CHAPTER 11

Labour and Welfare Bureau

The Community Investment and Inclusion Fund

Audit Commission
Hong Kong
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THE COMMUNITY INVESTMENT AND INCLUSION FUND

Contents

PART 1: INTRODUCTION

1.1　　　This PART describes the background to the audit of the Community Investment and Inclusion Fund (CIIF), and outlines the audit objective and scope.

Background

Establishment and objectives of CIIF

1.2　　　In the 2001 Policy Address, the Chief Executive announced the setting up of the CIIF with a capital of $300 million. In April 2002, the CIIF was established with the following objectives:

(a)　　　to promote community participation, mutual assistance, support and social inclusion through strengthening community networks. This would in turn help reinforce the sense of belonging in the community, enhance the social networks of individuals and families, broaden the support base available to assist them to resolve their problems and address common concerns. These community networks, strengthened relations, sense of belonging, and willingness to provide mutual aid form the foundation of social capital (Note 1); and

(b)　　　to encourage and facilitate cooperation between organisations of different nature, as well as cross-sectoral collaboration, in social networking and community support projects.

1.3　　　In pursuit of these objectives, the CIIF provides seed money to eligible organisations (including welfare agencies, education organisations and private companies) for funding projects that promote the development of social capital.

Organisational structure of CIIF

1.4　　　*CIIF Committee*.　The CIIF is overseen by the CIIF Committee which is responsible for examining and approving funding applications, deciding on the level of

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Note 1:　　*According to the CIIF, social capital refers to the institutions, relationships and norms that shape the quality and quantity of a society's social interaction. Social capital is more than the sum of the institutions or the talents of individuals that underpin a society — it is the glue that holds the people and the institutions together, to work for the common good.*

funding for each successful application, and monitoring and evaluating the effectiveness of the funded projects. The CIIF Committee also advises the Secretary for Labour and Welfare on the most appropriate and effective means to facilitate the development of social capital in Hong Kong, and on all matters relating to the administration of the Fund.

1.5 *CIIF Sub-committees.* The CIIF Committee is assisted by two Sub-committees in carrying out its functions:

(a) *Assessment and Evaluation Sub-committee (AESC).* The AESC mainly assesses CIIF funding applications and draws up recommendations in respect of each application for the CIIF Committee's approval. It also reviews the performance of individual funded projects and where necessary, suggests actions (e.g. termination of projects with poor performance) for the CIIF Committee's consideration; and

(b) *Promotion and Development Sub-committee (PDSC).* The PDSC mainly advises the CIIF Committee on promotion, marketing and engagement strategies and on new initiatives to further stimulate social capital development.

1.6 *CIIF Secretariat.* The CIIF Committee, the AESC and the PDSC are supported by a CIIF Secretariat which is responsible for the CIIF's day-to-day operations, including initial vetting of CIIF applications, recommending projects for funding to the AESC, monitoring the progress of funded projects and reporting to the AESC and the CIIF Committee on project performance.

1.7 The CIIF Secretariat was set up under the Labour and Welfare Bureau (LWB). As at 1 June 2010, the Secretariat had an establishment of 10 non-civil-service contract staff (see Appendix A for the organisation chart) working under a Principal Assistant Secretary for Labour and Welfare of the LWB. An Assistant Secretary for Labour and Welfare of the LWB also assisted in providing administrative support to the Secretariat. The cost of running the Secretariat is absorbed by the LWB. For 2009-10, it amounted to $5.6 million, comprising staff remuneration (75%), publicity expenditure (20%) and miscellaneous expenses (5%).

Approved CIIF projects

1.8 The CIIF's capital of $300 million is allocated from the General Revenue Account ($100 million) and the Lotteries Fund ($200 million). In the 2009-10 Budget Speech, the Financial Secretary announced that the Administration would make an injection

when necessary to ensure that the Fund could continue to perform its social function. From its inception in April 2002 to June 2010, the CIIF invited 16 batches of applications and approved 213 projects, as shown below:

Number of batches of applications invited	:	16 (the 16th batch was invited in December 2009)
Number of projects approved	:	213 (the 16th batch was approved in May 2010)
Total amount of approved funding	:	$212 million
Duration of approved projects	:	9 to 45 months
Geographical coverage of approved projects	:	18 districts in Hong Kong
Amount of individual project funding	:	$150,000 to $2.5 million (no pre-set maximum amount)
Types of approved projects	:	• After-school care • Cross-generation • Mentorship programme • Neighbourhood network • Self-support group • Social integration • Tripartite partnership
Mode of funding	:	Paid quarterly to grantees on a reimbursement basis

Two examples of approved CIIF projects are shown in Photographs 1 and 2.

Photograph 1

**A CIIF project to enhance mutual understanding and
support among different cultural groups**

Source: CIIF website

Photograph 2

**A CIIF project to establish mutual help and
support among families in Wah Fu Estate**

Source: CIIF website

Achievements of CIIF

1.9   In 2004, the then Health, Welfare and Food Bureau commissioned a consortium comprising academics from five local universities to conduct a study of the CIIF operation and funded projects. The study, completed in 2006, affirmed the effectiveness of the CIIF's strategies in developing social capital.

Audit review

1.10   The Audit Commission (Audit) has recently conducted a review of the CIIF and found that there is scope for improvement in the following areas:

   (a)   governance of the CIIF (PART 2);

   (b)   development of social capital (PART 3);

   (c)   assessment and monitoring of projects (PART 4); and

   (d)   use of funds by grantees (PART 5).

General response from the Administration and the CIIF Committee

1.11   The **Secretary for Labour and Welfare** and the **CIIF Committee** welcome the value for money study conducted by Audit on the administration of the CIIF. They are grateful for the useful comments and recommendations that Audit has made in the study. The LWB will, in collaboration with the CIIF Committee, follow up and implement Audit's recommendations.

Acknowledgement

1.12   Audit would like to acknowledge with gratitude the assistance and full cooperation of the staff of the LWB, the CIIF Secretariat and those CIIF grantees that Audit visited during the course of the audit review.

PART 2: GOVERNANCE OF THE COMMUNITY INVESTMENT AND INCLUSION FUND

2.1   This PART examines the governance issues of the CIIF.

Governance practices

Governance structure

2.2   As at July 2010, the CIIF Committee (see para. 1.4) comprised:

(a)   18 non-official members (including a Chairperson and a Vice-chairperson) from various sectors of society. They were appointed (for a term of up to three years which is renewable up to another three years) by the Secretary for Labour and Welfare under the delegated authority of the Chief Executive; and

(b)   three official members who were the representatives of the LWB, the Social Welfare Department (SWD) and the Home Affairs Department (HAD).

The CIIF Committee held about four meetings a year.

2.3   The AESC and the PDSC comprise CIIF Committee members who elect to join these Sub-committees. As at July 2010, there were 12 and 11 members (excluding the Chairperson and the Vice-chairperson of the CIIF Committee who were ex-officio members of the two Sub-committees) in the AESC and the PDSC respectively. Both Sub-committees held about two meetings a year.

Audit observations and recommendations

Management of conflict of interests

2.4   *System of declaration of interests.* The Government has laid down guidelines for declaration of interests by members of advisory and statutory bodies. There are generally two systems for declaring interests:

(a)   *One-tier reporting system.* Under this system, a member should declare any conflict of interests as and when it arises; and

(b)   ***Two-tier reporting system.***   Under this system, a member should declare his interests on appointment/re-appointment and thereafter annually to the board/committee, in addition to declaring conflict of interests as and when it arises.

2.5   According to the Home Affairs Bureau's guidelines, the two-tier reporting system should be adopted by an advisory/statutory body in the public sector if it has one or more of the following characteristics:

(a)   having a high degree of management and financial autonomy;

(b)   having extensive executive powers in matters of public interest;

(c)   being instrumental in shaping major Government policies; or

(d)   being responsible for the control and disbursement of substantial public funds.

2.6   At present, the CIIF adopts the one-tier reporting system for declaration of interests, i.e. conflict of interests is declared by members at meetings.   In Audit's view, there is merit to adopt a two-tier reporting system to enhance public confidence in the CIIF operation because:

(a)   the CIIF Committee has a high degree of autonomy in disbursing the $300 million Fund (see para. 2.5(a) and (d)); and

(b)   the CIIF has an array of target applicants and it is not uncommon that a CIIF Committee/Sub-committee member has an affiliation (e.g. a board member) with an applicant organisation.   For example, at a CIIF Committee meeting held in October 2009 to consider the 15th batch of funding applications, 5 of the 15 members present declared that they were affiliated with 5 of the 42 applicant organisations.

2.7   ***Declaration of interests by committee members.***   It has been an established practice that at the beginning of a committee meeting, the Chairperson would remind members to complete a declaration of interest form and submit it to the CIIF Secretariat.   In reviewing the committee members' declaration of conflict of interests in relation to the 15th batch of CIIF funding applications, Audit, however, found that there were some inconsistencies in the declarations (see Table 1).

