

Report No. 55 of the Director of Audit — Chapter 11

THE COMMUNITY INVESTMENT AND INCLUSION FUND

Summary

1. The Community Investment and Inclusion Fund (CIIF) was established in 2002 with a capital of \$300 million. It provides seed money to eligible organisations (including welfare agencies, education organisations and private companies) for funding projects that promote the development of social capital.

2. The CIIF is overseen by the CIIF Committee which is responsible for approving funding applications and monitoring the effectiveness of the funded projects. The Committee is assisted by an Assessment and Evaluation Sub-committee and a Promotion and Development Sub-committee. A CIIF Secretariat, set up under the Labour and Welfare Bureau, supports the Committee and the two Sub-committees, and handles the CIIF's day-to-day operations. From its inception in April 2002 to June 2010, the CIIF approved 213 projects with a total funding of \$212 million. The Audit Commission (Audit) has recently conducted a review of the CIIF.

Governance of the CIIF

3. ***Governance practices.*** Audit found that: (a) there were inconsistencies in some Committee members' declarations of interests (at two meetings held in September and October 2009) relating to CIIF funding applications, but the CIIF Secretariat had not sought clarification from the members concerned; (b) it took 21 to 195 days to prepare the minutes of meetings of the CIIF Committee/Sub-committees held in 2009-10; and (c) the CIIF Secretariat had not compiled performance information measuring the efficiency and effectiveness of the CIIF's operation. *Audit has recommended that the CIIF should: (a) monitor declaration of interests by committee members and clarify with the members concerned if inconsistencies are noted; (b) prepare minutes of meetings promptly; and (c) compile and publish performance information that measures the efficiency and effectiveness of the CIIF operation.*

Development of social capital

4. ***Community participation.*** In 2002, the Administration 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. Some grantees informed Audit that they had difficulties in applying for CIIF funding or implementing CIIF projects. *Audit has recommended that the CIIF should: (a) monitor the number of applications and encourage more eligible organisations to apply for CIIF funding; and (b) provide effective guidance and support to help grantees resolve their problems and improve their project performance.*

5. ***Project sustainability.*** The CIIF intends to support projects that will be sustainable in the longer term. However, in the marking scheme used for assessing CIIF applications, project sustainability was only given a weighting of 10%. Audit also found that: (a) the CIIF Secretariat did not have the practice of conducting follow-up reviews on completed projects to ascertain their sustainability; and (b) there was scope for improvement in reporting information on project sustainability to the Legislative Council Panel on Welfare Services. *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 reflect the significance of project sustainability; (b) conduct reviews of project sustainability on a more regular basis; and (c) validate the CIIF information to be submitted to the Legislative Council Panel.*

6. ***Reporting achievements on social capital development.*** CIIF grantees are required, under the Conditions of Grant (COG), to report achievements on social capital development to the CIIF. Audit examined six projects and found that: (a) in three projects, the grantees had not reported achievements such as the number of volunteers joining the projects; (b) in two projects, the achievements reported were inaccurate and not fully substantiated; and (c) some grantees had different interpretations of performance indicators such that the reported achievements were not comparable on a like-with-like basis. *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; (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.*

7. ***Pace of fund disbursement.*** In mid-2009, the CIIF Committee (having regard to its and the CIIF Secretariat's resources) decided to reduce the number of active projects by adopting measures such as limiting the number of projects to be approved. As at June 2010, the CIIF had an uncommitted balance of \$88 million. Given that CIIF had operated for some eight years and the last evaluation of its effectiveness in developing social capital was completed in 2006, *Audit has recommended that the CIIF 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.*

