of the need to seek prior approval for fund reallocation. When a grantee fails to comply with the requirement, a reminder will be issued. The consequence of not obtaining covering approval will be spelt out in the correspondence. The incident will form part of the track record which serves as a reference in evaluating the grantee's performance and its future applications for QEF funding.

Vetting financial reports

4.23 The QEF has an audit team responsible for vetting financial reports of projects. The QEF audit team conducts vetting to ensure that the financial reports properly present the income and expenditure of projects, and that the projects have followed the QEF requirements (e.g. the need to obtain approval before reallocating funds between budget items — see paras. 4.18 and 4.19). Table 7 shows the number of financial reports the QEF audit team vetted from 2005/06 to 2007/08.

Table 7

**Financial reports vetted by QEF audit team
(2005/06 to 2007/08)**

Status of financial reports	Number of financial reports		
	2005/06	2006/07	2007/08
(1) To be vetted (brought forward from the previous year)	205	329	539
(2) Received in the year	768	834	1,135
(3) Vetted in the year	644	624	742
(4) To be vetted (carried forward to the ensuing year) (4) = (1)+(2)–(3)	329	539	932

Source: QEF records

4.24 To cope with the increasing workload, the QEF audit team has taken measures to streamline procedures, extend the working hours, and hire temporary staff to help with the vetting. As at October 2008, the audit team had five staff, comprising a team leader and four assistants (including a temporary staff).

Audit observations and recommendations

Need to clear the backlog of financial reports

4.25 The number of financial reports pending vetting had increased from 205 at the beginning of 2005/06 by 355% to 932 at the end of 2007/08 (see Table 7). To ensure the timely monitoring of financial transactions of projects, the QEF needs more efforts to clear the backlog.

Need to review the vetting methodology

4.26 The QEF audit team conducts extensive vetting of transactions for the financial reports. The same extent of vetting is conducted for projects of comparable sizes, as follows:

- (a) for projects with a grant of less than \$500,000, 40% of the transactions of each expenditure item are to be vetted; and
- (b) for projects with a grant of \$500,000 or more, 60% of the transactions of each expenditure item are to be vetted.

4.27 The QEF audit team does not consider other factors, such as the management style of the grantees and the control environment affecting the grantees' processing of the transactions. It appears that the current methodology adopted for the vetting work is not conducive to focusing the audit team's effort on vetting financial reports that are more error-prone. Audit visited a sample of grantees to examine their management practices (see para. 4.32) and noted that some grantees had better controls over their transactions. The QEF audit team should take into account the risk profile of different grantees (e.g. their management styles, internal control procedures, etc.) in determining the extent of vetting.

Need to consider engaging external auditing services

4.28 According to the conditions of the QEF grant for projects approved after 2004, a grantee should submit an account audited by a certified public accountant if the grant is more than \$3 million. Of about 2,000 projects approved after 2004, only 11 had a grant of more than \$3 million. Therefore, the QEF basically relied on its audit team to vet the financial reports of almost all projects. However, some staff of the audit team did not have

formal training in auditing or accounting. The QEF had also expressed concern about the limited knowledge and technical skills of individual staff.

Audit recommendations

4.29 **Audit has recommended that the Secretary for Education should:**

- (a) **conduct a review on the QEF audit team's vetting methodology to determine whether:**
 - (i) **a more risk-based approach should be adopted in vetting the financial reports; and**
 - (ii) **external auditing services should be engaged to conduct vetting of financial reports, particularly those which are high-risk and complicated; and**
- (b) **take effective measures to clear the backlog of financial reports pending vetting.**

Response from the Administration

4.30 The **Secretary for Education** agrees with the audit recommendations. He has said that:

- (a) the QEF will explore the adoption of a more risk-based approach in vetting the financial reports and engagement of external auditing services to conduct vetting of financial reports; and
- (b) more effective measures will also be explored to clear the backlog of financial reports pending vetting.

Management practices of grantees

4.31 Grantees may need to employ staff and procure goods and services for their QEF projects. The QEF has issued a set of General Guidelines on such areas as staff administration, procurement and management of assets. As a condition of the grant, grantees are required to follow the General Guidelines.