Table 1

**Inconsistencies in declaration of interests
(September and October 2009)**

Member (of both AESC and CIIF Committee)	Declaration of interests	
	AESC meeting held on 2 September 2009	**CIIF Committee meeting held on 15 October 2009**
Assessing/approving new CIIF applications		
A	• A committee member of Applicant Organisation 1 • An honorary adviser to Applicant Organisation 2	• A committee member of Applicant Organisation 1 only
B	• Chairperson of Applicant Organisation 2 • Chairperson of Applicant Organisation 3	• Chairperson of Applicant Organisation 2 only
C	• No interest declared	• The school that Member C headed belonged to the same school sponsoring body as Applicant Organisation 4 (another school)
Assessing/approving an existing CIIF project's extension		
D	• No interest declared	• An adviser to Applicant Organisation 5 • An adviser to Applicant Organisation 6

Source: Audit analysis of LWB records

2.8   As the CIIF Secretariat had not sought clarification from the members concerned, Audit could not ascertain whether the above-mentioned inconsistencies were due to omissions in declarations or changes in members' circumstances.   The CIIF Secretariat needs to monitor the declaration of interests by members and promptly clarify with the members concerned on inconsistencies found in future.

Quorum of committee meetings

2.9   It is a good governance practice to set a quorum for committee meetings. This is to guard against unrepresentative decisions made in the name of a committee.

2.10   For CIIF Committee meetings, the CIIF stipulates that 50% of the membership constitutes a quorum. However, no quorum requirement has been set for AESC and PDSC meetings.   Audit considers that the CIIF needs to set a quorum requirement for the two Sub-committees' meetings.

Minutes of meetings

2.11   As a good governance practice, the minutes of board/committee meetings should be promptly prepared after each meeting, and circulated for members' comments while their memory is still fresh.   However, Audit examination of records of the CIIF Committee/Sub-committee meetings held in 2009-10 revealed that it took 21 to 195 days to prepare the minutes (see Table 2).

Table 2

Time taken for preparing draft minutes of meetings
(2009-10)

Committee	Number of meetings held	Time taken (Number of days from date of meeting)
CIIF Committee	3	26, 86 and 195
AESC	1	21
PDSC	2	30 and 119

Source: Audit analysis of LWB records

2.12   Audit also noted that all the confirmed minutes of meetings of the CIIF Committee and Sub-committees in 2009-10 had not been signed.

Performance management

2.13   Performance measurement as a performance management tool provides a means to indicate how well an organisation has performed and helps enhance its transparency and accountability.

2.14   *Compilation of performance information.* The CIIF Secretariat compiles and reports performance information on the CIIF's outputs (e.g. number of approved CIIF projects and amount of funds approved) to the AESC and the CIIF Committee. However, it has not compiled performance information measuring the efficiency and effectiveness of the operation of the CIIF (e.g. the cost of administering a CIIF project, the degree of sustainability of projects for the development of social capital and the satisfaction rate of CIIF grantees).

2.15   *Publication of performance information.*   While the CIIF Secretariat has compiled 17 items of performance information for the CIIF Committee's internal consumption, it only publishes the following 9 items on the CIIF's website and/or in the periodic progress reports submitted to the Legislative Council Panel on Welfare Services (LegCo Panel):

- Number of approved projects in 15 rounds of applications: around 200

- Amount allocated to 15 rounds of applications: approximately $200 million

- Engaged over 530,000 participants in the projects

- Transformed 20,000 people from recipients to providers of assistance

- Helped over 5,000 people re-enter the labour market with enhanced confidence and capabilities

- Supported over 14,000 families

- Formed over 440 mutual support networks

- Founded 20 self-support groups

- Mobilised over 4,700 collaboration partners, with business partners accounting for about a third of them

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Source: LegCo Panel papers and CIIF website

Some compiled (but unpublished) performance information would also be useful to stakeholders for appraising the performance of the CIIF (e.g. distribution of projects by districts and by target groups). For enhancing transparency and public accountability, the CIIF should consider publishing all the compiled performance information.

Audit recommendations

2.16   **Audit has *recommended* that the CIIF should:**

Management of conflict of interests

(a)   **consider adopting the two-tier reporting system for declaring interests by committee members;**

(b)   **monitor declaration of interests by committee members and clarify with the members concerned if inconsistencies are noted (including those mentioned in para. 2.7);**

(c)   **regularly remind committee members of the need to declare conflict of interests at committee meetings;**

Quorum of committee meetings

(d)   **set a quorum requirement for AESC and PDSC meetings;**

Minutes of meetings

(e)   **prepare draft minutes of meetings promptly and have the confirmed minutes of meetings signed by the Chairpersons of the relevant committees of the CIIF;**

Performance management

(f)   **compile and publish performance information that measures the efficiency and effectiveness of the CIIF operation; and**

(g)   **publish more performance information (e.g. CIIF statistics that have been compiled but not published).**

Response from the Administration and the CIIF Committee

2.17   The **Secretary for Labour and Welfare** and the **CIIF Committee** agree with the audit recommendations. They have said that the CIIF Secretariat will:

(a)   invite all CIIF Committee members to complete and update their declarations of interests every year. Members will also be requested to declare interests at each and every Committee and Sub-committee meeting;

(b)   design and introduce a personalised declaration form for individual members to declare interests at each and every meeting to ensure consistency in reporting;

(c)   regularly circulate guidelines to remind members of the need to declare interests at committee meetings;

(d)   seek the CIIF Committee's agreement to set a quorum requirement for AESC and PDSC meetings at the next CIIF Committee meeting; and

(e)   publish more performance information, including that compiled and reported to the members at meetings. The Secretariat will also consider compiling and publishing performance information that measures the efficiency and effectiveness of the CIIF operation.

Response from the Administration and the CIIF Committee

PART 3: DEVELOPMENT OF SOCIAL CAPITAL

3.1   This PART examines the development of social capital by the CIIF. Audit has found that there is scope for improvement in the following areas:

(a)   community participation (paras. 3.2 to 3.8);

(b)   project sustainability (paras. 3.9 to 3.17);

(c)   reporting achievements on social capital development (paras. 3.18 to 3.22); and

(d)   pace of fund disbursement (paras. 3.23 to 3.28).

Community participation

3.2   As mentioned in paragraph 1.3, welfare agencies, education organisations and private companies are eligible to apply for CIIF funding provided that they are:

(a)   non-profit-making organisations approved under section 88 of the Inland Revenue Ordinance (Cap. 112); or

(b)   registered under the Companies Ordinance (Cap. 32) or the Societies Ordinance (Cap. 151).

As at March 2010, there were more than 10,000 non-profit-making organisations registered under section 88 of the Inland Revenue Ordinance. Together with those registered under the Companies Ordinance and the Societies Ordinance, they form a large pool of potential CIIF applicants.

Audit observations and recommendations

3.3   *Applications fewer than expected.* In January 2002, the then Health and Welfare Bureau informed the LegCo Panel that the scale of the CIIF's support for non-governmental organisations (NGOs) would be broadly comparable to other funds (such as the Sir Robert Ho Tung Charitable Fund — Ho Tung Fund) which supported 100 to 200 applications a year. In view of the broader scope of the CIIF, it was expected that the CIIF would support about 400 applications a year. However, Audit found that the CIIF only received 943 applications from April 2002 to June 2010 (see Figure 1).

