

CHAPTER 3

Social Welfare Department

Fu Hong Society

**Audit Commission
Hong Kong
31 March 2011**

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

Report No. 56 of the Director of Audit contains 8 Chapters which are available on our website at <http://www.aud.gov.hk>.

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FU HONG SOCIETY

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PART 1: INTRODUCTION

1.1 This PART describes the background to the audit and outlines the audit objectives and scope.

Background

1.2 The **Fu Hong Society (FHS** — Note 1) is a non-profit-making organisation. It was incorporated in Hong Kong in May 1978 under the Companies Ordinance (Cap. 32). The objectives of the FHS are to develop the potential of persons with disabilities, and to enable them to achieve maximum independence and become fully integrated citizens in the community. The FHS serves persons with different types of disabilities (see Appendix A).

1.3 The FHS is funded mainly by government subvention. In 2009-10, 78.2% (\$220.2 million) of the FHS's income came from the **Social Welfare Department (SWD)** in the form of Lump Sum Grant (LSG — Note 2). The FHS's other sources of income include fees, bank interest and donations. Figure 1 shows the income and expenditure of the FHS in 2009-10.

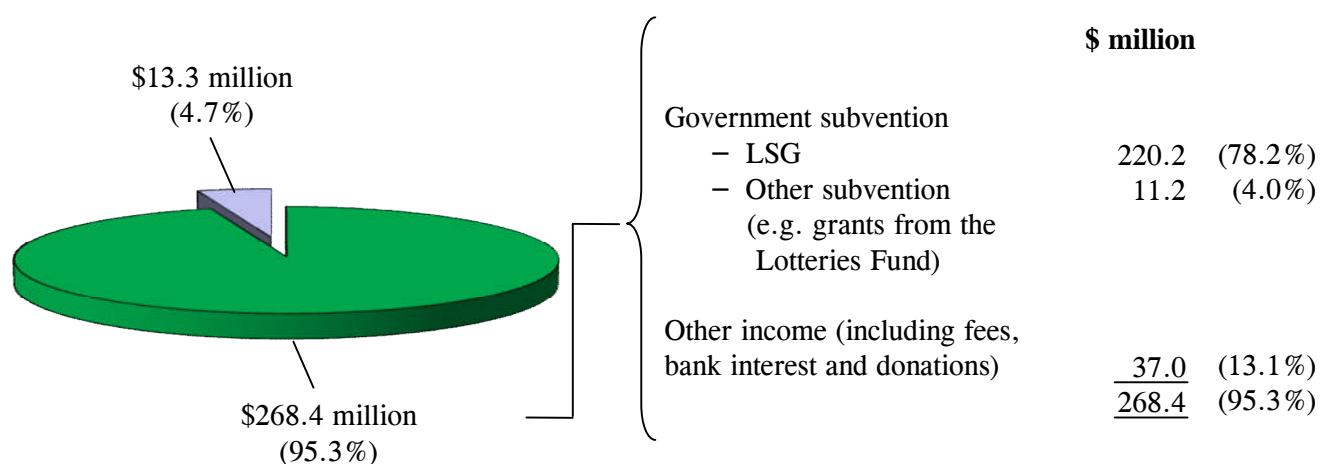
Note 1: *The FHS was formerly known as The Society of Homes for the Handicapped. In January 2001, the Society was renamed the FHS while its Chinese name (扶康會) remained unchanged.*

Note 2: *Under the LSG mode of subvention, the funding level is assessed on the basis of individual service units. The SWD does not impose input controls on staffing structures, level of pay and individual items of expenditure. The FHS may redeploy LSG resources across services that are funded by the LSG.*

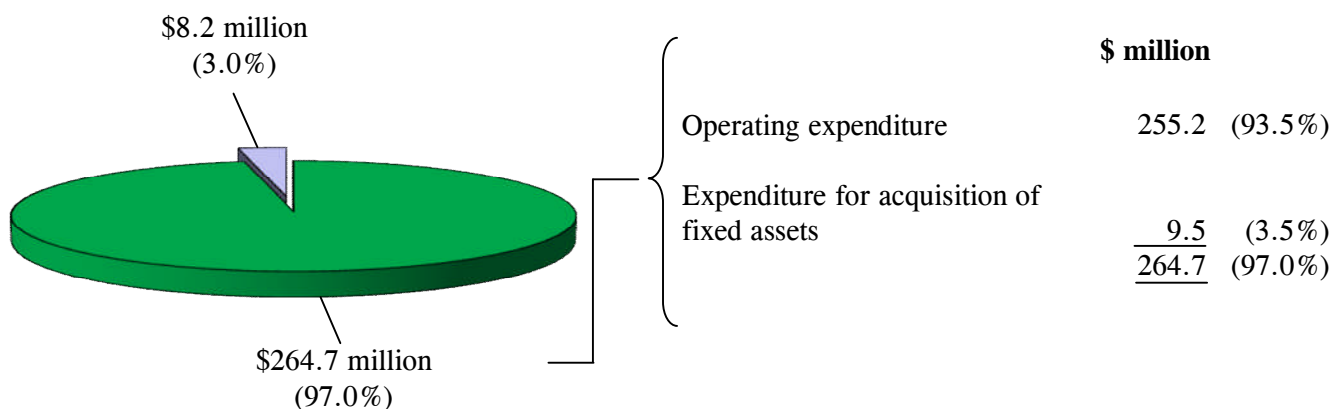
Figure 1

Income and expenditure of the FHS (2009-10)

(A) Income from subvented and non-subvented activities



(B) Expenditure on subvented and non-subvented activities



Legend: ■ Subvented activities ■ Non-subvented activities

Source: FHS records

1.4 The FHS carries out its activities through different service units, such as hostels, training centres and workshops. The service units provide three main types of subvented services to persons with disabilities and their family members/carers, as follows:

- (a) **Day training and vocational rehabilitation service.** Persons with disabilities receive day care, training in daily living skills, vocational training and other employment-related services (e.g. job-related guidance) at service units such as day activity centres and sheltered workshops;
- (b) **Residential service.** Persons with disabilities receive home living service at care and attention homes, hostels and halfway houses; and
- (c) **Community support service.** Persons with disabilities and their family members/carers receive support service (e.g. respite day care service) at service units such as day training centres. The service facilitates integrating persons with disabilities into the community, and helps strengthen the caring capacity and relieve the stress of their family members/carers.

As at 31 December 2010, the FHS had 51 service units (see Appendix B). Photograph 1 shows activities at an FHS day activity centre.

Photograph 1

Training provided to service users at a day activity centre



Source: FHS promotional leaflet

1.5 The FHS is governed by a Council, supported by a number of committees and sub-committees. Under the direction of the Council, an Executive Director (ED) oversees the day-to-day administration and operation of the FHS. As at 31 December 2010, the FHS had 979 staff. An organisation chart of the FHS is shown at Appendix C.