4.32 Audit visited five grantees (Note 11) to ascertain their practices on staff recruitment, procurement and management of assets, and reviewed the monitoring work conducted by the QEF. Audit found that there was room for improvement in the management practices of grantees (see paras. 4.33 to 4.42).

Staff recruitment and procurement

4.33 The General Guidelines require grantees to adopt an open, fair and competitive system for staff recruitment, which should include the following procedures:

- (a) advertising job vacancies in local newspapers and/or other channels;
- (b) forming recruitment panels to conduct selection interviews and skill tests as necessary;
- (c) devising an objective assessment method; and
- (d) documenting properly the assessment of candidates.

4.34 For procurement of goods and services, the General Guidelines require grantees to ensure openness and value for money in their practices. Grantees need to conduct procurement on a competitive basis by obtaining necessary quotations and tenders (Note 12).

Audit observations and recommendations

Need to follow the General Guidelines

4.35 During visits to the five grantees, Audit noted the following non-compliances with the General Guidelines:

Note 11: *The five grantees are a school, a tertiary institution and three NGOs.*

Note 12: *The requirements on obtaining quotations/tenders for procurement are as follows:*

<i>Amount of goods/services procured</i>	<i>Requirement</i>
<i>Over \$5,000 but not exceeding \$50,000</i>	<i>At least three quotations</i>
<i>Over \$50,000 but not exceeding \$1.3 million</i>	<i>At least five written quotations</i>
<i>Over \$1.3 million</i>	<i>Competitive tendering procedure</i>

- (a) three of the five grantees had recruited staff for their projects. In some cases, they had not conducted an open recruitment exercise (e.g. appointing directly a person who had previously worked for the grantee in another project);
- (b) one of the grantees had not kept adequate records for its open recruitment exercise (e.g. failing to keep records of the selection interviews); and
- (c) the five grantees had procured goods/services for their projects. Three of them had not obtained the required number of quotations in some cases.

Audit considers that, to ensure propriety in using the grant, it is important for grantees to always follow the General Guidelines.

Need to allocate adequate resources for checking compliance

4.36 From time to time, the QEF required grantees to declare that they had followed the General Guidelines on staff recruitment and procurement. The QEF audit team randomly selected samples of grantees for field audits to check the grantees' compliance with the General Guidelines. The number of field audits decreased from 76 in 2005/06 by 66% to 26 in 2007/08.

Audit recommendations

4.37 **Audit has recommended that the Secretary for Education should:**

- (a) **periodically remind grantees of their obligations to follow the General Guidelines;**
- (b) **consider taking a more risk-based approach in selecting grantees for field audits; and**
- (c) **ascertain, having regard to the audit approach taken, the appropriate number of field audits to deter and detect grantees' non-compliance with the General Guidelines.**

Response from the Administration

4.38 The Secretary for Education agrees with the audit recommendations.

Management of assets

4.39 Goods procured by QEF funds should be accounted for as assets if they are of a durable nature costing \$1,000 or more per item. According to the General Guidelines, the assets of a project belong to the grantee, except those costing \$100,000 or more per item with reallocation potential. Table 8 summarises the ownership of different assets.

Table 8
Ownership of assets

Unit cost of assets	Ownership of assets	
	with little reallocation potential (Note 1)	with reallocation potential (Note 2)
Less than \$100,000	} Vested in the grantee	Vested in the grantee
\$100,000 or more		Vested in the QEF (Note 3)

Source: QEF records

Note 1: Assets with little reallocation potential include fixtures, construction works and air-conditioners.

Note 2: Assets with reallocation potential include audio and video equipment, computer hardware and office equipment.

Note 3: The current practice is that if the QEF does not make any demand for an asset within three years after completion of the project, ownership of the asset can be taken as having been vested in the grantee.

Audit observations and recommendation

Need to account for deployment of assets

4.40 Allowing a grantee to keep an asset may not necessarily achieve the best utilisation of resources. Currently, the QEF does not require grantees to report on the deployment of assets upon project completion.