Figure 1

**Number of CIIF applications
(2002 to 2010)**
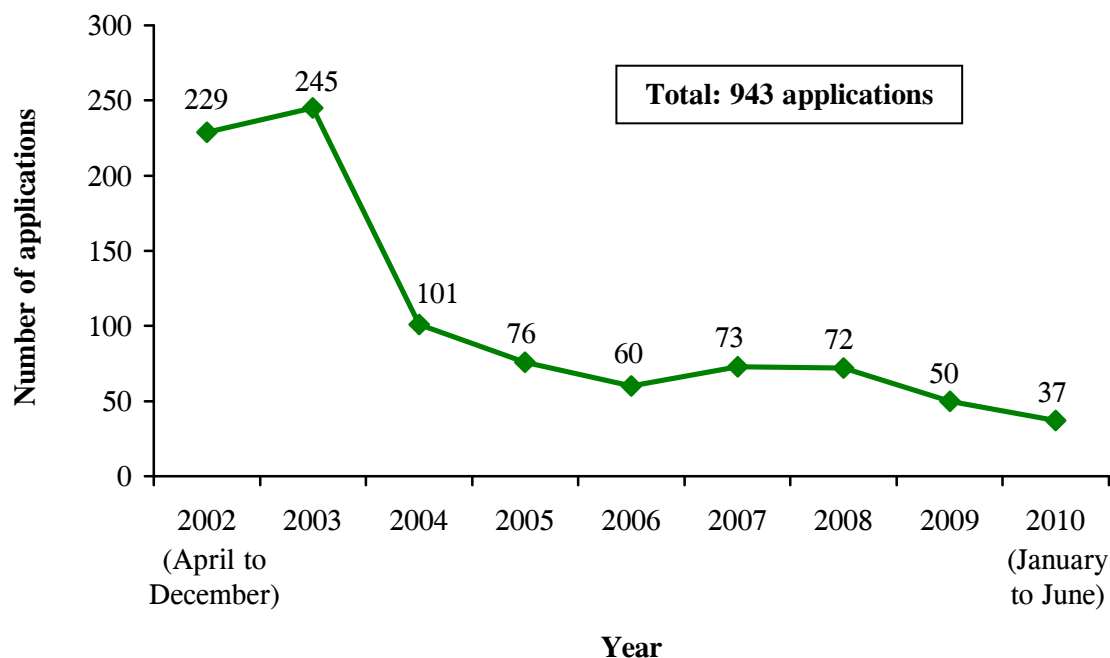
Source: CIIF records

3.4   Upon enquiry, the LWB and the CIIF Secretariat informed Audit in August 2010 that:

(a)   initially the Administration made reference to the Ho Tung Fund and informed the LegCo Panel that the CIIF would support 400 applications a year. However, unlike the Ho Tung Fund which supported "one-off activity" projects and "consumption projects" (e.g. purchase of equipment), the CIIF is a seed fund that aims at promoting and building social capital in Hong Kong. In April 2002, the CIIF Committee decided that the Fund would not support "one-off activity" projects and those without long-lasting effect on community development; and

(b)   more CIIF applications were received in 2002 and 2003 (see Figure 1) because most of the applicants were then unfamiliar with the social capital concept and the Fund's objectives.   The CIIF Committee had to reject sub-standard/unqualified applications.   With continuous efforts made in enhancing the understanding of potential applicants towards the Fund, the quality of the applications received has improved and, since 2005, the number of applications has maintained at a fairly steady level.

— 14 —

3.5   *Grantees' views on CIIF operation.*   From April to July 2010, Audit interviewed the grantees of 16 projects to obtain their views on the CIIF operation. Some grantees informed Audit that they had difficulties in applying for CIIF funding or implementing CIIF projects. Some grantees said that because of the difficulties, they would not apply for CIIF funding again. Views of some of the grantees interviewed by Audit are shown below:

- In applying for CIIF funding, a grantee was required to state in the project proposal the expected outcomes of the project (e.g. number of project participants) on a quarterly basis. It would be difficult to set expected outcomes on a quarterly basis with a high degree of accuracy as many assumptions and estimations were involved. However, a grantee had to account for major variations between expected and actual outcomes afterwards.

- Sometimes a grantee was asked to revise the proposal even after funding had been approved. It took a lot of time (e.g. five months) and effort to prepare and revise the project proposals.

- The implementation of a project involved heavy administrative workload (e.g. preparing quarterly project progress reports and claiming reimbursement from the CIIF) and high administrative cost.

- The requirement to report progress quarterly was rigid and not suitable for projects that took time to develop (e.g. art development project).

- There were, at times, different views between the CIIF Secretariat and the grantees on the approach to promoting the development of social capital. For example, in a project concerning a community shop, the grantee involved ethnic minorities in making and selling their products. The CIIF Secretariat reminded the grantee of the need to operate the shop as a self-sustainable unit and to ensure that its activities were addressing the community needs. The grantee, however, viewed that a partnership approach between the CIIF and grantees would be more effective in developing social capital.

Source: Audit interviews with grantees

3.6   As the CIIF could only achieve its objectives through implementing the grantees' projects, it is important to:

   (a)   encourage more eligible organisations to apply for CIIF funding; and

   (b)   foster a stronger and more effective partnership relationship between the CIIF and grantees by providing the latter with effective guidance and support.

Audit recommendations

3.7   **Audit has *recommended* that the CIIF should:**

   (a)   **monitor the number of applications;**

   (b)   **encourage more eligible organisations to apply for CIIF funding; and**

   (c)   **provide effective guidance and support to help grantees resolve their problems and improve their project performance.**

Response from the Administration and the CIIF Committee

3.8   The **Secretary for Labour and Welfare** and the **CIIF Committee** agree with the audit recommendations. They have said that:

   (a)   they have already stepped up publicity efforts to promote the CIIF through various means, e.g. interviews carried out by RoadShow and TV stations. To encourage more eligible organisations to apply for CIIF funding, they had also extended invitation to more organisations to attend the briefing session for the 17th batch of applications held in August 2010. The number of participants of the session was 200 — a record high in the last five years. The CIIF Secretariat will continue to closely monitor the number of applications and make efforts to encourage more eligible applicants to apply for the Fund; and

   (b)   it is an established practice that for each approved project, a CIIF Committee member would be assigned to serve as a mentor of the project to help provide guidance and support to the project team together with the CIIF Secretariat during the project implementation period. The Secretariat and the Committee member concerned (i.e. the project mentor) will pay site visits (see para. 4.12) and hold review meetings with the project team to discuss the team's concern and project performance where appropriate. They will enhance the support to project teams by encouraging interested members of the Social Capital.Net (Note 2) to serve as project mentors/consultants.

Note 2:   *The Social Capital.Net was established by the CIIF in November 2008 to consolidate local practical experience on social capital for its better development. Its members came from different backgrounds, including CIIF members, project coordinators, collaborators, academics and district stakeholders.*

Project sustainability

3.9   As the CIIF provides only seed money to support projects (see para. 1.3), it has placed considerable emphasis on the sustainability of the projects beyond the CIIF funding period. In fact, the CIIF considers that project sustainability is a factor which makes the Fund different from other government funds. The LWB had informed the LegCo Panel that project sustainability would take into account the following two elements:

(a)   *Social sustainability.*   This referred to whether a project could produce long-lasting benefits to the community. For example, a project would be regarded as **socially sustainable** if it had transformed vulnerable project participants to become confident project volunteers so that they could help maintain and enlarge the neighbourhood network formed by the project beyond the CIIF funding period; and

(b)   *Financial sustainability.*   This referred to the capacity of the project to finance its ongoing operations on its own when CIIF funding support ends. Apart from self-finance, a project would be regarded as **financially sustainable** if, after completion, the services that it provided had integrated into the grantee's mainstream operation. A project would also be regarded as **financially sustainable** if it could be continued through further partnership with local stakeholders. However, the CIIF did not expect a project to simply seek alternative sources of external funding (e.g. other government funding) to replace CIIF funding.

Audit observations and recommendations

Assessing project sustainability

3.10   The intention of the CIIF is to support projects that will be sustainable in the longer term. Audit examined the CIIF assessment of the 15th batch of applications (in 2009) and the marking scheme used, and found that:

(a)   of the nine projects approved, eight projects achieved the overall passing score of the marking scheme, but attained only "1 or 2" scores out of a scale of "0 to 5" scores for project sustainability; and

(b)   the weighting given to project sustainability in the marking scheme was revised downwards, from 12.5% in the 15th batch to 10% in the 16th batch of applications in 2010.

In August 2010, the CIIF Secretariat informed Audit that three new criteria (i.e. "effective and innovative intervention model and networking strategies", "support from key collaborators with effective synergy effects", and "the organisation's financial position and financial management capability") had been included in the marking scheme for the 16th batch to enable a more comprehensive assessment of CIIF applications. These newly added criteria were also relevant to the assessment of project sustainability. Audit notes the CIIF's efforts and considers that the CIIF needs to keep the weightings of the marking scheme under regular review to ensure that they duly reflect the significance of project sustainability.

Reporting and reviewing project sustainability

3.11 ***Reporting project sustainability.*** In March 2008, in response to the LegCo Panel's enquiry, the CIIF reported the following information on project sustainability:

Table 3

Sustainability of CIIF projects
(March 2008)

Method of achieving project sustainability	Number of projects
(a) Projects proceeded to second-phase development (with further CIIF funding)	32
(b) Projects became self-managed and self-financed	26
(c) Projects merged into the agency's mainstream services	12
(d) Projects supported by other funding schemes	5

Source: LegCo Panel paper

3.12 Audit examined the CIIF's reported information and found that there was scope for improvement, as follows:

(a) the CIIF Secretariat could not provide evidence to support the reported information. According to the Secretariat, the information was compiled based on the project knowledge of the Assistant Project Management Officers (see Appendix A) and their telephone enquiries with the grantees; and

(b)   given that the CIIF did not expect a project to seek external funding to finance its ongoing operations (see para. 3.9(b)), it was questionable whether the five projects that were reported to have been supported by other funding schemes (item (d) in Table 3) could be regarded as sustainable.