1.6 The FHS is currently serving over 3,000 persons with disabilities. Over the years, the FHS has also pioneered pilot services for persons with disabilities, such as setting up family-like residential units to provide homes with warm and family environment to persons with disabilities, providing training for persons with autism, and running co-operative shops to provide working opportunities to persons with disabilities (see Appendix B). According to surveys conducted by the FHS, the vast majority (over 90%) of the service users and their family members/carers were satisfied with its services.

Audit review

1.7 The Audit Commission (Audit) has recently conducted a review of the FHS, focusing on the following areas:

- (a) corporate governance (PART 2);
- (b) standard of services and performance management (PART 3);
- (c) financial and fund management (PART 4);
- (d) human resource management (PART 5); and
- (e) other administrative issues (PART 6).

Audit has found areas where improvements can be made and has made a number of recommendations to address the issues.

General audit observations and recommendation

1.8 The SWD monitors the activities of a wide range of subvented non-governmental organisations (NGOs) in the welfare sector. For those audit recommendations contained in this Report that may be generally applicable to other LSG-subvented NGOs, it will be beneficial to bring them to their attention. **Audit has therefore *recommended* that the Director of Social Welfare should consider disseminating the relevant audit recommendations in this Report for reference by other LSG-subvented NGOs and for wider application.**

General response from the Administration

1.9 The **Director of Social Welfare** agrees with the audit recommendation in paragraph 1.8. He has said that the SWD will disseminate the relevant audit recommendations in this Report for reference by LSG-subvented NGOs and for wider application.

General response from the Fu Hong Society

1.10 The **Chairman, FHS Council** has said that:

- (a) on behalf of the FHS, she would like to express sincere thanks to Audit for its efforts in the auditing exercise. The FHS generally agrees with the audit recommendations in this Report;
- (b) owing to inadequate resources, the practices established and implemented by the FHS are not documented in a completely professional manner. With Audit's recommendations, the FHS would reinforce the documentation of its established systems and practices in a professional manner;
- (c) the FHS does appreciate some positive comments of Audit on the FHS's good practices and the FHS will certainly continue to strive for providing quality services; and
- (d) it is always a challenge for NGOs to strike a balance between revenue/operating cost and best practice. Nevertheless, the FHS would, in accordance with its traditional practice, continue to review all systems and do its best to improve all services and its management, using the cost-benefit approach to enhance productivity and efficiency.

Acknowledgement

1.11 Audit would like to acknowledge with gratitude the full cooperation of the staff of the FHS and the SWD during the course of the audit review.

PART 2: CORPORATE GOVERNANCE

2.1 This PART examines issues relating to corporate governance of the FHS, and suggests measures for improvement in the following areas:

- (a) membership (paras. 2.3 to 2.8);
- (b) governance structure (paras. 2.9 to 2.14);
- (c) turnover of board members (paras. 2.15 to 2.19);
- (d) attendance at meetings (paras. 2.20 to 2.24);
- (e) roles of the President and Vice Presidents (paras. 2.25 to 2.30); and
- (f) declaration of interests (paras. 2.31 to 2.34).

Best practices for subvented organisations

2.2 Good governance helps ensure the effectiveness, credibility and viability of an organisation. The Government has issued guidelines on corporate governance of NGOs. In June 2002, the SWD published a corporate governance guide, “Leading Your NGO — Corporate Governance”. In May 2010, the Efficiency Unit issued another corporate governance guide, “Guide to Corporate Governance for Subvented Organisations”. These two published guides set out principles and best practices for NGOs receiving social welfare subventions.

Membership

2.3 As at 30 September 2010, the FHS had 170 members, comprising 162 life members and 8 ordinary members. The FHS members have the rights of attending annual general meetings (AGMs) and electing the President, Vice Presidents and Council members. According to the FHS’s Articles of Association, any person who in the opinion of the Council is a fit and proper person to admit to membership may apply to become a member. The entrance fee and annual subscription for ordinary membership is \$100 and \$50 respectively. The one-off fee for life membership is \$1,000. All applications for membership are subject to the approval of the Council. The application form for membership is available on the FHS website and in its annual report.

Audit observations and recommendations

Need to promote and revitalise membership

2.4 According to its Articles of Association, the FHS can have 500 members. However, the number of members as at 30 September 2010 was only 170 (i.e. 34% of the permitted number). Audit noted that, from October 2005 to September 2010, the FHS admitted 23 new members and terminated the membership of 19 members (who died or failed to pay annual subscriptions). There was a net increase of only 4 members in the past 5 years. Audit considers that if a larger pool of members with a diversity of experience and expertise was available to the FHS, the new blood injected would be conducive to the FHS's development. Therefore, the FHS needs to step up its efforts to attract more people to become its members.

2.5 Audit also noted that 59 (35%) members were inactive. They had either moved to a new address without informing the FHS (54 members or 92%), or declared that they no longer wished to participate in the FHS's activities (5 members or 8%). At the AGM held in October 2010, 33 members cast their votes (Note 3), representing only 19% of the 170 members on the member register. The FHS needs to further encourage its members to participate more in its activities.

2.6 The FHS was established from the voluntary actions of individuals who chose to pursue a shared interest. Over the years, it has pioneered new services for persons with disabilities. It is currently providing a full range of residential and community services for these persons. To sustain its impetus for long-term development, the FHS needs to attract new members who share the same values and belief to join the organisation. It is also important that members of the FHS actively participate in its activities. Audit noted that the FHS had formulated plans for conducting events, and issued annual reports and publicity materials such as newsletters to publicise its activities. In view of the observations in paragraphs 2.4 and 2.5, Audit considers that the FHS needs to enhance its strategy for promoting and revitalising its membership.

Audit recommendations

2.7 **Audit has recommended that the FHS should enhance its strategy for promoting and revitalising its membership, including taking more effective measures to:**

Note 3: *The AGM was attended by 28 members who cast their votes in person. Another 5 members cast their votes by proxy.*

- (a) **retain existing members and encourage inactive members to participate in its activities; and**
- (b) **publicise its work and attract interested persons to join the FHS.**

Response from the Fu Hong Society

2.8 The FHS agrees with the audit recommendations. The **Chairman, FHS Council** has said that:

- (a) the FHS has been doing its best to recruit new members and retain existing members;
- (b) notwithstanding that the FHS does not have formal and systematic plans to promote and revitalise its membership, it has annual plans to publicise its work;
- (c) the FHS has publicised its work through its website, publications and personal networks. Relevant publications such as annual reports and newsletters (see para. 2.6) are sent to FHS members, FHS committee members and other stakeholders regularly (e.g. newsletters are issued three times a year). The other stakeholders comprise 150 donors, 250 networked corporations, 600 NGOs and 1,330 visitors/parents/volunteers;
- (d) existing members are also invited to join about 10 major events a year, e.g. opening of new centres, cooking competition and the AGM;
- (e) the membership application form at the FHS annual reports and website (see para. 2.3) attracts and facilitates potential members to join the FHS;
- (f) the FHS also recruits members via personal contact; and
- (g) the FHS will continue taking effective measures to retain members and to encourage inactive members to participate in FHS activities.

