

# Report No. 52 of the Director of Audit — Chapter 7

## THE QUALITY EDUCATION FUND

### Summary

1. The Quality Education Fund (QEF) was established in January 1998. 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. The QEF is administered under a trust. The Permanent Secretary for Education Incorporated is the Trustee. A QEF Steering Committee (SC), a QEF Investment Committee (IC) and two sub-committees, namely the Assessment and Monitoring Sub-committee (AMS) and the Dissemination and Promotion Sub-committee (DPS), were established to help operate the QEF. In addition, a QEF Secretariat under the Education Bureau (EDB) assumes overall management responsibility for the QEF. In the Director of Audit's Report No. 37 of October 2001, the Audit Commission (Audit) reported that there was room for improvement in the QEF administration. Taking into account the revised practices implemented by the QEF subsequent to the 2001 review, Audit has recently conducted another review of the QEF.

#### Governance and strategic management

2. *Procedures for Committee and Sub-committee meetings.* The SC 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. The QEF also does not specify quorum requirements for IC, AMS and DPS meetings. 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 has recommended that the Secretary for Education 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.*

3. *Attendance at Committee and Sub-committee meetings.* The attendance of three DPS members was on the low side (29% to 47%). *Audit has recommended that the Secretary for Education should: (a) remind QEF Committee and Sub-committee members with low attendance to make an effort to attend meetings in future; and (b) ensure that due regard is given to the attendance records of Committee and Sub-committee members when considering their reappointment.*

4. **Management of conflicts of interest.** The SC, IC and DPS adopt a one-tier reporting system for the declaration of interests. To a large extent, the QEF Committees and Sub-committees meet the criteria set out in the Home Affairs Bureau's guidelines for adopting the two-tier reporting system. This system requires a member to disclose his general interests on appointment/reappointment to the committee, in addition to reporting conflicts of interest at meetings as and when they arise. *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 the management of conflicts of interest.*

5. **Strategic planning.** The QEF had not updated its 2006-2008 Strategic Plan to reflect the changes in its operating environment and latest developments. As a result, some of the proposals mentioned in it had become outdated. *Audit has recommended that the Secretary for Education should ensure that the QEF's strategic plan is updated periodically (say annually) within the three-year planning period.*

6. **Business planning and budgeting.** The SC decided that there should be annual budgets for operating the QEF. The budget should include the maximum of grant payments for each call of applications, and the expenditure for dissemination and promotional activities. The DPS's business plan for 2007/08 included an estimate of the financial resources required to accomplish the strategic objectives. However, the AMS's business plan did not provide a similar estimate. The QEF's annual budget incorporates mainly the budget of the DPS. It does not include the AMS's budget on grant payments. *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.*

7. **Funding projects for pre-primary sector.** The number of QEF applications for the pre-primary sector decreased from 117 in 2005/06 to 24 in 2007/08. The success rate of such applications increased slightly from 41% in 2005/06 to 46% in 2007/08. *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.*

8. **Performance management.** The QEF has not established any outcome targets and indicators that can help measure its effectiveness. Apart from submitting its audited accounts to the Legislative Council, there are no arrangements for the QEF to report its performance information to the legislature. *Audit has recommended that the Secretary for Education should (a) establish performance measures, such as outcome targets and indicators; and (b) publish performance information of the QEF on the QEF website for information of stakeholders and the public.*

## **Administration of information technology equipment projects**

9. ***Enhancement of information technology infrastructure.*** In July 2004, the EDB (known as the Education and Manpower Bureau at that time) obtained the approval of the Finance Committee (FC) of the Legislative Council for funding to implement the Information Technology in Education Strategy. Schools could use the funding to replace/upgrade their computers and install a wireless computer network. The QEF would provide a matching grant. However, information about the matching grant was not provided in the FC paper of July 2004. The EDB mentioned to the FC the matching grant only when seeking additional funding in June 2005. *Audit has recommended that the Secretary for Education should ensure that, when seeking FC approval for funding initiatives in future, full details about the total commitment of the QEF are provided in the relevant FC papers.*