3.13   In July 2010, Audit visited the grantees of 10 completed projects (see Appendix B).   Audit found that the sustainability of 7 of these projects was questionable, as follows:

(a)   one project (Project 3 at Appendix B) was reported by the CIIF in March 2008 to have become self-managed and self-financed (item (b) in Table 3).   According to the grantee, the project had sustained up to mid-2006.   However, the grantee had not followed up on whether the community network created by the project had continued to operate thereafter;

(b)   two projects (Projects 1 and 2 at Appendix B) were financed by other government sources (e.g. funding provided by a District Council); and

(c)   the grantees of four projects (Projects 4 to 7 at Appendix B) informed Audit that their projects continued to operate using project income and/or other non-government funds.   However, the project operations were also supported by the grantees' staff whose salaries were partly paid out of the SWD subvention to the grantees.

3.14   *Reviewing project sustainability.*   The CIIF Secretariat did not have the practice of conducting follow-up reviews on completed projects to ascertain their sustainability.   The Secretariat informed Audit that it had been relying on external evaluations (i.e. the 2006 study and another evaluation commissioned in September 2010 — see paras. 1.9 and 3.26) to serve the purpose.

3.15   Given the importance of project sustainability and that external evaluations were only conducted once every few years, Audit considers that the CIIF needs to conduct reviews of project sustainability on a more frequent basis.   The review results would benefit the CIIF and prospective CIIF applicants by informing them of the ways to improve project sustainability.   Furthermore, to enhance transparency and accountability, the CIIF needs to compile and publish performance information of project sustainability (see also para. 2.14).

Audit recommendations

3.16   **Audit has *recommended* that the CIIF should:**

(a)   **keep the weightings of the marking scheme for CIIF applications under regular review to ensure that they duly reflect the significance of project sustainability;**

(b)   **validate the CIIF information to be submitted to the LegCo Panel (particularly information relating to project sustainability);**

(c)   **conduct reviews of project sustainability on a more regular basis; and**

(d)   **include project sustainability in the compilation and publication of performance information (see also the audit recommendation in para. 2.16(f)).**

Response from the Administration and the CIIF Committee

3.17   The **Secretary for Labour and Welfare** and the **CIIF Committee** agree with the audit recommendations.   They have said that they will consider introducing a mechanism to conduct follow-up reviews on completed projects to ascertain their sustainability, and validate CIIF-related information before making submissions to the LegCo Panel.

Reporting achievements on social capital development

3.18   CIIF grantees are required to:

(a)   specify, in the Conditions of Grant (COG — signed between the CIIF and individual project grantees), the performance indicators used for reporting achievements on social capital development.   Commonly used performance indicators include the number of volunteers joining a project, and the number of service recipients who had become project volunteers; and

(b)   report the said achievements to the CIIF on a quarterly basis.

Audit observations and recommendations

3.19   For this review, Audit selected six projects (Note 3) for conducting field audits. In examining the grantees' reporting of achievements for six selected projects, Audit found that:

Need to report achievements

(a)   in three projects, contrary to the requirements in the COG, the grantees had not reported either the number of volunteers joining the projects or the number of service recipients who had become project volunteers;

Need to improve accuracy of reporting of achievements

(b)   in two projects, the achievements reported were inaccurate and not fully substantiated (see Cases 1 and 2); and

Note 3:   *To reflect the wide range of projects funded by the CIIF, the six selected projects were of three different types (see para. 1.8) covering five different geographical locations, and had approved funds ranging from $0.9 million to $1.8 million. Four of the projects had been completed while two were still in progress at the time of audit (July 2010).*

Cases 1 and 2

Inaccurate reporting of achievements

Case 1

1.　　　　The grantee of a project targeted to enlist 600 volunteers.

2.　　　　After the completion of the project in November 2009, the grantee reported that the project had enlisted 661 volunteers. Audit examination of the grantee's records revealed that:

    (a)　　70 of the reported volunteers could not be verified as there were no records of their names and contact details; and

    (b)　　for the remaining volunteers (with names shown in the records), some were counted more than once (up to 13 times). After eliminating duplications, there were only 410 volunteers.

Case 2

3.　　　　The grantee of another project intended to develop a mutual-supportive and sustainable network with around 150 members (such as volunteers and mentors).

4.　　　　After the completion of the project in April 2009, the grantee reported that the project had enlisted 2,018 members. Similar to Case 1 above, there were double counting and unsubstantiated cases in the reported figure.

Source:　Grantees' records and Audit analysis

Need to define performance indicators

(c)　　　some grantees had different interpretations of performance indicators such that the reported achievements were not comparable on a like-with-like basis. Case 3 is an example.

Case 3

Definitions of "volunteers" for different projects

1. In reporting the number of volunteers, the grantee of a project counted all persons who had provided volunteer service in the project.

2. The grantee of another project counted only those who had provided volunteer service for two or more times. Furthermore, as more volunteers joined the project, the grantee revised the reporting basis whereby a person needed to provide at least 10 hours of volunteer service before he would be counted as a volunteer.

Audit comments

3. With the adoption of different definitions for "volunteers" in different projects, a fair comparison of project achievements could not be made.

Source: Grantees' records

3.20 Since April 2010, the CIIF Secretariat has introduced a revised quarterly form for grantees to report their project achievements and measure their project outcomes. Audit welcomes the CIIF's initiative to improve the quality of performance reporting.

Audit recommendations

3.21 **Audit has *recommended* that the CIIF should:**

(a) **regularly remind grantees to follow the COG requirements in reporting project achievements;**

(b) **require grantees to maintain records to support the information reported to the CIIF;**

(c) **urge grantees to validate project achievements to be reported (e.g. by ensuring that there is no double counting of volunteers);**

(d) **test check the accuracy of information included in the grantees' project achievement reports; and**

(e) **provide clear definitions of performance indicators to be used by grantees to ensure that project achievements are reported on a consistent basis.**

Response from the Administration and the CIIF Committee

3.22   The **Secretary for Labour and Welfare** and the **CIIF Committee** agree with the audit recommendations. They have said that:

(a)   reminders will be issued to grantees on a quarterly basis to remind them to comply with the COG requirements;

(b)   the CIIF Secretariat will review and consider amending the relevant clauses in the COG to require grantees to maintain records to support the information reported to the CIIF where appropriate; and

(c)   the Secretariat will revise the quarterly report form by providing guidelines for grantees to report on their project performance and achievements using the indicators set out in the form. The Secretariat will also confirm with grantees on the accuracy of the information reported on a need basis when examining the quarterly reports.

Pace of fund disbursement

3.23   From time to time, LegCo Panel Members expressed concern about the slow pace of CIIF fund disbursement and the small number of successful applications. In response, the CIIF informed LegCo Panel Members at meetings held between 2005 and 2007 that:

(a)   as social capital was a new concept within the local context, it would take some time for prospective applicants to understand the objectives of the CIIF. However, with considerable efforts put in by the CIIF Committee and the CIIF Secretariat in promoting the social capital concept (e.g. through seminars and experience-sharing forums), a snowball effect was being generated. The sectors had generally begun to recognise the importance and merits of social capital, and the proportion of successful applications had increased;

(b)   as the prime objectives of the CIIF were to promote mutual help and develop community support networks by mobilising community resources and volunteer efforts, CIIF projects would not involve huge amount of funds. There was also no pre-set timetable for expending the entire Fund; and

(c)   it was important to uphold the principle of prudent use of public funds when assessing applications.

3.24   In mid-2009, the CIIF Committee considered that it was necessary to define an optimum scale of CIIF operation, having regard to the Committee's and the CIIF Secretariat's resources. The CIIF Committee decided that the CIIF should:

(a)   maintain the number of active projects at a level between 80 and 100;

(b)   limit the number of projects to be approved in each batch of applications to 15 (previously there was no such limitation). This could reduce the number of active projects from the peak of 122 in 2009 to 80 in 2011;

(c)   invite applications every eight instead of six months; and

(d)   support projects that effectively promote social capital.

Audit observations and recommendations

3.25   Up to June 2010, $212 million (71%) of the CIIF funding had been granted. The success rate of CIIF applications increased from 7.4% in 2002 to 63% in 2007, but dropped from 45.8% in 2008 to 18% in 2009 and 24.3% in the first half of 2010. Table 4 shows the success rates and the funding granted from 2002 to 2010.

Table 4

**CIIF application success rates and funding granted
(April 2002 to June 2010)**

Year	Applications received (a) (No.)	Applications approved (Note) (b) (No.)	Success rate $(c) = \dfrac{(b)}{(a)} \times 100\%$	Funding granted ($ million)
2002 (From April to December)	229	17	7.4%	12
2003	245	32	13.1%	30
2004	101	21	20.8%	17
2005	76	34	44.7%	19
2006	60	28	46.7%	18
2007	73	46	63.0%	57
2008	72	33	45.8%	37
2009	50	**9**	**18.0%**	8
2010 (Up to June)	37	**9**	**24.3%**	14
			Total	**212**

Source: Audit analysis of CIIF records

Note: Of the approved applications, 16 were subsequently withdrawn or cancelled.