Governance structure

2.9 The Council is the governing board of the FHS. As stipulated in its Articles of Association, the business of the FHS shall be managed by the Council. The Articles of Association also stipulate that the Council shall comprise 5 to 20 members to be elected among members of the FHS at the AGM (Note 4), and that the Council can directly appoint committees and sub-committees (see Appendix D — Note 5). Members of the committees and sub-committees do not need to be FHS members. As at 30 September 2010, the Council had 18 members, and had set up 14 committees and 4 sub-committees to help manage the FHS. The Council and each of the committees and sub-committees have elected a Chairman among their members. All the members/chairmen do not receive any remuneration for holding the posts.

Audit observations and recommendations

Need to maintain a talent pool

2.10 Audit reviewed the membership of the Council in the past 10 terms of office from 2000-01 to 2009-10, and noted that many of the Council members had a long service. Table 1 shows that, of the 18 members serving the Council as at 30 September 2010 (Note 6), 6 (33%) had served the Council continuously for 10 years. The situation was similar for the FHS committees. For example, in the case of the Audit Committee, 3 (75%) of its 4 members as at 30 September 2010 had continuously served the Committee for 10 years. There is a risk that the FHS may be overly dependent on a number of key persons to serve in its governance structure. This is not conducive to enriching and refreshing the talent which is needed for sustaining the long-term development of the FHS.

Note 4: *Council members have a tenure of one year (i.e. until the next AGM).*

Note 5: *Members of individual committees and sub-committees have a tenure of one year or two years.*

Note 6: *The 2009-10 term of office for Council members ended in October 2010.*

Table 1
Length of service of Council members
(30 September 2010)

Length of continuous service in the Council (Year)	Council member (Number)
10	6 (33%)
8 to 9	1 (6%)
6 to 7	1 (6%)
4 to 5	3 (16%)
2 to 3	6 (33%)
1 or below	1 (6%)
Total	18 (100%)

Source: FHS records

Admission to the governance structure

2.11 Recruiting board members is an important responsibility of the governing board. According to the corporate governance guides (see para. 2.2), before new board members are recruited, the board should determine what attributes and knowledge are needed, and should have these documented. Audit noted that candidates for a new term of Council membership were nominated by the existing Council for election at the AGM. According to the FHS's Articles of Association, all Council members must be members of the FHS. The FHS procedures require that the nominees should comprise existing Council members who have agreed to serve another term and other suitable members (Note 7) who have served as a committee member for two years or more.

Note 7: *Persons who are not already FHS members will need to acquire the FHS membership (see para. 2.3) before they are nominated.*

2.12 **However, Audit notes that the FHS has not laid down the attributes required of committee members, which should be taken into account in their appointment.** The FHS has only laid down the procedures for appointing such members (Note 8). In February 2011, the FHS explained that written attributes might not be exhaustive and could limit the selection of potential members. From time to time, the Council had discussed the expertise required of the Council and committees. **Audit considers that, given the different specialisations of the committees, there is a need to lay down the essential attributes (e.g. possessing the necessary skills, expertise and commitment) required of members of different committees.** This will help attract and identify the most suitable persons to support the work of the FHS in furtherance of its mission.

Audit recommendations

2.13 **Audit has recommended that the FHS should:**

- (a) **step up measures to attract more new talent to join the Council and committees; and**
- (b) **consider laying down the essential attributes required of members of different committees, taking into account the roles and special functions that they need to take up.**

Response from the Fu Hong Society

2.14 The FHS agrees with the audit recommendations. The **Chairman, FHS Council** has said that:

Note 8: *According to the FHS's laid down procedures for appointing members of committees and sub-committees:*

- (a) *nominations for a new term of membership are put up by Council members, existing members of any committees and sub-committees, and management of the FHS;*
- (b) *the persons who are currently serving as chairmen of the Regional Sub-committees should be nominated for members of the Services Monitoring Committee;*
- (c) *nominees for members of Regional Sub-committees should include service users and/or parents of service users; and*
- (d) *appointment is made by the Council taking account of the nominations.*

- (a) the Council has carried out succession planning. For the last 10 years, there were 17 new Council members as compared with 9 retired Council members. In recent years, the FHS has appointed many new members to the Council. Since 2008, 7 new members have joined the Council;
- (b) new Council members would participate in various committees as new committee members. At the same time, potential volunteers would be invited to join the various committees (see Note 8); and
- (c) measures have been taken to attract new talent (e.g. inviting lecturers of universities to join the Human Resources Committee). The FHS will continue taking measures to attract new talent.

Turnover of board members

2.15 According to the corporate governance guides (see para. 2.2), an NGO board has to determine an appropriate length of service of board members so as to balance the need for retention of corporate knowledge with a healthy turnover of board members. **The corporate governance guides advise that an NGO board should set a maximum term of membership and have it documented formally in its rules or by-laws.**

Audit observations and recommendation

Need to set a maximum term of tenure

2.16 Prior to September 2005, the FHS's Articles of Association stipulated that Council members could not hold the same office (i.e. Chairman, Vice Chairman, Treasurer and Secretary) for more than three consecutive terms (Note 9). This provision was rescinded in September 2005. In February 2011, the FHS informed Audit that:

- (a) removing the provision from the Articles of Association would provide more flexibility in the appointment of Council office bearers; and
- (b) in practice, the FHS still followed the spirit of the rescinded provision in its appointment of Council office bearers.

Note 9: *A break of one year was required before they could be re-elected to hold the same office.*

2.17 The FHS currently does not have any maximum term requirements (i.e. setting a maximum number of years or number of terms of office) for its Council members. Upon election, Council members have a tenure of one year (see para. 2.9). The FHS's existing Articles of Association allow them to stand for re-election without limit. Similarly, the Council also has not set a maximum term requirement for chairmen of committees and sub-committees.

Audit recommendation

2.18 **Audit has recommended that the FHS should consider setting maximum term requirements for its Council members (particularly the office bearers), and chairmen of committees and sub-committees, striking a balance between the need for flexibility in making appointment and the need for a healthy turnover of the management team to sustain the long-term development of the FHS.**

Response from the Fu Hong Society

2.19 The FHS agrees with the audit recommendation. The **Chairman, FHS Council** has said that, in view of the required time commitment, heavy workload and responsibility in serving the FHS, it is not easy to recruit volunteers to become Council and committee members. Many might prefer joining commercial organisations as independent non-executive directors with remuneration.