Audit recommendation

4.41 **Audit has recommended that the Secretary for Education should require grantees to properly account for the deployment of serviceable assets upon project completion to ensure that such assets are beneficially used.**

Response from the Administration

4.42 The **Secretary for Education** agrees with the audit recommendation. He has said that the QEF will consider requesting grantees to include asset usage plans in the financial reports.

Review of Operation Manual

4.43 The QEF has an Operation Manual which provides guidelines on administration of the QEF. The Operation Manual covers such areas of operation as making grant payments, monitoring projects and conducting field audits. The QEF Secretariat updates the Operation Manual from time to time.

Audit observations and recommendations

4.44 The Operation Manual has not adequately spelt out the guidelines and work procedures. For example, the Operation Manual does not provide sufficient guidance to the Secretariat staff in the following areas:

- (a) factors to be considered in judging whether a grant payment should be made as scheduled (see para. 4.9);
- (b) the proper QEF authorities for endorsing variations of project deliverables (see para. 4.14); and
- (c) criteria for issuing reminders and warnings to grantees who failed to seek prior approval for reallocation of funds between budget items (see para. 4.19).

Audit recommendations

4.45 **Audit has recommended that the Secretary for Education should:**

- (a) **review the Operation Manual to ensure that it covers all major aspects on administration of the QEF; and**
- (b) **regularly update the Operation Manual.**

Response from the Administration

4.46 The **Secretary for Education** agrees with the audit recommendations. He has said that it is the QEF's prevailing practice to review the Operation Manual from time to time to ensure that it covers important aspects on administration of the QEF.

PART 5: DISSEMINATION AND COMMERCIALISATION OF PROJECT DELIVERABLES

5.1 This PART examines the dissemination and commercialisation of project deliverables by the QEF.

Dissemination of project deliverables

5.2 In its 2006-2008 Strategic Plan, the QEF stated that dissemination is a key pillar to its operation. The QEF disseminates good practices and experiences resulting from its projects through activities such as talks, workshops and sharing sessions. The QEF also networks schools to form a learning community to facilitate dissemination of good practices. For tangible deliverables such as publications and learning resources, grantees usually distribute them to schools free of charge.

Audit observations and recommendations

5.3 At present, the QEF requires grantees to provide information about the dissemination of project deliverables in the grant agreements and progress reports. However, the QEF does not require grantees to provide details of the mechanism for distributing deliverables (e.g. criteria for distributing the deliverables).

5.4 Case 5 shows the distribution of learning resource kits by a grantee to the participants of a project (see Appendix G). The learning resource kits were tangible deliverables generated by the project. There were inadequacies in the mechanism for distributing the learning resource kits (e.g. the lack of laid-down assessment criteria and relevant assessment records for the distribution).

Audit recommendations

5.5 In order to enhance transparency and accountability in the distribution of project deliverables, Audit has *recommended* that the Secretary for Education should consider requiring grantees to:

- (a) state clearly in their project applications or grant agreements the proposed mechanism for distributing project deliverables; and
- (b) report to the QEF, upon completion of the projects, about the distribution of project deliverables under the mechanism.

Response from the Administration

5.6 The **Secretary for Education** agrees with the audit recommendations.

Commercialisation of project deliverables

5.7 The QEF noted that due to the diversified needs of schools, grantees might have distributed project deliverables to schools not interested in them. On the other hand, schools interested in the project deliverables might not have received sufficient quantity of the deliverables. Furthermore, the public might not be able to acquire the deliverables even if they were interested in them.

Commercialisation strategy of 2003

5.8 In 2003, the DPS deliberated a commercialisation strategy. According to this strategy, the QEF Secretariat could make use of the market to supplement the distribution of project deliverables. For example, the QEF Secretariat would repackage project deliverables into saleable products. The main principles of the commercialisation strategy were as follows:

- (a) the objective of commercialisation was not to make profit, but to widen the distribution net and to ensure that the project deliverables were acquired by those in need;
- (b) project deliverables which were not tangible or could be downloaded from the QEF website (e.g. research reports) should not be selected for commercialisation; and
- (c) the prices of the saleable products should be pitched at a level affordable by the prospective clients and able to recover just the basic costs borne by the QEF in editing, repackaging or reproducing a product, plus a basic handling cost for the sale charged by the sales outlet. For example, a video compact disk (VCD) would cost at around \$7 to \$10 if handled by the QEF, or \$12 to \$16 if handled by other sales outlets.