3.26   As at June 2010, the CIIF had an uncommitted balance of $88 million. Given that it had operated for some eight years and the last evaluation was completed in 2006, it is opportune to conduct another review to assess the achievement of the CIIF objectives and the need for planning new funding injection to sustain the CIIF's social function. It is pleasing to note that on the advice of the CIIF Committee, the LWB commissioned independent consultants in September 2010 to conduct another external review. Depending on the outcome of the review, the CIIF may also need to reconsider its scale of operation (e.g. reassessing the number of projects to be approved in each batch of applications).

Audit recommendations

3.27   **Audit has *recommended* that the CIIF, in consultation with the LWB, should:**

(a)   **review the overall achievement of the CIIF objectives and the need for planning new funding injection to sustain the CIIF's social function; and**

(b)   **depending on the outcome of the review, reconsider the scale of the CIIF operation.**

Response from the Administration and the CIIF Committee

3.28   The **Secretary for Labour and Welfare** and the **CIIF Committee** agree with the audit recommendations. They have said that the LWB will, in consultation with the CIIF Committee, consider and work out the way forward for the CIIF with reference to the outcome of the 2010 external review (see para. 3.26). They will also review the CIIF operation taking into account the findings and recommendations of the external review.

PART 4: ASSESSMENT AND MONITORING OF PROJECTS

4.1   This PART examines the assessment and monitoring of CIIF projects. Audit has found that there is scope for improvement in the following areas:

   (a)   prevention of resource and service duplication (paras. 4.2 to 4.6);

   (b)   review of grantees' audited accounts (paras. 4.7 to 4.11); and

   (c)   conduct of site visits (paras. 4.12 to 4.15).

Prevention of resource and service duplication

4.2   From time to time, LegCo Panel Members expressed concern that there could be resource and service duplication between CIIF funded projects and other similar initiatives funded by the Government. As a preventive measure, the CIIF Secretariat sends questionnaires, for each CIIF application, to seek views from relevant bureaux/departments (B/Ds — Note 4) on whether the proposed CIIF project:

   (a)   is currently funded by the B/D;

   (b)   duplicates the resources or existing efforts of the Government or NGOs subvented by the Government; and

   (c)   contravenes existing government policies (e.g. priorities or directions set by relevant B/Ds).

4.3   In addition, the CIIF Secretariat sends a list of the proposed projects to the secretariats of three public funds to ascertain whether such projects have applied for funding from them. The three public funds are the Sustainable Development Fund (SDF — Note 5),

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Note 4:   *Depending on the nature of proposed CIIF projects, such B/Ds may include the Education Bureau, the LWB, the HAD, the Labour Department, the Leisure and Cultural Services Department, and the SWD.*

Note 5:   *The SDF provides a central source of financial support for initiatives that will help develop a strong public awareness of the principles of sustainable development and encourage sustainable practices in Hong Kong. The Environment Bureau is the secretariat of the SDF.*

the Enhancing Self-Reliance Through District Partnership Programme (ESR Programme — Note 6) and the Partnership Fund for the Disadvantaged (PFD — Note 7).

Audit observations and recommendations

4.4 Audit selected the 15th batch of CIIF applications and examined the CIIF's efforts in preventing resource and service duplication. In this batch, there were 49 newly proposed projects and an existing one seeking additional funding. Audit found that:

Need to provide complete information for checking

(a) four new projects were omitted from the list sent to the ESR Programme for checking, and a new one was omitted from the lists sent to the SDF and the PFD. Although these projects were eventually not approved, the CIIF Secretariat needs to take steps to ensure the completeness of the lists sent to the three funds for checking;

Need to follow up responses with no comment

(b) a number of B/Ds provided "no comment" responses to the 3 questions (see para. 4.2(a) to (c)) in the questionnaires for the 49 newly proposed projects, as follows:

Note 6: *The ESR Programme seeks to promote sustainable poverty prevention and alleviation efforts at the district level that help enhance self-reliance, targeting socially disadvantaged groups. The HAD is the secretariat of the ESR Programme.*

Note 7: *The PFD aims to incentivise the welfare sector to expand their network in seeking and securing corporate participation, and to encourage the business sector to take up more social responsibility in helping to create a cohesive, harmonious and caring society. The SWD is the secretariat of the PFD.*

Table 5

"No comment" responses in returned questionnaires

Question	Number of projects with "no comment" responses (a)	% of projects with "no comment" responses $(b) = \dfrac{(a)}{49} \times 100\%$
(i) Whether the proposed project was currently funded by the B/D?	13	27%
(ii) Whether the project duplicated the resources or existing efforts of the Government or subvented NGOs?	34	69%
(iii) Whether the project contravened existing government policies?	18	37%

Source: Audit analysis of CIIF records

(c) the CIIF Secretariat had not sought clarifications from the relevant B/Ds about the "no comment" responses before submitting the projects to the CIIF Committee for consideration. In the event, funding approvals ranging from $786,000 to $1.18 million were given for four of these projects (two of which had "no comment" responses for all three questions in Table 5);

(d) the provision of a "No comment" checkbox as one of the answers in the questionnaire (for questions (ii) and (iii) in Table 5) would not help the CIIF obtain clear answers;

Need to check projects seeking additional funding

(e) before approving an application from an existing project for additional funding, the CIIF Secretariat had not conducted another checking with relevant B/Ds and the three public funds to prevent resource/service duplication; and

Need to document the rationale for approving projects with resource duplication

(f) in 2002, the AESC agreed that projects which might duplicate government resources should not be automatically rejected, but should be considered based on an assessment of the value they could add. In June 2009, the Education Bureau informed the CIIF Secretariat that the service scope of a project (involving $1 million, and aiming at enhancing the potential of the youth and equipping them for the job market) was similar to that provided by various sections under the Bureau. In the event, the CIIF project was approved but the justification for approving it was not documented.

Audit recommendations

4.5 **Audit has *recommended* that the CIIF should:**

(a) **ensure the completeness of project lists referred to the SDF, the ESR Programme and the PFD for checking to prevent resource and service duplication;**

(b) **seek clarifications from relevant B/Ds concerning the "no comment" responses to questions included in the questionnaires;**

(c) **improve the design of the questionnaires to be sent to relevant B/Ds by, for example, deleting the "No comment" checkbox from the answer section;**

(d) **consider conducting another checking with relevant B/Ds and the three public funds on existing CIIF projects which seek additional funding so as to prevent resource and service duplication; and**

(e) **document the justifications for approving projects which were found to have been funded by other government sources.**

Response from the Administration and the CIIF Committee

4.6   The **Secretary for Labour and Welfare** and the **CIIF Committee** agree with the audit recommendations.   They have said that they will revise the questionnaire for consulting the relevant B/Ds and secretariats accordingly and, starting from the 17th batch of applications, seek clarifications from them if they submit a nil return or offer a "no comment" response.   All written records and justifications relating to approval of the projects will also be properly documented.

Review of grantees' audited accounts

4.7   According to the COG, grantees with project funding in excess of $250,000 are required to submit to the CIIF:

   (a)   an annual audited account (covering the financial position of the project) no later than four months after the end of a financial year; and

   (b)   a final audited account (covering the period from the date of the last audited account to the date of project completion) no later than four months after the project completion date.

4.8   The grantees' auditors are required to give opinions on whether the grantees have complied with the various requirements of the COG.   The audited accounts also enable the CIIF Secretariat to reconcile the actual project expenditure with the quarterly reimbursements made to the grantees.

Audit observations and recommendations

4.9   In 2009, 57 annual and final audited accounts were due for submission by the grantees.   Audit examined a sample of 30 accounts and noted that:

   Late submission of audited accounts

   (a)   there were delays in the submission of annual and final audited accounts by grantees (see Table 6).

Table 6

**Late submission of audited accounts due in 2009
(as at 14 June 2010)**

Number of days late in submission	Number of annual accounts		Number of final accounts	
1 to 100 days				
• 1 — 20 days	3		2	
• 21 — 40 days	2		0	
• 41 — 80 days	0		0	
• 81 — 100 days	3	8	1	3
101 to 200 days		3		1
201 to 300 days		5		0
301 to 400 days		0		0
Over 400 days		3		0
Total		**19**		**4**

Source: Audit analysis of CIIF records

Furthermore, in 4 of the 30 cases examined, the grantees did not submit annual audited accounts, but only submitted audited accounts covering the entire project funding periods which lasted for 2 to 3 years. Audit notes that the CIIF Secretariat has since March 2010 set up a bring-up system to identify overdue audited accounts. In March and April 2010, it also issued reminders to grantees which had not submitted audited accounts. Audit welcomes the CIIF Secretariat's efforts. However, among the audit samples examined, as at mid-June 2010, one grantee had still not submitted any audited accounts (overdue for more than 400 days);

Incomes not deducted from reimbursement claims

(b)   according to the COG, apart from submitting receipts and related documents to support its quarterly reimbursement claims, a grantee is also required to submit a reimbursement claim form listing the income (e.g. bank interest) and expenditure of the project.   The CIIF Secretariat cross-checks the reported income and expenditure against the annual audited account later submitted by the grantee.   If discrepancies are found, the Secretariat will make adjustments in the subsequent quarterly reimbursements.   In one of the 30 cases, Audit found that the audited accounts submitted by the grantee for the past three years showed interest incomes of $1,612, $1,630 and $266, which were not reported in the reimbursement claim forms submitted (Note 8).   However, the Secretariat had not made any adjustments in subsequent reimbursements; and

No audit opinion on compliance with COG

(c)   if a project is not audited separately but is audited as part of a grantee's accounts, the COG requires that the project income and expenditure should be separately shown in the grantee's audited accounts.   The auditor's report shall include the auditor's opinion on whether the project has complied with the COG requirements.   Audit found in one case that the grantee had submitted the project account as part of its audited accounts, but the required auditor's opinion on the project was not provided.