Attendance at meetings

2.20 Board membership carries with it a broad set of commitments. According to the corporate governance guides (see para. 2.2), such commitments include allocating adequate time to attend board meetings. Table 2 shows that the Council, committees and sub-committees held a total of 63 meetings in the 2009-10 term of office.

Table 2**Meetings of Council, committees and sub-committees
(2009-10)**

Type of meeting	Number of meetings
Council meeting	5
Committee meeting	42
Sub-committee meeting	16
Total	63

Source: FHS records

Audit observations and recommendations*Need to improve attendance*

2.21 Audit selected the Council and five committees for review of attendance at meetings held in the last five terms of office from 2005-06 to 2009-10. **Table 3 shows that there is room for improvement in the attendance of some meetings, which could be as low as 43%.** In spite of the low attendance of some members, there were cases where they were reappointed to the Council/committees. Case 1 is an example.

Table 3
Attendance at meetings of the Council and five committees
(2005-06 to 2009-10)

Council/committee	Number of meetings	Attendance at individual meetings		Overall attendance
		Lowest	Highest	
Council	25	44 %	95 %	73 %
Audit Committee	16	50 %	100 %	87 %
Business Development and General Services Committee	21	50 %	100 %	79 %
Finance and Investment Committee	5 (Note 1)	75 %	100 %	95 %
Human Resources Committee	14	50 %	100 %	68 %
Services Monitoring Committee (Note 2)	15	43%	90 %	64 %

Source: Audit analysis of FHS records

Note 1: The Finance and Investment Committee was formed on 4 December 2008.

Note 2: Prior to December 2010, the Services Monitoring Committee was known as the Management Committee.

Case 1

Reappointment of Council members despite low attendance

1. In the 2009-10 term of office, the Council held five meetings. Five Council members attended less than half of the meetings, as follows:

Number of meetings attended (a)	Attendance rate (b) = [(a) ÷ 5] × 100%	Number of members
2	40%	3
1	20%	2

2. The five members were nominated for reappointment to the 2010-11 term of office. They were all re-elected at the AGM held in October 2010.

Audit comments

3. Members' commitment and ability to attend board meetings should be an important factor for consideration in making reappointment.

Source: FHS records

2.22 In this connection, Audit notes that FHS members are not provided with attendance statistics of Council members who stand for re-election. The FHS also does not compile attendance statistics of committee/sub-committee members for the Council's reference in considering whether to continue soliciting their services.

Audit recommendations

2.23 **Audit has recommended that the FHS should:**

- (a) **remind Council/committee/sub-committee members to make efforts to attend all meetings as far as possible;**
- (b) **take into account the attendance records of committee/sub-committee members when considering their reappointments; and**

- (c) **provide FHS members with the attendance statistics of Council members who stand for re-election.**

Response from the Fu Hong Society

2.24 The FHS agrees with the audit recommendations. The **Chairman, FHS Council** has said that:

- (a) the FHS will continue the existing practice of reminding members to attend meetings through various means such as e-mail and phone, and will take necessary actions when required;
- (b) some committees have already taken into account the attendance records of the committee members when considering their reappointments; and
- (c) the FHS will review the current system with a view to:
 - (i) adding minimum attendance rate requirement in relevant guidelines so that it would be part of the reappointment criteria;
 - (ii) adopting attendance rate as one of the formal requirements in the nomination of Council members; and
 - (iii) providing attendance statistics of Council members standing for re-election to members at the AGM.

Roles of the President and Vice Presidents

2.25 As at 30 September 2010, the FHS had a President and three Vice Presidents. Similar to Council members, they were FHS members nominated by the Council and elected at the AGM (Note 10). According to the FHS's official organisation chart (shown in its 2009-10 Annual Report), the President and the Vice Presidents are shown prominently above the Council (see Appendix C).

Note 10: *According to the FHS's Articles of Association, a President and not more than six Vice Presidents **may** be elected at the AGM.*

Audit observations and recommendations

Need to delineate the roles of the President and Vice Presidents

2.26 Audit noted that the FHS had not clearly specified the roles of its President and Vice Presidents. In October 2010, the FHS informed Audit that the role of the President was ceremonial as well as functional. He represented the FHS in important events (e.g. opening of service units) and monitored the FHS operation through the Audit Committee (see Appendix C). He was assisted by the three Vice Presidents in discharging his duties.

2.27 In February 2011, the FHS further explained to Audit that the President was actually the head of the FHS who would oversee the Council and take overall responsibility for the FHS operation. However, as shown in the FHS's official organisation chart (see Appendix C), there is no line of authority between the President/Vice Presidents and the Council. Neither has the FHS clearly laid down a mechanism for the Council to report to, and to be held accountable to, the President/Vice Presidents. For the avoidance of doubt, there is merit in clearly delineating the roles and responsibilities among them.

Need to safeguard the effectiveness of the Audit Committee

2.28 The Audit Committee comprises a representative of the Council and three other members. As can be seen from Appendix C, the Audit Committee reports directly to the President, instead of to the Council which is the governing board of the FHS. According to the best practice guide entitled "A Guide for Effective Audit Committees" issued by the Hong Kong Institute of Certified Public Accountants in 2002, **the audit committee should have a clear relationship with the board to which it reports**. In particular, the guide states that:

- (a) informative reporting to the board is a pre-requisite for the audit committee's effectiveness; and
- (b) lines of reporting between the audit committee and the board should be formalised.

In the absence of a clear delineation of the roles and lines of responsibilities among the Council, the President and the Vice Presidents, there is a risk that the effectiveness of the FHS Audit Committee (which reports directly to the President) may be compromised.

Audit recommendations

2.29 Audit has recommended that the FHS should:

- (a) **specify (e.g. in its Articles of Association) the roles of its President and Vice Presidents, so as to clearly delineate the division of roles and lines of responsibilities among the Council, the President and the Vice Presidents; and**
- (b) **taking into account (a) above, ensure that the Audit Committee reports regularly to the Council which is the governing board of the FHS.**

Response from the Fu Hong Society

2.30 The FHS agrees with the audit recommendations. The **Chairman, FHS Council** has said that:

- (a) the content of the FHS's Memorandum and Articles of Association is common among NGOs;
- (b) the FHS will seek advice from the President and Vice Presidents on the implementation of the audit recommendations;
- (c) the Council representative (see para. 2.28) sitting on the Audit Committee is the bridge between the Committee and the Council. He reports the Committee's concerns to the Council as a standing agenda item at Council meetings;
- (d) all the minutes of the Audit Committee meetings are submitted to the Council; and
- (e) the President and the Audit Committee have two regular meetings a year. The Council Chairman, Council Vice Chairman and Council representative also attend the regular meetings.