Pricing guidelines of 2005

5.9 In the DPS meeting of May 2005, the following pricing guidelines for QEF products were discussed:

- (a) for products of high market value, prices set could take into account the market prices of similar products, the projected sales volume, costing and breakeven point; and

- (b) for products of medium to low market value, the price could be a mark-up of overhead and commission to agents on top of costing.

After deliberation, DPS members did not state that they endorsed the guidelines. Instead, DPS members raised the concern that “pricing of QEF products for sale should be carefully considered with reference to the market situation and the prime objective of commercialisation, i.e. dissemination”.

Sales of QEF products

5.10 As at September 2008, the QEF had about 80 products for sale. Prices of the products ranged from \$10 for a publication to \$195 for a resource kit. Table 9 shows the sales of QEF products in 2005/06 to 2007/08.

Table 9
Sales of QEF products
(2005/06 to 2007/08)

School year	Number of items sold	Sales proceeds (\$'000)
2005/06	3,659	120
2006/07	4,133	154
2007/08	3,721	130
Total	11,513	404

Source: QEF records

Audit observations and recommendations

Need to regularise the QEF's pricing practices

5.11 Prices set according to the 2005 pricing guidelines could vary from those set according to the 2003 commercialisation strategy. Upon enquiry, the QEF Secretariat informed Audit that the QEF had followed the 2005 pricing guidelines in setting prices for

products sold via commercial outlets (Note 13). However, the Secretariat had not obtained the endorsement of the DPS for the 2005 pricing guidelines. There is a need for the QEF to regularise its practices in setting the prices for project deliverables.

Need to take into account customer sensitivity to prices

5.12 At times, the QEF reduced the prices of its products. For example, from May to July 2008, the QEF discounted the prices of 35 products to tie in with the QEF's 10th Anniversary activities. Reducing the prices was very effective in boosting the demand for some products. Table 10 shows the sales of selected products in 2007/08.

Table 10
Sales of selected products
(2007/08)

Product	Normal sale during the year		Discount sale from May to July 2008		Total number of items sold
	Price per item (\$)	Number of items sold	Price per item (\$)	Number of items sold	
Documentary VCD 1	67	1 (3%)	30	35 (97%)	36
Documentary VCD 2	67	1 (3%)	30	35 (97%)	36
A research report on IT education	60	0 (0%)	50	8 (100%)	8
A set of compact disks on research in Outstanding School Awards	60	4 (10%)	40	36 (90%)	40
A textbook on selected topics	45	2 (4%)	20	45 (96%)	47
A book on curriculum development	20	0 (0%)	10	21 (100%)	21
Overall	—	8 (4%)	—	180 (96%)	188

Source: Audit analysis of QEF records

Note 13: The Secretariat generally used the following formulae to determine the retail prices of products sold via commercial outlets:

- (a) price of a low market value product = production cost ÷ 0.75; and
- (b) price of a high market value product = production cost × 1.2 ÷ 0.75.

5.13 Table 10 shows that the number of items sold at discounted prices during the three-month period May to July 2008 accounted for 96% of the total sales for the selected products in 2007/08. To disseminate as many QEF products as possible, there is scope for the QEF to consider reducing the regular prices of selected products.

Audit recommendations

5.14 **Audit has recommended that the Secretary for Education should:**

- (a) **review the pricing strategy for QEF products, taking into account:**
 - (i) **the need to widen the dissemination of QEF products;**
 - (ii) **the commercialisation strategy of 2003; and**
 - (iii) **the pricing guidelines of 2005;**
- (b) **seek the DPS's endorsement of the pricing strategy; and**
- (c) **consider reducing the prices of selected QEF products so as to maximise their dissemination to benefit as many people as possible.**

Response from the Administration

5.15 The Secretary for Education agrees with the audit recommendations.

Sales channels

5.16 The QEF products are available for sale through the following channels:

- (a) the QEF Secretariat;
- (b) book fairs;
- (c) the EDB's Central Resources Centre (CRC — Note 14); and
- (d) two groups of bookstores.