Audit recommendations

4.10   **Audit has *recommended* that the CIIF should:**

(a)   **urge grantees to submit their annual and final audited accounts in a timely manner;**

(b)   **consider taking regulatory action (e.g. deferring quarterly reimbursements — Note 9) on those grantees who repeatedly failed to submit audited accounts on time;**

Note 8:   *Since April 2010, the CIIF Secretariat has included in the reimbursement claim form a note to remind grantees to report project-related income and expenditure.*

Note 9:   *The CIIF sometimes deferred the payments to grantees which had unsatisfactory performance or failed to comply with the COG.*

(c)   **cross-check the grantees' reimbursement claim forms against their audited accounts and make adjustments, if appropriate, in subsequent reimbursements; and**

(d)   **remind grantees submitting project accounts as part of their audited accounts (see para. 4.9(c)) to obtain their auditors' opinion on whether the projects have complied with the COG requirements.**

Response from the Administration and the CIIF Committee

4.11   The **Secretary for Labour and Welfare** and the **CIIF Committee** agree with the audit recommendations. They have said that they will:

(a)   review the COG and consider appropriate actions to be taken to strengthen the monitoring of the projects; and

(b)   remind the CIIF Secretariat's subject officers to verify the information submitted by grantees where necessary and appropriate to ensure accuracy and consistency.

Conduct of site visits

4.12   To monitor project progress and grantees' performance, CIIF grantees are required to submit quarterly progress reports and a final performance report after project completion to the CIIF. Besides, the CIIF Secretariat staff (sometimes accompanied by the CIIF Committee or Sub-committee members) will pay at least one visit to each grantee to ascertain whether its project has been properly implemented. The number of visits will be determined on a need basis (e.g. more visits may be conducted for projects with problems).

Audit observations and recommendations

4.13   Of the six projects selected for field audits (see para. 3.19), one grantee informed Audit that it would welcome more frequent visits by the CIIF as this would improve communication and enhance project performance. However, Audit found that although the CIIF had planned to conduct several visits to the grantee, only one visit was conducted. Case 4 shows the details.

Case 4

Planned visits to a grantee not conducted

A project for building a community network in Tin Shui Wai was granted a CIIF funding of $1.5 million for the period December 2006 to November 2009. The CIIF Secretariat staff, accompanied by a CIIF Committee member, visited the grantee in February 2007. In subsequent reviews of the project, the CIIF Secretariat repeatedly found that the progress of the project was slow, warranting more visits to the grantee (see comments of the CIIF Secretariat below). However, no additional visit was conducted. The project was eventually rated by the CIIF as having "average" performance.

Grantee's progress reports for the period	CIIF Secretariat's comment (after reviewing progress reports)
July to September 2008	The performance of the project was unsatisfactory. It was time for a site visit to be conducted in January or February 2009.
October to December 2008	Progress was slow. The site visit was overdue and should be re-scheduled in March 2009 (i.e. prior to the submission of the following quarterly progress report).
January to March 2009	The project had difficulties in identifying effective social capital development strategies and programmes. The progress of this project was a cause for concern. Reimbursement would be made to the grantee subject to urgent follow-up, including site visit and final year review.

Source: CIIF records

Audit recommendations

4.14   **Audit has *recommended* that the CIIF should:**

(a)   **ascertain the rationale for not conducting site visits (after the visit in February 2007) to the grantee in Case 4;**

(b)   **pay visits to grantees as planned; and**

(c)   **establish a bring-up system to ensure that planned visits are conducted.**

Response from the Administration and the CIIF Committee

4.15   The **Secretary for Labour and Welfare** and the **CIIF Committee** agree with the audit recommendations. They have said that:

(a)   site visits to the grantee in Case 4 were not conducted as originally planned owing to an oversight of the matter caused by staff changes in the CIIF Secretariat. They have introduced improvement measures to enhance internal communication and ensure that outstanding tasks will be properly recorded and duly followed up; and

(b)   they have put in place a bring-up system to regularly review the progress of the site visits. The mechanism has been running smoothly and the Secretariat has kept to the schedule for visiting the grantees so far. They will continue to apply this system to ensure that all the site visits will be conducted according to the planned schedule.

PART 5:   USE OF FUNDS BY GRANTEES

5.1   This PART examines the use of funds by CIIF grantees.

Audit examination

5.2   For the six selected projects (see para. 3.19), Audit visited the grantees (totalling seven grantees as one project was jointly run by two grantees) during April to July 2010 to examine the use of CIIF funding.   Audit has found that there is scope for improvement in the following areas:

    (a)   budgetary control (paras. 5.3 to 5.6);

    (b)   staff recruitment (paras. 5.7 to 5.10);

    (c)   insurance coverage (paras. 5.11 to 5.14);

    (d)   expenditure on "one-off" activities (paras. 5.15 to 5.18);

    (e)   procurement and asset management (paras. 5.19 to 5.24); and

    (f)   publicity materials (paras. 5.25 to 5.28).

Budgetary control

5.3   A grantee may re-allocate funds among different expenditure items of the budget approved by the CIIF.   However, for effective budgetary control purpose, the COG stipulate that the grantee should:

    (a)   inform, as soon as reasonably practicable, the CIIF in writing for a re-allocation not exceeding 15% of the approved amount of an expenditure item from which funds are transferred; and

    (b)   apply in writing for the prior approval of the CIIF for a re-allocation of funds of more than 15%.

The CIIF operating manual has further provided that the CIIF Secretariat's approval is required for a re-allocation of funds of more than 15% and up to 30%, and the CIIF Committee's approval is needed for a re-allocation of more than 30%.

Audit observations and recommendations

5.4   Audit examination of the fund re-allocation of the six projects revealed that:

Need to obtain proper authority's prior approval for re-allocation

(a)   in 2009, a grantee re-allocated funds of more than 30% of the approved amount. However, the grantee had not sought prior approval for the re-allocation before incurring expenditure. The grantee applied for covering approval only after the CIIF discovered the unauthorised re-allocation when processing the reimbursement claims. Moreover, the covering approval was given by the CIIF Secretariat (instead of the CIIF Committee as required by the CIIF operating manual); and

Need to process re-allocation applications in a timely manner

(b)   in another project, a grantee submitted an application for fund re-allocation (which exceeded 30% of the approved amount) in late May 2009. In early July 2009, the CIIF Secretariat informed the grantee that the CIIF Committee's decision would be available by end of September 2009. However, Audit could not find any records of the CIIF Committee's decision. In August 2010, the CIIF Secretariat informed Audit that the CIIF Committee had approved the re-allocation in mid-October 2009 (4.5 months after the submission) and the grantee was verbally informed of the result.

Audit recommendations

5.5   **Audit has *recommended* that the CIIF Secretariat should:**

(a)   **regularly remind grantees to obtain prior approval for a re-allocation of funds in accordance with the laid-down procedures;**

(b)   **seek proper authority for approving re-allocation of funds;**

(c)   **process applications for fund re-allocation in a timely manner; and**

(d)   **document the approvals given for fund re-allocations.**

Response from the Administration and the CIIF Committee

5.6   The **Secretary for Labour and Welfare** and the **CIIF Committee** agree with the audit recommendations. They have said that the CIIF Secretariat has always accorded priority to timely processing of applications for fund re-allocation. The example cited in para. 5.4(b) is a special case as it involved handling of the grantee's surplus (as income was more than budgeted). More time was required for the Secretariat to check and validate the information with the applicant before seeking the CIIF Committee's comments and approval. They will continue to process re-allocation applications in a timely manner.

Staff recruitment

5.7   For each project, a grantee may recruit, at the CIIF's expense, an officer (who usually is a registered social worker) and one to two assistants to manage the operations. In the six projects examined by Audit, seven officers and ten assistants were recruited.

Audit observations and recommendations

5.8   Audit review of the recruitment practices of the six projects indicated that:

Need to publicise vacancies more widely

(a)   while the COG require that the recruitment process shall be open and fair, in June 2009, a grantee employed a project officer without open recruitment. The grantee filled the vacancy by appointing a person who was providing language training to the project participants;

(b)   the grantees usually publicised their job vacancies in local newspapers, on their websites or through the Labour Department's recruitment service. In one project, however, there was limited publicity of its project assistant vacancy (see Case 5);

Case 5

Publication of a project assistant vacancy

> In late 2006, a grantee wanted to recruit a project assistant for its project. The grantee only posted a recruitment notice on the notice board outside its office located in a public housing estate. There was only one applicant who was selected for the job.