Declaration of interests

2.31 The FHS adopts a two-tier reporting system for the declaration of interests by Council/committee members. Under the system, in addition to the declaration of relevant interests at a meeting, the members need to disclose their general interests upon appointment/reappointment in a declaration form. With effect from the 2010-11 term of office, Council members are required to submit the declaration forms at the second Council meeting following the AGM which appointed/reappointed them. For committee members, the declaration forms should be submitted at the first committee meeting following the AGM.

Audit observations and recommendation

Delay in submission of declaration forms

2.32 Audit reviewed the submission of declaration forms for the 2010-11 term of office, and noted that there were late submissions, as follows:

- (a) ***Council.*** Of the 20 Council members, 10 (50%) had not submitted the declaration forms at or before the second Council meeting of 14 December 2010. The outstanding forms were subsequently submitted from 18 to 29 December 2010. The time lapse ranged from 4 to 15 days; and
- (b) ***Committees.*** The dates of the first meeting varied among the committees. Of the 69 members serving the committees which had held the first meeting, 19 (28%) had not submitted the declaration forms on time. As at 31 December 2010, 11 members (16%) still had not submitted the declaration forms. The maximum time lapse was 65 days.

Audit recommendation

2.33 Audit has *recommended* that the FHS should ensure that Council and committee members submit their declaration of interests forms promptly as required.

Response from the Fu Hong Society

2.34 The FHS agrees with the audit recommendation. The **Chairman, FHS Council** has said that the FHS will review the current practice with a view to including “Declaration of Interests” as a standing agenda item for all committee meetings.

PART 3: STANDARD OF SERVICES AND PERFORMANCE MANAGEMENT

3.1 This PART examines the standard of services and performance management of the FHS. Audit found room for improvement in the following areas:

- (a) Output and Outcome Standards (paras. 3.3 to 3.8);
- (b) Essential Service Requirements and Service Quality Standards (paras. 3.9 to 3.16);
- (c) inspection of service units (paras. 3.17 to 3.20); and
- (d) performance measurement and reporting (paras. 3.21 to 3.26).

Funding and Service Agreements

3.2 The FHS has entered into Funding and Service Agreements (FSAs) with the SWD for each type of services subvented by the LSG. The FSAs define the subvented services, and set four types of performance standards for the subvented services, as follows:

- (a) ***Output Standards.*** Standards are set for output indicators (e.g. occupancy rate of 90%) to provide quantitative measures for the key activities of the subvented services;
- (b) ***Outcome Standards.*** Standards are set for outcome indicators (e.g. 80% of service users being satisfied with the On-the-Job Training Programme service) to measure the effectiveness of the subvented services;
- (c) ***Essential Service Requirements (ESRs).*** ESRs (e.g. specific qualifications for staff) define the basic features of the infrastructure for service provision; and
- (d) ***Service Quality Standards (SQSs).*** SQSs define the principles and criteria for service units to operate at a required level of performance. There are 16 SQSs, each elaborating a theme (e.g. providing a safe physical environment — see Appendix E).

Output and Outcome Standards

3.3 The FHS needs to meet the performance standards in the FSAs. As at 31 December 2010, a total of 20 FSAs were governing subvented services at 46 FHS

service units (Note 11). The SWD requires the FHS to report regularly on the service units' attainment of Output and Outcome Standards (see para. 3.2(a) and (b)). Audit observations and recommendations on the ESRs and the SQSs (see para. 3.2(c) and (d)) are set out in paragraphs 3.9 to 3.16.

Audit observations and recommendations

Need to meet the Output Standard for a day care service

3.4 Audit reviewed FHS records and found that the FHS had generally attained the Output and Outcome Standards for its subvented services in 2009-10. **However, for the provision of a day care service for persons with severe disabilities, the utilisation of the service had been continuously below the Output Standard of 90% occupancy.** The service had a total capacity of 10 places and was delivered at 2 service units (Note 12). Table 4 shows that the actual occupancy rate was much below that of the Output Standard.

Table 4
Occupancy rate for a day care service
(2008-09 to 2010-11)

Year	Average monthly occupancy rate	
	Output Standard	Actual
2008-09	90 %	56 %
2009-10	90 %	34 %
2010-11 (up to 31 December 2010)	90 %	31 %

Source: FHS records

Note 11: *Of the 51 service units as at 31 December 2010 (see para. 1.4), 46 provided subvented services and 5 provided non-subvented services. An FSA could govern more than one service unit which provided the same type of subvented services.*

Note 12: *The service, entitled “day care service for persons with severe disabilities attached to care and attention home for severely disabled persons”, was provided at the two service units starting from 1 January 2009. The two service units received \$0.64 million a year from the LSG for providing the service.*

3.5 **Audit notes that the SWD does not have a referral mechanism for the day care service for persons with severe disabilities. Therefore, the FHS needs to identify, on its own, users for this service.** Despite its promotional effort (e.g. sending information about the service to institutions such as special schools and hospitals), the FHS still could not admit enough service users to achieve a good occupancy rate. Audit further notes that the FSA for this service will expire on 31 December 2011.

Audit recommendations

3.6 **Audit has recommended that the FHS should, in consultation with the SWD:**

- (a) **take measures to improve the occupancy of the day care service for persons with severe disabilities (e.g. by seeking help from the SWD to promote the service and identify users); and**
- (b) **critically review the way forward for the provision of day care service for persons with severe disabilities, taking into account the audit observations in paragraphs 3.4 and 3.5, and the fact that the existing FSA for the service will expire in December 2011.**

Response from the Fu Hong Society

3.7 The FHS agrees with the audit recommendations. The **Chairman, FHS Council** has said that:

- (a) the FHS will work with the SWD to see if the SWD can refer suitable cases to the FHS;
- (b) there is no extra manpower in the service units available for promoting the service; and
- (c) circumstances have changed and demand for the service has reduced. The FHS will review the way forward.

Response from the Administration

3.8 The **Director of Social Welfare** agrees with the audit recommendations.

Essential Service Requirements and Service Quality Standards

3.9 The FHS adopts a three-tier mechanism to implement the ESRs and the SQSs, as follows:

- (a) **Agency level.** The FHS has prepared guidelines on the implementation of the ESRs and the SQSs. The FHS has also formed a task group, the Service Quality Standard Coordinating Team (SQS Coordinating Team — Note 13), to review regularly policies and procedures relating to the SQSs;
- (b) **Regional level.** Service units in the same region offer assistance among themselves on an informal basis (e.g. discussions between service units) to help implement the ESRs and the SQSs; and
- (c) **Service unit level.** Each service unit has its own mechanism to ensure that the FHS guidelines are followed and that the ESRs and the SQSs are complied with.