Table 11 shows the sales of QEF products through such channels from 2005/06 to 2007/08.

Note 14: *The CRC provides educational resources and services to support learning and teaching as well as teachers' professional development in Hong Kong. The CRC is open to teachers, teaching professionals and parents. Members of the public could also visit the CRC by arrangement.*

Table 11
Sales of QEF products
(2005/06 to 2007/08)

School year	Number of items sold through:				Total
	QEF Secretariat	Book fairs	CRC	Two groups of bookstores	
2005/06	1,586	2,000	73	0 (Note)	3,659
2006/07	2,083	1,478	298	274	4,133
2007/08	2,523	928	208	62	3,721
Total	6,192	4,406	579	336	11,513

Source: QEF records

Note: The two groups of bookstores started to sell QEF products in February and October 2006 respectively.

Audit observations and recommendation

Need to streamline the ordering of QEF products

5.17 The number of items sold through the QEF Secretariat increased from 1,586 in 2005/06 by 59% to 2,523 in 2007/08. To purchase a QEF product from the Secretariat, buyers usually have to download the order form from the QEF website and send the completed order form to the Secretariat by fax. The Secretariat then contacts individual buyers to arrange for payment and delivery of the products. To cope with the increasing sales volume and to facilitate the public to acquire QEF products more conveniently, there is a need for the Secretariat to automate the ordering of QEF products.

Need to explore additional sales channels

5.18 When deliberating the commercialisation strategy of 2003 (see para. 5.8), the QEF Secretariat undertook to consider exploring such sales outlets as Hongkong Post, the Government Bookstore on the Internet, and the Hong Kong Education City (HKEd City —

Note 15). However, up to December 2008, these outlets had still not been included in the sales channels for QEF products. These outlets might help QEF products reach a wider spectrum of potential users. In particular, the HKEd City and the Government Bookstore on the Internet could help the products reach overseas buyers and those who prefer to buy through the Internet. Other sales outlets that may be considered include bookstores at tertiary institutions.

Audit recommendation

5.19 **Audit has recommended that the Secretary for Education should consider exploring the feasibility of disseminating QEF products through more channels, particularly those Internet-based channels, so as to widen the reach of the products to the potential users, both overseas and local.**

Response from the Administration

5.20 The **Secretary for Education** agrees with the audit recommendation. He has said that the QEF has explored the feasibility of using various sales channels but all are not yet ready for the time being for various reasons.

Using project deliverables for commercial purposes

5.21 According to the QEF's guidelines, applications for funding are open to schools, educational bodies, individuals who are permanent residents in Hong Kong and organisations registered under the laws of Hong Kong. A commercial organisation can apply for funding as long as the project is non-profit-making and aims to enhance the quality of education in line with the prevailing education policies in Hong Kong.

5.22 In 2006, the QEF approved a grant of \$3.3 million for a commercial organisation to undertake a project to help enhance students' Chinese language ability and knowledge in Chinese culture. A total of 13 schools participated in the project. The project would establish a reading platform with 50 electronic books (e-books) for use by the schools. After completing the project, the commercial organisation would open the reading platform to other schools and continue to produce e-books for the platform. The project was scheduled to complete in February 2009. Details of the project are summarised in Case 6 (see Appendix H).