Source: Grantee's records

Need to declare conflict of interests in recruitment exercises

(c)   the COG stipulate that grantees should avoid conflict of interests in conducting recruitment exercises. However, one grantee had not maintained a system of declaration of conflict of interests by staff involved in recruitment exercises. Three other grantees claimed that they had such a system but they could not produce documentary evidence for audit examination; and

Need to check claims for reimbursement of staff salaries

(d)   a project officer was employed by a grantee to work for a CIIF project and concurrently another project subvented by the SWD in 2008. More than 90% of his monthly salary was paid out of the CIIF project funding, but there was no document to support the actual time he worked on the CIIF project. Audit notes that since April 2010, the CIIF has required grantees to report full-time/part-time staff recruited and their man-hours involved in implementing CIIF projects.

Audit recommendations

5.9   **Audit has *recommended* that the CIIF should:**

(a)   **urge grantees to properly publicise their staff vacancies (e.g. in newspapers and on their websites);**

(b)   **urge grantees to establish a system (with documented procedures) of declaration of conflict of interests for recruitment exercises; and**

(c)   **confirm with the grantee mentioned in paragraph 5.8(d) whether the proportion of its project officer's salaries paid out of the CIIF funding is correct.**

Response from the Administration and the CIIF Committee

5.10   The **Secretary for Labour and Welfare** and the **CIIF Committee** agree with the audit recommendations. They have said that:

(a)   they will review and, where appropriate, update the guidelines to be sent to grantees after signing of the COG to incorporate key messages for grantees. They will also update the reminders to be sent to grantees on a quarterly basis reminding them to fully comply with the COG requirements; and

(b)   they have already written to the grantee mentioned in paragraph 5.8(d) requesting it to provide information on the proportion of its project officer's salaries paid out of the CIIF funding. They are waiting for its response.

Insurance coverage

5.11   The COG require a grantee to:

(a)   maintain an insurance policy of such insured amount as approved by the CIIF to cover all of its liabilities in respect of personal injury to or death of any person (including the grantee's employees, project volunteers and third parties) resulting from performance of the project; and

(b)   provide the CIIF with a certified copy of such insurance policy before the commencement of the project or such other dates as mutually agreed.

To fulfil the COG insurance requirements, a grantee usually purchases the employees' compensation insurance and the public liability insurance.

Audit observations and recommendations

5.12   For the six projects selected for review, Audit found that:

(a)   in five projects, the grantees failed to submit copies of the insurance policies as required by the COG throughout the project periods; and

(b)   in one project, there was a delay in renewing the employees' compensation insurance policy and the public liability insurance policy, resulting in no insurance coverage for the project for five days.

Audit recommendations

5.13   **Audit has *recommended* that the CIIF should:**

(a)   **require grantees to renew the required insurance policies in a timely manner;**

(b)   **urge grantees to submit copies of insurance policies on time; and**

(c)   **establish a system to follow up grantees' submission of insurance policies.**

Response from the Administration and the CIIF Committee

5.14   The **Secretary for Labour and Welfare** and the **CIIF Committee** agree with the audit recommendations. They have said that the CIIF Secretariat will:

(a)   send reminders to grantees on a quarterly basis reminding them to fully comply with the COG requirements; and

(b)   formulate and set up an internal system (e.g. guidelines or checklist) to facilitate its staff in monitoring the submission of the insurance policies by grantees.

Expenditure on "one-off" activities

5.15   The CIIF has informed grantees (in the COG and on its website) that their expenditure on activities such as banquets, carnivals and trips (referred to as "one-off" activities by the CIIF) is usually not reimbursable as they have no long-lasting effect on social capital development.

Audit observations and recommendation

5.16   Audit examined the expenditure of the six projects and found that:

(a)   in five projects, the grantees had submitted claims for expenditure on 46 one-off activities, with individual amounts ranging from $151 to $6,720. The CIIF Secretariat approved all the claims. Upon Audit's enquiry, the CIIF Secretariat

explained that one-off activities might still be approved if they had long-lasting effect on social capital development;

(b)   in one of the approved claims, the CIIF Secretariat had doubts on whether the related one-off activities had long-lasting effect on social capital development, but the claim was still approved (see Case 6);

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Case 6

Approved claim for one-off activities

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A grantee conducted four one-off activities (e.g. meal gatherings and trips) in July and August 2008 and claimed reimbursement of $6,166 in October 2008. The CIIF Secretariat doubted the effectiveness of the activities in developing social capital and required the grantee to explain their relevance. In December 2008, the CIIF Secretariat approved the claim but reminded the grantee that these activities did not have long-lasting effect on social capital development. However, given the low cost of the activities and that part of the expenses were borne by participants, the claim was approved.

Source: Grantee's records

(c)   the CIIF Secretariat did not always seek explanations from the grantees, even though it had doubts about the effects of their activities on developing social capital (see an example in Case 7);

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Case 7

Not seeking explanations on doubtful claims

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A grantee organised one-off activities every quarter between June 2006 and May 2009. It submitted claims for these activities with individual amounts ranging from $563 to $4,721 (totalling some $50,700). While on a number of occasions, the CIIF Secretariat expressed reservations on the effectiveness of these activities in developing social capital, the CIIF Secretariat approved all the claims without seeking explanations from the grantee.

Source: Grantee's records

(d)   while the CIIF Secretariat approved some claims for expenditure on one-off activities having regard to the cost of activities and participants' contributions (see Case 6), there are no laid-down guidelines on what constitutes an acceptable cost and contribution level. Audit analysed 10 approved claims relating to the 46 one-off activities (see (a) above) and found that their cost and participants' contribution levels varied (see Table 7); and

Table 7

Ten approved claims for one-off activities

One-off activity	Range
(a) Cost of activity	$705 to $6,720
(b) Cost of activity (per participant)	$12 to $287
(c) Participants' contributions (total)	$0 to $8,480
(d) Participants' contributions (per head)	$0 to $100

Source: Audit analysis of CIIF records

Remarks: Cost of activity was net of participants' contributions.

(e)   in one project, the grantee had not provided details (such as the nature of the activities) in the reimbursement claims for meal expenses of $7,065 incurred from January to July 2009. However, the CIIF Secretariat approved the claims without raising questions nor giving reasons for the approval.

Audit recommendation

5.17   **Audit has *recommended* that the CIIF should review the existing arrangements on approving reimbursement claims for expenditure on one-off activities, with a view to establishing a set of guidelines for the CIIF Secretariat staff to follow.**

Response from the Administration and the CIIF Committee

5.18   The **Secretary for Labour and Welfare** and the **CIIF Committee** agree with the audit recommendation.   They will update the CIIF operating manual and draw up guidelines for the CIIF Secretariat staff.

Procurement and asset management

Procurement

5.19   To ensure openness, fairness and value for money in procurement, the COG require grantees to obtain no fewer than three written quotations for purchase of goods and services costing over $5,000.

Asset management

5.20   According to the COG, the ownership of assets such as furniture and equipment acquired through CIIF funding remains with the CIIF.   The CIIF Secretariat has issued guidelines requiring grantees to record assets in an asset register and to submit a copy of the updated asset register on a quarterly basis.

Audit observations and recommendations

Procurement

5.21   Audit examination of the procurement of goods and services for the six selected projects revealed that in one project, the required quotations were not obtained on the following two occasions (see Table 8).

Table 8

Purchases without obtaining quotations

Date of purchase	Goods/services purchased	Amount ($)
8.1.2008	Tutoring service for project participants	5,400
9.11.2009	Printing and binding of promotional materials	6,446

Source: Grantee's records

Asset management

5.22   Audit examined the asset management of the six projects and found that:

(a)   in one project, the grantee had not maintained records for furniture/equipment purchased under the project, which included a table-tennis table set (costing $2,785) and an infra-red thermometer (costing $550);

(b)   in another project, the grantee only kept records for assets each costing $10,000 or above. As all the asset items acquired by the grantee through CIIF funding were below $10,000, no CIIF asset records were kept. Examples of assets purchased for the project were three sewing machines (costing $2,550 in total) and a foldable table with four chairs (costing $699); and

(c)   while the CIIF owns the assets purchased under the projects, it allows the grantees to keep the assets. Audit, however, noted that some of the assets (e.g. two portable wireless amplifier systems costing $1,176) acquired by the grantees had been left unused after project completion.