10. ***Use of new technology for school administrative work.*** In February 2007, the SC deliberated the introduction of a new project theme, namely “Use of new technology for school administrative work”. Schools could apply for funding, e.g. installation of a smart card system to take student attendance, for reducing the administrative burden of teachers. The Secretariat informed the SC that if all 1,200 eligible schools applied for funding for a smart card system, the total funds required would amount to about \$140 million. The SC agreed to introduce the new project theme with effect from March 2007. Up to the end of 2007/08, the QEF only received 429 applications. *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.*

## **Project management**

11. ***Submission of monitoring reports.*** According to the conditions of the QEF grant, grantees should report project progress regularly to the QEF. To ensure the timely submission of monitoring reports, the Secretariat issues reminders to grantees and takes follow-up actions. In 2007/08, of 1,613 monitoring reports due for submission, 861 (53%) were not submitted until the Secretariat issued reminders. At present, if a grantee has received a final reminder 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. 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. *Audit has recommended that 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.*

12. ***Monitoring delivery of project deliverables.*** In submitting an application, a grantee has to specify the expected project deliverables (e.g. educational resources developed from the project). The Secretariat informed Audit that the QEF has an

established practice for endorsing variations of project deliverables. However, the practice is not formalised. *Audit has recommended that the Secretary for Education should take steps to improve and formalise the present practice for endorsing variations of project deliverables by the relevant authorities.*

13. ***Controlling project expenditure.*** Grantees may reallocate funds from an item of the approved budget to another if certain conditions are met (e.g. the amount of reallocation not exceeding a specified limit). If the conditions are not met, grantees have to seek the QEF written approval before reallocating the funds. The Secretariat may issue a warning to the grantee for reallocating funds without prior approval. The warning would affect the grantee's future applications for funding. From July 2007 to June 2008, the Secretariat approved 23 applications for reallocation of funds, including 16 (70%) applications for covering approval. The Secretariat did not issue any warnings to the grantees. *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; and (b) issue warnings or reminders on the need to seek prior approval to grantees applying for covering approval.*

14. ***Vetting financial reports.*** The QEF audit team conducts vetting to ensure that financial reports of projects properly present the income and expenditure, and that the projects have followed the QEF requirements. 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. The same extent of vetting is conducted for projects of comparable sizes. This vetting methodology is not conducive to focusing the QEF audit team's effort on vetting financial reports that are more error-prone because it does not consider other factors, such as the management style and the control environment affecting the grantees' processing of the transactions. *Audit has recommended that the Secretary for Education should: (a) conduct a review on the QEF audit team's vetting methodology to determine whether a more risk-based approach should be adopted and external auditing services should be engaged; and (b) take effective measures to clear the backlog of financial reports pending vetting.*

15. ***Management practices of grantees.*** The QEF has issued a set of General Guidelines for grantees to follow. The Guidelines require grantees to adopt an open, fair and competitive system for staff recruitment. For procurement of goods and services, the Guidelines require grantees to conduct procurement on a competitive basis by obtaining necessary quotations and tenders. During visits to five grantees, Audit noted non-compliances with the Guidelines. From time to time, the QEF audit team conducted field audits to check randomly the grantees' compliance with the Guidelines. The number of field audits decreased from 76 in 2005/06 by 66% to 26 in 2007/08. *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.*

16. **Management of assets.** 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. 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 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.*

17. **Review of Operation Manual.** The QEF has an Operation Manual which provides guidelines on the administration of the QEF. However, the Manual has not adequately spelt out the guidelines and work procedures in areas such as endorsing variations of project deliverables. *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.*

#### **Dissemination and commercialisation of project deliverables**

18. **Commercialisation of project deliverables.** In May 2005, the DPS discussed the guidelines for pricing QEF products. Despite the pricing guidelines had not been endorsed by the DPS, the QEF followed the guidelines in setting prices for products sold via commercial outlets. At times, the QEF effectively boosted the demand for some products by reducing their prices. *Audit has recommended that the Secretary for Education should: (a) review the pricing strategy for QEF products; (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.*

19. **Using project deliverables for commercial purposes.** In 2006, the QEF approved a grant for a commercial organisation to undertake a project. The commercial organisation would make use of the project deliverables to provide fee-paying services to schools after completing the project (scheduled for completion in February 2009). In the absence of a clear agreement on the mechanism for charging service fees, there is a risk that the fees would not be reasonable and affordable to schools. *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**

20. The Secretary for Education agrees with the audit recommendations.

April 2009