Note 15: *The HKEd City is an educational portal. Teachers and interested parties could use the portal to search educational and curriculum resources that support teaching and learning.*

Audit observations and recommendation

5.23 The commercial organisation (Grantee 6) would make use of the project deliverables, i.e. the reading platform and the e-books, to provide fee-paying services to schools after completing the project. The QEF had agreed with Grantee 6 a structure of the service fees, as follows:

- (a) ***Licence fee.*** Schools would pay a licence fee for using the e-books. Grantee 6 undertook to set the licence fee at below the market rate. However, the QEF had not agreed with Grantee 6 on how the market rate would be set, and on the extent of discount that Grantee 6 would offer; and
- (b) ***Annual fee.*** Schools would pay an annual fee for using the reading platform. Grantee 6 undertook to set the annual fee at a level for its operation to break even. However, the QEF had not agreed with Grantee 6 on the types and extent of expenditure (e.g. administrative overhead) which the operation would bear.

5.24 Grantee 6 is a commercial organisation. **In the absence of a clear and mutually agreed mechanism for charging service fees, there is a risk that Grantee 6 may set service fees at a level which would not be reasonable and affordable to schools.**

Audit recommendation

5.25 **Audit has recommended that the Secretary for Education should take measures to ensure that QEF products are made available to schools at a reasonable and affordable price when the QEF enters into arrangements with commercial organisations for the commercialisation of QEF products.**

Response from the Administration

5.26 The **Secretary for Education** agrees with the audit recommendation. He has said that the QEF will invite the DPS to consider taking measures to ensure that, when entering into arrangements with commercial organisations for the commercialisation of QEF products, the products will be made available to schools at a reasonable and affordable price.

**Low attendance of some
Dissemination and Promotion Sub-committee members**

Member A

Member A was an SC member since January 2003 and a DPS member since February 2003. His overall attendance rates at SC and DPS meetings from his appointment in 2003 to January 2009 were 63% and **29%** respectively. His reappointment to the DPS for 2007-2009 was to tie in with his term of appointment to the SC which continued until January 2009. Member A was not reappointed to the SC and DPS for 2009-2011.

Member B

Member B has been a DPS member since January 2005. His overall attendance rate from January 2005 to January 2009 was **45%**. His reappointment to the DPS for 2007-2009 was made on the grounds that the QEF would need his expertise in the 10th Anniversary functions. Member B was reappointed for 2009-2011.

Member C

Member C was a DPS member since February 2003. His overall attendance rate from February 2003 to January 2009 was **47%**. Member C was not reappointed for 2009-2011.

Source: QEF records

**Chronology of key events of
implementation of Information Technology in Education Strategy**

March 2004	The Government launched the consultation document “Information Technology in Education Strategy — Way Forward”.
April 2004	The SC explored the idea of funding a new category of projects, “enhancement of IT infrastructure”, as an initiative to tie in with the strategy in the consultation document. The SC agreed to adopt a “matching fund” concept for the projects. It was estimated that the total QEF grants would be about \$232 million.
June 2004	The EDB informed the LegCo Panel on Education of the outcome of the public consultation on IT in Education Strategy. The EDB said that “subject to justified needs, QEF would provide a matching grant for schools to upgrade or replace their computer hardware to improve learning and teaching.”
July 2004	The EDB sought the FC’s approval for a non-recurrent grant to implement the IT in Education Strategy. Included in the non-recurrent grant was \$126.5 million for individual schools to replace and upgrade their IT facilities. In the FC paper, the only reference made to the QEF was “the Quality Education Fund will also encourage innovative IT in education projects proposed by schools”.
October to December 2004	The EDB received applications from schools for non-recurrent grants and QEF matching grants to enhance their IT facilities.
April 2005	The SC endorsed the eligibility of 884 applications for QEF matching grants. The SC earmarked \$182 million for these applications.
June 2005	The EDB sought the FC’s approval for additional funding to implement other initiatives under the IT in Education Strategy. The EDB reported to the FC the progress of the enhancement of IT infrastructure. The EDB stated in the FC paper that “support from the Quality Education Fund in the form of matching fund (in the order of \$180 million) will be available to schools starting in the summer of 2005”.

Source: QEF records

Case 1

Repeated delays in submission of monitoring reports

1. Grantee 1 carried out Project 1 from 1 September 2004 to 30 September 2007. The project aimed to develop teaching and learning resources on the Internet to help students master Chinese language skills.