3.10 The SWD requires the FHS to assess and report the performance of its service units in relation to the ESRs and the SQSs. Every year, for the purpose of reporting to the SWD, the Head Office requires each service unit to report on its compliance with the ESRs and the SQSs. The FHS informed the SWD that it fully complied with the ESRs and the SQSs in 2009-10.

Audit observations and recommendations

3.11 Between November 2010 and January 2011, Audit visited four service units to examine their self-assessment practices and implementation of the ESRs and the SQSs. The services provided at these four units covered all the three major types of subvented services, namely day training and vocational rehabilitation service, residential service, and community support service (see para. 1.4).

Need to improve self-assessment

3.12 To help service units assess their compliance with the ESRs and the SQSs, the FHS guidelines (see para. 3.9(a)) provide a checklist for conducting self-assessment. **The guidelines, however, do not provide further guidance on how self-assessment is to be conducted at service units (e.g. on an ongoing basis or as a one-off exercise), and whether the use of the checklist is mandatory. The guidelines also do not require service units to document their self-assessments.**

Note 13: *As at 30 September 2010, the SQS Coordinating Team had eight members, including a Regional Manager, the Service Quality Manager and other staff.*

3.13 **During audit visits to the four service units (see para. 3.11), Audit could not find records of self-assessment.** Upon enquiry, the service units explained that they did not use the self-assessment checklist and that the methodology for self-assessment was not documented. According to the service units, their self-assessments (with no shortcoming identified) indicated that they had complied with the ESRs and the SQSs, and the Head Office had been notified of the results. In this connection, Audit noted that there were shortcomings in their implementation of the SQSs (see para. 3.14).

Need to better implement SQSs

3.14 Audit selected six SQSs (i.e. SQSs 3, 6, 9, 11, 13 and 15 — see Appendix E) for examination. Audit found incidents where there was room for improvement in the implementation of three SQSs (i.e. SQSs 9, 13 and 15), as follows:

SQS 9: Safe physical environment

- (a) ***Annual inspections of fire service installations and equipment.*** The FHS guidelines required service units to maintain their fire service installations and equipment at least once every 12 months. In one service unit, the 2010 inspection of fire service installations and equipment was not conducted until 13.5 months after the 2009 inspection. There was a delay of 1.5 months;
- (b) ***Maintaining a safe environment.*** The FHS guidelines required service units to regularly assess their safety conditions and take necessary actions to improve any undesirable situations. Staff who followed up the undesirable situations should sign on an assessment checklist. In one service unit, the checklist used for the 2010 safety assessment was not signed by the staff as required. The service unit also did not document the remedial actions taken on the undesirable situations;
- (c) ***Reporting accidents.*** The FHS guidelines required service units to investigate accidents involving service users, and to report the results of follow-up actions to the Head Office. In two service units, there were four incidents in 2010 where the Head Office was not informed of the results of follow-up actions. In February 2011, the FHS informed Audit that every service unit must have a Safety and Service Quality Committee or a Safety Committee. All accidents involving service users or staff must be discussed in either committee with a view to devising improvement measures for the service unit to prevent recurrence of similar accidents. In addition to reporting to the Head Office, all follow-up actions should also be reported to the committee;

SQS 13: Private property

- (d) ***Family members'/carers' money received by drivers.*** FHS drivers responsible for transporting service users might need to collect money (e.g. activity fees) from family members/carers for service units. According to the FHS guidelines, the money should be collected in sealed envelopes, and records of the collection should be kept by the driver or his assistant. In one service unit, such records were not kept; and

SQS 15: Complaints

- (e) ***Depicting complaint procedures.*** The FHS guidelines required service units to display in a conspicuous place a flowchart depicting the complaint-handling procedures. In one service unit, no flowchart was displayed. The service unit only posted a notice of the contact details of the complaint-handling staff.

Audit recommendations

3.15 **Audit has recommended that the FHS should take measures to ensure that:**

- (a) **clear guidelines are provided to service units on how self-assessment is to be conducted and documented;**
- (b) **self-assessments are properly documented, with a view to improving transparency and accountability;**
- (c) **shortcomings identified during self-assessments are:**
 - (i) **promptly rectified by service units; and**
 - (ii) **brought to the attention of the Head Office on a timely basis for monitoring and follow-up actions; and**
- (d) **service units follow the FHS guidelines in the implementation of the SQSs.**

Response from the Fu Hong Society

3.16 The FHS agrees with the audit recommendations. The **Chairman, FHS Council** has said that the SWD allows the FHS to determine the frequency of self-assessment with regard to its operational needs. The FHS will review the three-tier mechanism for self-assessment (see para. 3.9) to ensure that all service units conduct and document the self-assessment, and implement the ESRs and the SQSs in compliance with the FHS guidelines.

Inspection of service units

3.17 The SQS Coordinating Team provides assistance to service units in the implementation of the SQSs. The Team also organises inspection visits to service units to ensure due compliance with the SQSs.

Audit observations and recommendations

Need to enhance the inspection mechanism

3.18 There is room for improvement in the inspection mechanism of the SQS Coordinating Team, as follows:

- (a) ***Long inspection cycle.*** The SQS Coordinating Team inspects service units on a 5-year cycle. During an inspection visit, the Team checks the implementation of about 5 SQSs at the service unit. To complete the checking of all the 16 SQSs for a particular service unit, the Team would need 3 or 4 visits (i.e. $16 \text{ SQSs} \div 5 \text{ SQSs per visit} = 3.2 \text{ visits}$). Given the 5-year inspection cycle, conducting 3 or 4 visits could take as long as 15 or 20 years; and
- (b) ***Need to establish procedures for monitoring remedial actions.*** After inspection, the SQS Coordinating Team may make recommendations to service units in an inspection report. Although the Team expects service units to act on the recommendations, there are currently no established procedures for the Team to follow up the recommendations and to ensure that remedial actions are taken.

Audit recommendations

3.19 **Audit has recommended that the FHS should enhance the inspection mechanism of the SQS Coordinating Team by:**

- (a) **adopting a more risk-based approach in selecting service units (e.g. those with high staff turnover or high work injury rate) for inspection and in selecting SQSs for compliance checking; and**
- (b) **establishing procedures for monitoring the remedial actions taken on the Team's recommendations.**

Response from the Fu Hong Society

3.20 The FHS agrees with the audit recommendations. The **Chairman, FHS Council** has said that:

- (a) conducting inspection visits is only one of the measures for monitoring service quality. Other measures for ensuring compliance with the ESRs and the SQSs include internal financial checking, ongoing management supervision, and monitoring at the regional level and service unit level under the three-tier mechanism (see para. 3.9). The FHS will standardise the procedures under the three-tier mechanism to better ensure the service units' compliance with the ESRs and the SQSs. The FHS has also set up a Safety Management Working Group which will conduct safety audits of service units in the coming year;
- (b) the FHS will take a proactive approach to review the operation of service units which have high staff turnover and work accident rates;
- (c) the SQS Coordinating Team's inspection reports are prepared by the Service Quality Manager within one month after inspection. In April every year, a sharing session will be held to disseminate information about areas for improvement and good practices identified at service units. The FHS will enhance the three-tier mechanism to ensure that remedial actions for improvement areas are properly taken; and
- (d) the FHS will continue to help service units attain continuous improvement and ongoing compliance with the ESRs and the SQSs.

