

Report No. 55 of the Director of Audit — Chapter 1

ADMINISTRATION OF THE DIRECT SUBSIDY SCHEME

Summary

1. The Direct Subsidy Scheme (DSS) was introduced in the 1991/92 school year (all years mentioned hereinafter refer to school years) to inject diversity to the school system through the growth of a strong private school sector. Under the Scheme, schools were allowed to have greater flexibility in various areas including school management, curriculum design, student admission and fees collection so that they can cater for the diverse needs of their students in a more responsive manner.

2. For 2009/10, there were 72 DSS schools, comprising 11 primary, 52 secondary and 9 primary-cum-secondary schools. The enrolments of DSS secondary and primary schools were 51,123 (11% of secondary students) and 12,589 (4% of primary students) respectively. The budget for recurrent DSS subsidy was \$2,422 million.

3. **Audit review.** The Audit Commission (Audit) has recently conducted a review of the DSS covering the administration of the Scheme and the governance and administrative matters of DSS schools. The audit findings are contained in two separate reports, namely: (a) administration of the Direct Subsidy Scheme (the subject matter of this summary); and (b) governance and administration of Direct Subsidy Scheme schools (Chapter 2 of the Director of Audit's Report No. 55).

Admission process

4. **Assessment of track record.** Assessing an applicant school's track record of performance is one of the areas considered by the Task Force on DSS in processing applications for admission to the DSS. It is carried out by the Quality Assurance Division (QAD) and the School Development Division (SDD) of the Education Bureau (EDB). The involvement of both the QAD and the SDD is to ensure that relevant information pertinent to the applicant school will be taken into consideration. Audit examination of the records of 10 applications for admission to the DSS in 2008/09 and 2009/10 revealed that: (a) in one case, the score awarded by the QAD was based on an inspection carried out in 1998; and (b) in four other cases, the applicant schools had not been subject to any previous inspection, and therefore, no score was awarded by the QAD. *Audit has recommended that the Secretary for Education should consider taking action to ensure that the assessment on DSS applicant schools' track records of performance is based on up-to-date and relevant information.*

5. ***Compliance with admission conditions.*** Starting from 1999/2000, profit-making schools were no longer eligible to join the DSS. Five profit-making schools admitted to the DSS in 1999/2000 and 2000/01 were required to complete the procedures for acquiring a non-profit-making status within one year after admission. However, up to June 2010, their profit-making status remained unchanged. Furthermore, DSS schools must have their self-owned school premises. Schools operating in leased premises are required to secure their own premises within 10 years after admission, or any other period as specified by the EDB. Two schools conditionally admitted in 1999/2000 were required to secure their own school premises by the end of 2004/05. However, up to June 2010, they had still been operating in leased premises. *Audit has recommended that the Secretary for Education should: (a) take further action to facilitate the five schools to complete their procedures to acquire the non-profit-making status as soon as practicable; and (b) take proactive action to facilitate DSS schools to secure self-owned school premises within the specified period.*

Service agreement with school sponsoring body

6. ***Requirement to enter into service agreement.*** From 2000/01 onwards, the school sponsoring body (SSB) of a school joining the DSS is required to enter into an SSB Service Agreement with the EDB upon admission to the DSS. DSS schools are also required to enter into an SSB Service Agreement upon being allocated with school premises, or receiving capital subvention exceeding \$21 million for improving the existing school premises. Of the 72 DSS schools, 57 were required to enter into SSB Service Agreements with the EDB. Up to 30 June 2010, 5 (9%) of the 57 schools still had not done so. *Audit has recommended that the Secretary for Education should: (a) take effective measures to expedite the entering into an SSB Service Agreement with each of the SSBs of the five DSS schools; and (b) in future, ensure that SSB Service Agreements are entered into with the SSBs of all DSS schools immediately upon their admission to the DSS, allocation of school premises, or approval of capital subvention of more than \$21 million.*