2. Grantee 1 had delays in submitting monitoring reports. To chase up Grantee 1 for the monitoring reports, the QEF Secretariat issued 7 reminders, none of them being a final reminder. Details of the delays are as follows:

Monitoring report	Due date for submission	Date of submission
<i>Progress reports:</i>		
— Fourth	31.8.2006	17.11.2006
— Fifth	28.2.2007	23.4.2007
<i>Financial reports:</i>		
— Third interim	28.2.2006	7.4.2006
— Fourth interim	31.8.2006	17.11.2006
— Fifth interim	28.2.2007	23.4.2007

Audit findings

3. Despite repeated delays in submission of monitoring reports, Grantee 1 was not given any “unsatisfactory label” on its track record, as no final reminders were issued.

Source: QEF records

Case 2

Releasing grant payments before submission of monitoring reports

1. Grantee 2 planned to conduct Project 2 for 12 months from 1 September 2005 to 31 August 2006. The project aimed to establish a web-based interactive learning platform for students.

2. The QEF approved a grant of \$574,200 for Project 2 and agreed with Grantee 2 a payment schedule, as follows:

Scheduled date of payment	Amount (\$)
September 2005	177,500
December 2005	157,500
March 2006	131,700
June 2006	107,500
Total	574,200

3. Grantee 2 needed more time to develop the learning platform. On 14 July 2006, the QEF gave approval for extending the project completion date by 4 months from 31 August 2006 to 31 December 2006.

4. Grantee 2 did not submit the monitoring reports due on 30 September 2006. On 1 November 2006, the QEF sent a reminder to Grantee 2. The QEF stated in the reminder that “payment of grant will be/has been suspended until the clearance of the outstanding report”.

Audit findings

5. The QEF released the last grant payment on 3 July 2006, shortly after the scheduled date of payment in June 2006. Withholding grant payments would no longer have been practicable even if the QEF might wish to suspend such payments in November 2006.

6. When Grantee 2 completed Project 2 on 31 December 2006, there was an unspent balance of \$63,647. Grantee 2 subsequently returned the balance to the QEF.

Source: QEF records

Case 3

Failing to deliver a key project deliverable

1. For Project 1 (see Case 1 at Appendix C), in assessing the application for QEF funding, the SC remarked in April 2004 that:
 - (a) as many similar websites were available, the SC supported the project on condition that it had to focus on its uniqueness; and
 - (b) various components of the website would be valuable resources for students and teachers, including a written Cantonese thesaurus.
2. On 7 June 2006, Grantee 1 informed the QEF that due to technical constraints, the website could not be created in the way as planned. Therefore, Project 1 failed to produce the written Cantonese thesaurus. Grantee 1 sought the QEF's approval for providing other Chinese language resources in lieu.
3. The responsible officer of the QEF Secretariat discussed with his supervisor about the variation of the project deliverable, and considered that the variation was justified. The endorsement of the SC was not sought.
4. In September 2007, Grantee 1 completed the project with the variation.

Audit findings

5. The SC supported the project on the condition that the project could focus on its uniqueness. As the written Cantonese thesaurus was one of the unique features of the project, it was questionable whether the SC would have given its endorsement for the project had it known that this feature could not be delivered.

Source: QEF records

Case 4

Reallocation of funds before obtaining approval

1. Grantee 4 carried out Project 4 for 30 months from 1 September 2004 to 28 February 2007. The project aimed to develop a curriculum of moral and civic education for students in Secondary 1 (S1) to Secondary 3 (S3). There were 12 schools participating in the project.

2. The total budget of Project 4 was \$1.1 million, which included \$650,000 to produce 60,000 copies of moral education textbooks for the curriculum.

3. As a result of a 30% saving in staff cost and due to unforeseen interest income, Project 4 had a surplus. Grantee 4 used about \$130,000 of the surplus to print 45,000 additional copies of moral education textbooks.