Performance measurement and reporting

3.21 A good system of performance measurement and reporting helps enhance the service quality, transparency and accountability of an organisation. The FHS has adopted 29 key performance indicators (KPIs) for its activities in 2010-11. Table 5 shows some of the FHS's KPIs.

Table 5
Examples of KPIs used
(2010-11)

KPI	Target
Percentage of service users satisfied with agency services	(a) 80% for district support service (b) 85% for other services
Percentage of family members/carers satisfied with agency services	(a) 80% for district support service (b) 90% for other services
Number of volunteers attending the FHS's/service units' services	11,325
Number of service organisations/partners networked	138
Number of family members'/carers' meetings	110

Source: FHS records

Audit observations and recommendations

Need to better administer customer satisfaction surveys

3.22 The FHS requires individual service units to conduct annual questionnaire surveys to collect statistics about the satisfaction of service users and family members/carers. Audit notes that the FHS has not stipulated the survey methodology to be adopted. Upon enquiry, three of the four service units visited informed Audit that some service users and family members/carers were unable to complete the questionnaires because they were aged/illiterate. In some cases, staff of the service unit interviewed the service users and family members/carers, and completed the questionnaires for them. Such arrangements in conducting the customer satisfaction surveys were understandable, but might be seen to be lacking independence. The FHS needs to consider ways to enhance the credibility of the surveys.

Need to set appropriate targets

3.23 A performance target should be set at a level which is realistic but sufficiently challenging in order to motivate performance. Audit noted that, of the 29 KPIs for 2010-11 (Note 14), the targets of 11 KPIs were set lower than the actual performance in past three years (see Appendix F). Such targets may not be conducive to encouraging continuous improvement.

Need to publish performance measures

3.24 It is not the FHS's practice to publish all its KPIs in the public domain. The FHS has only published selected KPIs in its annual report (which is available on its website). In the 2009-10 annual report, only 10 KPIs were published (see Note 14).

Audit recommendations

3.25 **Audit has recommended that the FHS should:**

- (a) **take measures to enhance the credibility of customer satisfaction surveys, for example, by assigning independent staff or volunteer workers to help conduct the surveys;**
- (b) **periodically review and update/revise the KPI targets, in order to encourage continuous improvement in performance; and**
- (c) **consider publishing more KPIs in the public domain (e.g. in its annual report or on its website), in order to enhance transparency and accountability.**

Note 14: *The FHS had 40 KPIs for 2009-10. The FHS removed some KPIs relating to the development of information technology and budgeting for 2010-11. Therefore, the number of KPIs came down to 29 for 2010-11.*

Response from the Fu Hong Society

3.26 The FHS agrees with the audit recommendations. The **Chairman, FHS Council** has said that:

- (a) the FHS conducts customer satisfaction surveys on its own initiative. The SWD does not generally require the FHS to conduct customer satisfaction surveys for its service units;
- (b) the FHS has taken account of the need for ensuring the credibility of customer satisfaction surveys. In 2001, the FHS arranged independent staff to interview workshops' service users who could not complete the questionnaires by themselves. However, the process involved intensive manpower;
- (c) pursuant to the audit recommendation in paragraph 3.25(a), the FHS has advised service units to assign volunteers to help conduct the surveys where necessary. A guideline on conducting the surveys has also been compiled to consolidate the survey methodology and procedures;
- (d) the FHS regularly reviews/updates the KPI targets for continuous improvement. As regards the KPI targets for 2010-11, five were in fact set higher than their actual performance in the past three years. The KPIs are part of a performance management system. The system emphasises balancing and integrating four aspects which drive an organisation, namely, client, internal processes, learning and growth, and financial resources. Every year, the FHS adjusts the KPI targets strategically to achieve continuous and balanced improvements among the four aspects; and
- (e) the FHS will consider adequate disclosure of the Society's information in the public domain.

PART 4: FINANCIAL AND FUND MANAGEMENT

4.1 This PART examines the following issues relating to financial and fund management of the FHS:

- (a) management of the Lump Sum Grant Reserve (paras. 4.3 to 4.13);
- (b) investment strategy (paras. 4.14 to 4.18);
- (c) funding of capital expenditure (paras. 4.19 to 4.24);
- (d) funding of administrative support for non-subsented activities (paras. 4.25 to 4.30);
- (e) funding of accommodation for non-subsented activities (paras. 4.31 to 4.35);
and
- (f) funding of the provision of facilities to a social enterprise (paras. 4.36 to 4.44).

Guidelines for financial and fund management

4.2 The SWD has prepared a Lump Sum Grant Manual (LSG Manual) to provide guidance on the use of the LSG. From time to time, the SWD also issues Lump Sum Grant Circulars (LSG Circulars) to supplement the Manual. As a condition of receiving the LSG, the FHS is required to observe the Manual and the Circulars. Taking into account the Manual and the Circulars, the FHS has drawn up its guidelines on financial and fund management.

Management of the Lump Sum Grant Reserve

Claw-back requirement

4.3 The SWD pays the LSG to the FHS on a monthly basis. At the end of each financial year, the FHS must transfer any unspent LSG to the FHS's Lump Sum Grant Reserve (LSG Reserve). The SWD requires that the year-end balance of the LSG Reserve should be capped at 25% of the FHS's operating expenditure (excluding provident fund expenses) for that year. The Government will claw back any amount over the 25% cap. The LSG Reserve can be used at the discretion of the FHS on FSA activities and related support services.

4.4 The claw-back requirement had once been suspended. In July 2005, the SWD announced a series of facilitating measures to help NGOs achieve financial viability. One of the measures was to suspend the claw-back requirement for three years from 2004-05 to 2006-07. The amounts of LSG Reserve accumulated during the period could help NGOs meet, among other things, their contractual commitments to staff.

Balance of the LSG Reserve

4.5 At the end of 2006-07, the FHS had accumulated \$84.8 million in the LSG Reserve. In 2007-08, the SWD resumed the claw-back requirement. For the purpose of determining any amount to be clawed back in the future, the SWD has determined that the balance of the LSG Reserve as at 1 April 2007 would be regarded as nil. Table 6 shows that, for claw-back purpose, the balance of the LSG Reserve at 31 March 2010 was \$5.2 million. This gave a total balance of \$90 million in the LSG Reserve as at 31 March 2010 (i.e. \$5.2 million plus the balance of \$84.8 million brought forward from 2006-07).