7. ***Compliance with service agreement.*** Audit examination of the EDB records of the 52 schools that had entered into SSB Service Agreements revealed a number of non-compliances with the terms of the Agreements. *Audit has recommended that the Secretary for Education should ensure that all the requirements stipulated in the SSB Service Agreement are complied with by DSS schools.*

8. ***Director of Audit's access right to records and accounts.*** Audit noted that the current standard SSB Service Agreement included a clause to provide the Director of Audit with the right of access to the records and accounts of the DSS schools. Of the 52 SSB Service Agreements signed between the SSBs and the EDB, only 34 included such a clause. *Audit has recommended that the Secretary for Education should ensure that the Director of Audit is provided with the right of access to the records and accounts of all DSS schools.*

Service agreement with incorporated school governing body

9. ***Delays in entering into service agreement.*** Under the DSS, the School Management Committee (SMC) or Incorporated Management Committee (IMC) of a DSS school should enter into an SMC/IMC Service Agreement with the EDB within one year after the school has commenced operation. Fifty-three DSS schools were required to enter into an SMC/IMC Service Agreement with the EDB by June 2010. As at 30 June 2010, 13 of these schools had not yet signed the Agreements. On the other hand, of the 40 schools which had entered into SMC/IMC Service Agreements, there were delays in entering into the Agreements by 36 (90%) schools. The delays ranged from about two months to nine years. *Audit has recommended that the Secretary for Education should: (a) expedite the entering into an SMC/IMC Service Agreement with each of the school governing bodies of the DSS schools that are required to enter into such an agreement; and (b) in future, ensure that SMC/IMC Service Agreements are entered into with the school governing bodies within one year after the schools have commenced operation under the DSS.*

10. ***Composition of incorporated school governing body.*** According to the SMC Service Agreement, the composition of the SMC shall comprise the principal, representatives from the SSB, parents, teachers, other community members/professionals and, where appropriate, alumni. The Education Ordinance (Cap. 279) prescribes that an IMC should compose of SSB managers, the principal, teacher managers, parent managers, alumni managers and independent managers. Audit examination of the composition of 10 SMCs and 16 IMCs as at 30 June 2010 revealed that the compositions of some IMCs and SMCs did not comply with the respective requirements. *Audit has recommended that the Secretary for Education should follow up with the schools to ensure that the compositions of the IMCs and SMCs comply with the requirements stipulated in the Education Ordinance and the SMC Service Agreements respectively.*

Monitoring school performance

11. ***Compliance vetting.*** The EDB carries out audits of DSS schools to ascertain whether their financial and accounting operations comply with the relevant requirements. Audit noted that the EDB had not established a systematic risk analysis mechanism for selecting DSS schools for audits. An examination of the records of 20 DSS school audits also revealed that there were delays in issuing audit reports to 11 (55%) schools, ranging from 6 to 240 days. Audit visited four DSS schools which had been audited previously by the EDB, and noted that in three schools, some issues identified as glaring practices by the EDB had not yet been rectified. *Audit has recommended that the Secretary for Education should: (a) establish a systematic risk analysis mechanism for selecting DSS schools for school audits; (b) ensure that the time target for the issue of school audit reports to DSS schools is met; and (c) monitor closely the follow-up action taken by schools where any glaring practice is found during school audits.*

12. ***School Development and Accountability framework.*** The School Development and Accountability (SDA) framework comprises two key elements, namely School Self-evaluation (SSE) and External School Review (ESR). The SSE is based on strategic planning and includes an annual school plan and school report. Schools are required to ensure that their school development plans, annual school plans and school reports are available to the stakeholders for information. In May 2010, Audit browsed the websites of 20 DSS schools and noted that only 5 (25%) schools had uploaded their school development plans, annual school plans and school reports to their websites. In some cases, although the schools had uploaded the required documents, the documents were not easily accessible. Audit reviewed 20 school reports uploaded by DSS schools, and found that some school reports did not provide the required information. Under the SDA framework, the EDB conducts ESRs to validate the SSEs carried out by schools. Audit noted that two DSS schools were excluded from the ESR. *Audit has recommended that the Secretary for Education should: (a) request DSS schools to establish a mechanism to monitor their compliance on uploading school documents to their websites in a timely manner, and ensure that school documents uploaded are easily accessible and contain all the required information; and (b) ensure that all DSS schools are subject to the ESRs.*