Audit recommendations

5.23   **Audit has *recommended* that the CIIF should:**

Procurement

(a)   **urge grantees to obtain written quotations for the purchase of goods and services in accordance with the COG requirement;**

Asset management

(b)   **set out in the asset management guidelines the monetary value above which assets have to be recorded;**

(c)   **remind grantees to keep a register of assets purchased under the CIIF projects and to submit the updated register on a quarterly basis; and**

(d)   **require grantees to report on the deployment of assets upon project completion, and explore ways to put unused assets to more gainful use (e.g. establishing a database of assets on the CIIF's website to facilitate borrowing by interested grantees).**

Response from the Administration and the CIIF Committee

5.24   The **Secretary for Labour and Welfare** and the **CIIF Committee** agree with the audit recommendations. They have said that:

(a)   they will review and update the guidelines which will be sent to grantees after signing of the COG, and will also send reminders to grantees on a quarterly basis to remind them to comply fully with the COG requirements;

(b)   they will consider setting out in the asset management guidelines the minimum monetary value of the assets to be recorded. Reminders will also be sent to grantees on a quarterly basis; and

(c)   the CIIF Secretariat is in the course of developing a set of guidelines for grantees to follow with reference to the practices/arrangements adopted by other Government funding schemes.

Publicity materials

5.25   CIIF grantees may use publicity materials such as leaflets and banners to promote their project activities. To ensure that due acknowledgement of the CIIF's support is given in the publicity materials, the CIIF requires grantees to:

(a)   show the CIIF logo and indicate that the promoted activity is subvented by the CIIF on all related publicity materials; and

(b)   submit the publicity materials to the CIIF Secretariat for approval.

Subject to the CIIF Secretariat's approval, grantees may also print the LWB's logo on the publicity materials.

Audit observations and recommendation

5.26   Audit randomly selected an item of publicity material (e.g. booklets or environmental bags) from each of the six projects examined. Audit found that no approval was obtained for all six items.
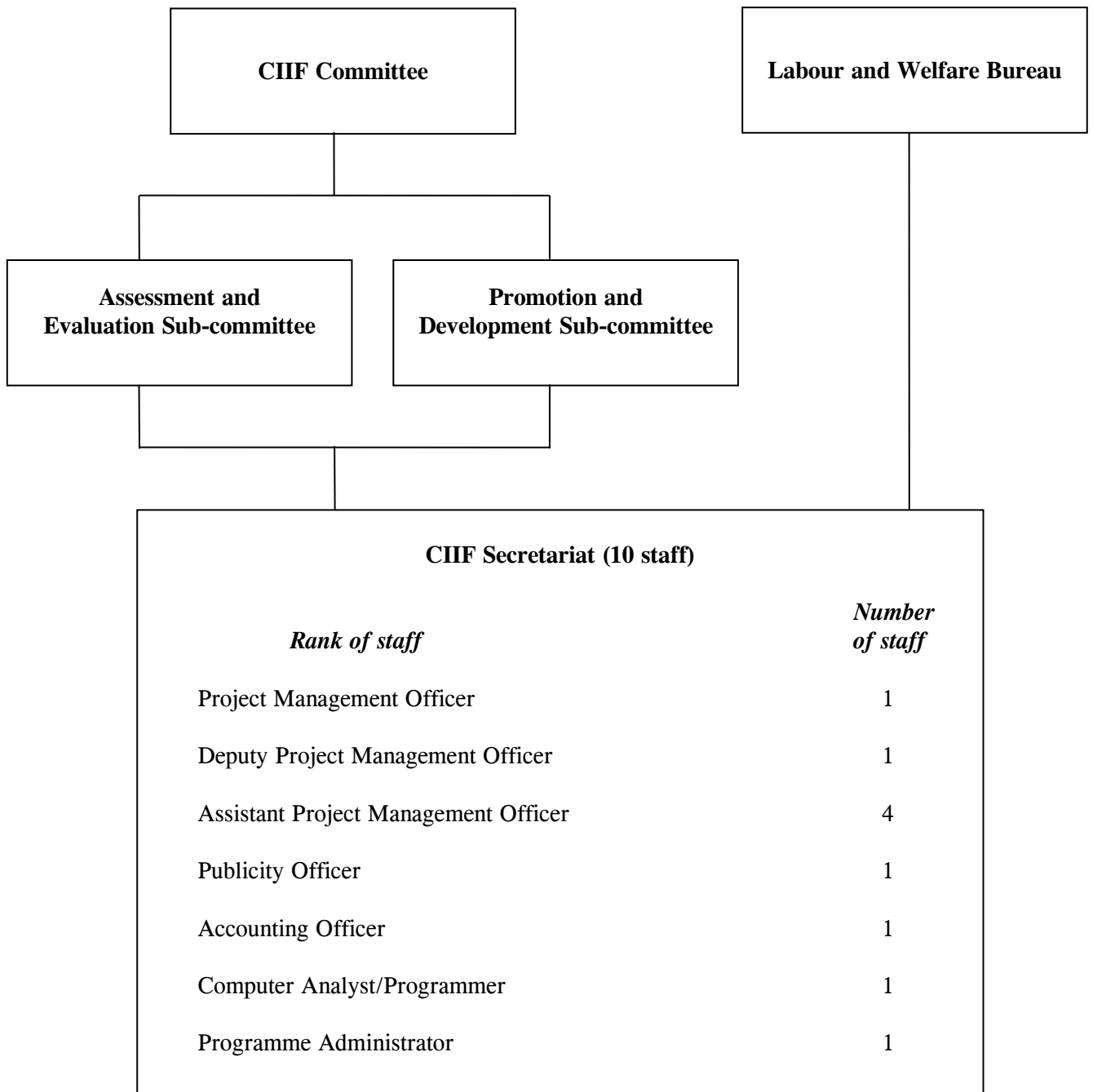
Audit recommendation

5.27　　　**Audit has *recommended* that the CIIF should remind grantees that they should seek the CIIF Secretariat's approval of their publicity materials before production.**

Response from the Administration and the CIIF Committee

5.28　　　The **Secretary for Labour and Welfare** and the **CIIF Committee** agree with the audit recommendation.　They will review and update the guidelines to be sent to grantees after signing of the COG as well as the reminders which will be sent to them on a quarterly basis to remind them to comply fully with the COG requirements.

Community Investment and Inclusion Fund
Organisation chart
(1 June 2010)

| CIIF Committee | | Labour and Welfare Bureau |

| Assessment and Evaluation Sub-committee | Promotion and Development Sub-committee |

CIIF Secretariat (10 staff)

Rank of staff	Number of staff
Project Management Officer	1
Deputy Project Management Officer	1
Assistant Project Management Officer	4
Publicity Officer	1
Accounting Officer	1
Computer Analyst/Programmer	1
Programme Administrator	1

Source: CIIF records

Status of 10 completed projects
(July 2010)

	Project type	Funding period	Project status
1.	After-school care, neighbourhood network	1.9.2003 to 31.7.2007	Both projects ceased operation, but the community network created by the projects had continued to operate with other government funding (e.g. funds provided by a District Council).
2.	Mentorship programme, self-support group	1.4.2003 to 31.3.2006	
3.	Neighbourhood network, cross-generation	22.11.2003 to 31.12.2005	Project ceased operation. The grantee, however, had not followed up on whether the community network created by the project continued to operate and how it was supported.
4.	Mentorship programme	18.5.2004 to 31.8.2006	Project was still in operation. It was financed by donation and other non-government funding, and was supported by the staff of the grantee which received subvention from the SWD (subvented staff).
5.	After-school care	1.4.2003 to 31.3.2006	Project was still in operation. It was financed by donation and income from the grantee's volunteer association, and was supported by subvented staff and members of the grantee's volunteer association.
6.	Self-support group	10.5.2004 to 9.5.2007	Project was still in operation. It was financed by its own income (from providing elderly services), and was supported by subvented staff and project volunteers.
7.	Self-support group	1.5.2005 to 30.4.2008	Project was still in operation. It was financed by income from the grantee's service team (providing, for example, domestic helping services), and was supported by subvented staff and project volunteers.

	Project type	Funding period	Project status
8.	Mentorship programme, tripartite partnership	1.5.2007 to 30.4.2008	Project was still in operation. It was financed by course fees and sponsorship, and was supported by staff of the grantee and project volunteers.
9.	After-school care	1.4.2005 to 31.3.2008	Both projects were still in operation. They were financed by additional CIIF funding.
10.	Neighbourhood network	16.5.2005 to 15.5.2008	

Source: Audit visits

Acronyms and abbreviations

AESC	Assessment and Evaluation Sub-committee
Audit	Audit Commission
B/Ds	Bureaux/departments
CIIF	Community Investment and Inclusion Fund
COG	Conditions of Grant
ESR Programme	Enhancing Self-Reliance Through District Partnership Programme
HAD	Home Affairs Department
LegCo Panel	Legislative Council Panel on Welfare Services
LWB	Labour and Welfare Bureau
NGO	Non-governmental organisation
PDSC	Promotion and Development Sub-committee
PFD	Partnership Fund for the Disadvantaged
SDF	Sustainable Development Fund
SWD	Social Welfare Department