4. Grantee 4 had reallocated the funds before seeking the QEF Secretariat's approval. In June 2008, the Secretariat gave its covering approval. The justification was: "The moral education textbooks for junior secondary (S1-S3) classes were well-received. The grantee therefore produced 45,000 more copies to benefit students of other schools". The Secretariat further commented that:

- (a) the grantee did not deliberately intend to save staff cost; and
- (b) the 60,000 books in the original budget were sufficient for students of the participating schools.

Audit findings

5. Grantee 4 should have obtained the QEF Secretariat's approval before reallocating the approved funds. Furthermore, the Secretariat should have required Grantee 4 to provide more detailed information about the distribution plan and the target schools for the additional 45,000 copies of textbooks to ascertain whether they would be distributed in a timely and efficient manner.

Source: QEF records

Case 5

Distribution of learning resource kits to project participants

1. Grantee 5 carried out Project 5 for 12 months from 1 August 2006 to 31 July 2007. The project aimed to develop learning and teaching packages in technology education for over 100 schools. According to the project application, Project 5 would produce about 2,500 sets of learning resource kits for building robots. The QEF approved a grant of \$450,000 for the project.

2. Grantee 5 ran a series of seminars and workshops to distribute the resource kits to participating schools. Depending on the complexity of the robots to be built, the cost of each resource kit ranged from \$50 to \$23,500.

Audit findings

3. There were four resource kits costing \$23,500 each. The QEF did not require Grantee 5 to provide details of the mechanism for distributing the resource kits. The QEF also did not require Grantee 5 to keep records of distribution of these resource kits (e.g. acknowledgement receipts).

4. In November 2008, Audit paid a visit to Grantee 5 to ascertain the distribution mechanism in practice. Upon enquiry, Grantee 5 informed Audit that:

- (a) the resource kits were distributed to participating schools according to their performance in the workshops; and
- (b) the four schools that had demonstrated the greatest potential in benefiting from the advance resource kits were given the most complicated and expensive kits.

5. However, Grantee 5 had not laid down any performance assessment criteria and did not have any records of assessment of the participating schools. Furthermore, Grantee 5 only kept the schools' acknowledgement receipts of the more expensive resource kits.

Source: QEF records and findings of Audit visit

Case 6

Using project deliverables for commercial purposes

1. Grantee 6 was a commercial organisation.
2. In May 2006, the QEF approved a grant for Grantee 6 to carry out Project 6. The project aimed to help enhance students' Chinese language ability and knowledge in Chinese culture. The project commenced in August 2006 and was scheduled for completion in February 2009.
3. According to the project proposal, which formed part of the agreement with the QEF Trustee, Grantee 6 would observe the following arrangements:
 - (a) Project 6 would need a total funding of \$6.3 million. Grantee 6 would bear \$3 million and the QEF would provide a grant of \$3.3 million;
 - (b) Project 6 would provide the following deliverables:
 - (i) a reading platform for e-books;
 - (ii) a total of 50 e-books by the time of project completion; and
 - (iii) a total of 100 e-books after project completion. The copyright of these 100 e-books would belong to Grantee 6;
 - (c) Grantee 6 would invite about 10 to 20 secondary schools to participate in the project. The schools would use the e-books and the reading platform on trial; and
 - (d) upon completion of the project, the reading platform would be open for use by all secondary schools in Hong Kong.

Audit findings

4. While all secondary schools could use the reading platform after the completion of the project, Grantee 6 would charge the schools for using the platform and the 100 e-books that were to be developed after the project. For the 50 e-books developed in the project, schools could use them free of charge.

Source: QEF records

Acronyms and abbreviations

AMS	Assessment and Monitoring Sub-committee
Audit	Audit Commission
CRC	Central Resources Centre
DPS	Dissemination and Promotion Sub-committee
E-books	Electronic books
EC	Education Commission
EDB	Education Bureau
FC	Finance Committee
HKEd City	Hong Kong Education City
HKICPA	Hong Kong Institute of Certified Public Accountants
IC	Quality Education Fund Investment Committee
IT	Information technology
LegCo	Legislative Council
NGOs	Non-governmental organisations
QEF	Quality Education Fund
S1	Secondary 1
S3	Secondary 3
SC	Quality Education Fund Steering Committee
VCD	Video compact disk