13. ***Comprehensive review.*** For a DSS school that has entered into an SSB Service Agreement with the EDB, a Comprehension Review (CR) will be conducted after the school has joined the DSS for five years. According to the EDB's guidelines, schools should submit CR proposals and CR final reports to the EDB. The EDB should upload the CR final reports to its website, within a specified timetable. Audit examined the records of the 19 CRs carried out in 2007/08 and 2008/09, and noted that the timetable was not always followed. *Audit has recommended that the Secretary for Education should take action to ensure that: (a) CR proposals and final reports are submitted to the EDB in a timely manner; and (b) CR final reports are uploaded to the EDB website in a timely manner.*

Direct Subsidy Scheme Subsidy

14. ***Information provided to the Legislative Council.*** Since the introduction of the DSS, a number of changes on payment of DSS subsidy have been made to the Scheme. Audit noted that, when the Panel on Education and the Finance Committee (FC) of the Legislative Council were informed in November 1999 and June 2001 respectively of the new measures introduced to the DSS, they were not provided with full and accurate information of the changes. *Audit has recommended that the Secretary for Education should ensure that accurate and complete information is always provided to the Legislative Council.*

15. ***Subsidy for schools with a longer history.*** In January 1999, the EDB announced that it would implement a two-tier system for calculating DSS subsidy for 1999/2000 and onwards. Audit noted that the introduction of the two-tier system had financial implication to the Government. However, the EDB did not seek approval from the FC. The FC was

informed of the system only in June 2001. *Audit has recommended that the Secretary for Education should ensure that approval from the FC is obtained for new measures under the DSS where there is financial implication to the Government.*

International schools in Direct Subsidy Scheme

16. ***Inclusion of international schools in Direct Subsidy Scheme.*** In June 1991, the FC approved a one-off grant for building and equipping the new premises for an international school. In seeking the approval, the Administration informed the FC that the school would meet its full operating cost and that no recurrent subsidy would be provided to it. In October 1992, the school applied to join the DSS. The Private Schools Review Committee considered that if the school was allowed to receive recurrent DSS subsidy, approval from the FC should be sought. The school's application for admission was not accepted. In October 1993, the school applied to join the DSS again. In considering whether approval from the FC was needed, the then Finance Branch advised the then Education and Manpower Branch (EMB) that as the school would receive recurrent subsidy after its admission to the DSS, it was necessary for the EMB to submit an information note to the FC to inform Members of the changes. In September 1994, the school was admitted to the DSS, but no information note was submitted to the FC.

17. In July 1995, the then Education Department (ED) completed a review on the provision of international school places, and recommended that international schools admitted to the DSS should be gradually phased out. In October 1995, the Executive Council endorsed the recommendation. Audit noted that in the Memorandum submitted to the Executive Council, the school mentioned in paragraph 16 was not included in the list of the international schools to be phased out. In June 2002, the then Director of Education instructed that reasons should be placed on record why the school was not considered as an international school and was allowed to remain in the DSS. The justifications subsequently recorded, however, did not explain why the policy to phase out international schools from the DSS had not been applied to the school. *Audit has recommended that the Secretary for Education should: (a) ensure that the Legislative Council is informed when there are major changes in the information previously provided to it; (b) ensure that the Executive Council is provided with full information when seeking its advice; and (c) critically review the justifications for continuing to allow the school to remain in the DSS and take action to address the matter, if necessary.*

Response from the Administration

18. The Administration generally agrees with the audit recommendations.

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