Assessment and monitoring of projects

8. ***Prevention of resource and service duplication.*** For each CIIF application, the CIIF Secretariat sends questionnaires to relevant bureaux/departments (B/Ds) to ascertain whether there is any duplication in funding. The Secretariat also sends a list of proposed projects to the secretariats of three public funds for similar checking. Audit examined these checking arrangements for a batch of CIIF applications and found that: (a) there were omissions of projects in the lists sent to the public funds; (b) the Secretariat had not sought clarifications from the relevant B/Ds that provided “no comment” responses in the returned questionnaires for four projects; and (c) the justification for approving a project with resource duplication was not documented. *Audit has recommended that the CIIF should: (a) ensure the completeness of project lists referred to the public funds for checking; (b) seek clarifications from relevant B/Ds concerning the “no comment” responses to questions included in the questionnaires; and (c) document the justifications for approving projects which were found to have been funded by other government sources.*

9. ***Review of grantees’ audited accounts.*** According to the COG, grantees with project funding in excess of \$250,000 are required to submit audited annual and final accounts for their projects to the CIIF within specified time frames. Audit examined 30 accounts due for submission in 2009 and found that there were delays in the submission of 19 annual and 4 final accounts. Furthermore, in one submitted account, the required auditor’s opinion on whether the project had complied with the requirements of the COG was not provided. *Audit has recommended that the CIIF should: (a) urge grantees to submit their audited accounts in a timely manner; (b) consider taking regulatory action on those grantees who repeatedly failed to submit audited accounts on time; and (c) remind grantees to obtain the required auditors’ opinion.*

Use of funds by grantees

10. ***Budgetary control.*** The COG require grantees to apply for the prior approval of the CIIF for a re-allocation of funds exceeding 15% of the approved amount of an expenditure item from which funds are transferred. Audit examined six projects and found that in one project, the grantee had not sought prior approval for the re-allocation before incurring expenditure. Furthermore, the subsequent covering approval was not given by the proper authority. In another project, the re-allocation application was not processed in a timely manner and the approval was not documented. *Audit has recommended that the CIIF Secretariat should: (a) regularly remind grantees to obtain prior approval for a re-allocation of funds; (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.*

11. **Staff recruitment.** Audit reviewed the recruitment practices of six projects and found that: (a) in one case, the grantee employed a project officer without open recruitment; (b) in another case, there was limited publicity of a project assistant vacancy which was eventually filled by the only applicant for the job; and (c) 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 maintained a system of declaration of interests but no documentary evidence could be provided. *Audit has recommended that the CIIF should urge grantees to: (a) properly publicise their staff vacancies; and (b) establish a system (with documented procedures) of declaration of interests for recruitment exercises.*

12. **Expenditure on “one-off” activities.** The CIIF has informed grantees that their expenditure on one-off activities (not having long-lasting effect on social capital development, such as banquets, carnivals and trips) is usually not reimbursable. Audit examined six projects and found that: (a) the CIIF Secretariat did not always seek explanations from the grantees, even though it had doubts about the effects of their one-off activities on developing social capital; (b) the Secretariat approved some claims for expenditure on one-off activities, having regard to the low cost of the activities and participants’ contributions. However, there are no laid-down guidelines on what constitutes an acceptable cost of activities and participants’ contribution level; and (c) in one project, the grantee had not provided details in its reimbursement claims for meal expenses, but the Secretariat approved the claims without raising questions. *Audit has recommended that the CIIF should review the existing arrangements on approving reimbursement claims for expenditure on one-off activities.*

13. **Procurement and asset management.** Audit examined the procurement and asset management of six projects and found that in one project, quotations were not obtained for the purchase of goods/services exceeding \$5,000. In two projects, the grantees had not maintained records for furniture/equipment purchased under the projects. *Audit has recommended that the CIIF should: (a) urge grantees to obtain quotations for the purchase of goods and services; (b) set out in the asset management guidelines the monetary value above which assets have to be recorded; and (c) remind grantees to keep a register of assets purchased under the CIIF projects.*

Response from the Administration and the CIIF Committee

14. The Secretary for Labour and Welfare and the CIIF Committee agree with the audit recommendations.

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