Table 6
LSG Reserve for claw-back purpose
(2007-08 to 2009-10)

	2007-08 (\$ million)	2008-09 (\$ million)	2009-10 (\$ million)
Balance as at 1 April	0 (Note)	1.4	4.9
Unspent LSG for the year	1.4	3.5	0.3
Balance as at 31 March	1.4	4.9	5.2

Source: FHS records

Note: For determining any amount to be clawed back in the future, the balance at 1 April 2007 was taken to be nil.

4.6 The FHS has prepared a budget projection of the annual income and expenditure of its subvented activities up to 2020. The projection, which is periodically reviewed, shows the forecasted LSG Reserve balances at the year ends. The latest projection has shown that the FHS will have operating deficits in the coming years, and the LSG Reserve will need to be used for covering the operating deficits.

Audit observations and recommendations

4.7 The LSG Reserve of \$90 million at 31 March 2010 is the largest reserve (Note 15) of the FHS. Of the \$90 million, \$84.8 million could be retained by the FHS. The remaining \$5.2 million, representing only 2.4% of the FHS's operating expenditure (net of provident fund expenses) in 2009-10, was far below the 25% threshold for claw-back purpose. According to the LSG Manual, the LSG Reserve balance of \$90 million can be used at the discretion of the FHS on FSA activities and related support services (see para. 4.3). **Despite the substantial amount of the LSG Reserve, the FHS has not formulated a strategic plan for setting the priority and timeframe for using the Reserve.**

4.8 In January 2008, the Government appointed a Lump Sum Grant Independent Review Committee to examine, among other issues, the level of LSG Reserves. In its Review Report on the Lump Sum Grant Subvention System submitted to the Government in December 2008, the Committee reported that frontline staff, staff unions and social work students had expressed concerns about the sizeable LSG Reserves accumulated by NGOs, particularly when the NGO management did not have any plans to put the Reserves to good use. **They had suggested to the Independent Review Committee that the SWD should closely monitor the level of Reserves kept by NGOs, and require them to spend the Reserves on service enhancement and staff development.**

4.9 As mentioned in paragraph 1.7, this audit review has identified a number of areas where improvements can be made. In particular, the issues of high staff turnover and work injury (see paras. 5.2 to 5.16) need to be addressed as a matter of priority. **Apart from meeting contractual commitments to staff (see para. 4.4), the FHS may consider using the LSG Reserve for service enhancement and staff development, in order to more effectively tackle these issues.**

Audit recommendations

4.10 **Audit has recommended that the FHS should formulate a strategic plan for setting the priority and timeframe for using the LSG Reserve, having regard to the need for:**

- (a) **meeting its contractual commitments to staff; and**
- (b) **service enhancement and staff development.**

Note 15: *As at 31 March 2010, other reserves of the FHS which were not designated for specific purposes totalled \$33 million. These reserves mainly came from donations.*

4.11 **Audit has also *recommended* that the Director of Social Welfare should consider reminding other LSG-subvented NGOs which have accumulated sizeable LSG Reserves to formulate strategic plans on the use of these Reserves (see para. 4.10).**

Response from the Fu Hong Society

4.12 The FHS agrees with the audit recommendation in paragraph 4.10. The **Chairman, FHS Council** has said that:

- (a) the FHS has in place a financial plan in the form of budget projection (see para. 4.6), which is under review from time to time. However, the plan has not been translated into a formal policy statement. The budget projection has taken into consideration the need to use the LSG Reserve to cover the forecasted operating deficits of subvented services;
- (b) the Council has also agreed that the LSG Reserve should be used for service enhancement in hardware and software; and
- (c) the Council started another review on the entire future of the FHS on a high level strategic basis in January 2011. Formal papers will be issued shortly subject to availability of manpower.

Response from the Administration

4.13 The **Director of Social Welfare** agrees with the audit recommendation in paragraph 4.11. He has said that:

- (a) the SWD will remind LSG-subvented NGOs to formulate strategic plans on the use of LSG Reserves; and
- (b) arising from the Review Report on the Lump Sum Grant Subvention System (see para. 4.8), the SWD wrote to all NGOs in May 2009, advising them that in managing their reserves, NGOs should take into account their contractual commitments to staff, as well as the need for service enhancement and staff development.

Investment strategy

4.14 The LSG Circular has laid down investment guidelines for the LSG Reserve. The guidelines allow the FHS to invest the portion of Reserve which is not immediately required in two types of investment, i.e. Hong Kong dollar deposits and Hong Kong dollar bonds/certificates of deposit (CDs) (see Appendix G).

4.15 The FHS adopts the above guidelines and sets the following three investment objectives:

- (a) to enhance returns and the added benefits of principal protection;
- (b) to maintain liquidity to meet cashflow needs; and
- (c) to generate income from surplus balance of funds.

According to the FHS procedures, the Financial Controller or the ED will propose the amount of bonds/CDs to be purchased. The proposal has to be approved by the responsible committee (i.e. the Finance and Investment Committee).

Audit observations and recommendations

Need for an investment strategy

4.16 An investment strategy helps an organisation select its investment portfolio (e.g. a combination of Hong Kong dollar fixed deposits, bonds and CDs) based on pre-determined ceilings or proportions of the types of investments allowed by the organisation. **Audit noted that the FHS had not laid down such an investment strategy for its LSG Reserve.** This might partly be attributable to the lack of a definite plan for the use of the LSG Reserve (see para. 4.7), because it would be difficult for the FHS to identify those surplus funds of the LSG Reserve which were not immediately required for operational use (after setting aside amounts required for contingency). During the period 2007-08 to 2010-11 (up to 31 December 2010), the FHS had placed the entire LSG Reserve of some \$90 million in Hong Kong dollar fixed deposits. Such an arrangement might not be the most appropriate way to achieve the FHS's investment objectives.

Audit recommendations

4.17 **To facilitate the achievement of the FHS's investment objectives, Audit has recommended that the FHS should:**

- (a) **formulate and document an investment strategy for its surplus funds, taking into account the availability of funds as indicated in the strategic plan on the use of the LSG Reserve (see para. 4.10);**
- (b) **regularly review and, if necessary, revise the investment strategy; and**
- (c) **monitor the investments to ensure proper implementation of the investment strategy.**

Response from the Fu Hong Society

4.18 The FHS agrees with the audit recommendations. The **Chairman, FHS Council** has said that:

- (a) the FHS is following the SWD guidelines in a strict manner. Therefore, no separate written policy has been prepared. Besides, the FHS has prioritised the resources on direct service, not on treasury service; and
- (b) the Finance and Investment Committee reviews the FHS's investment strategy from time to time, taking account of the SWD guidelines. The Committee, accountable to the Council, is responsible for overseeing the FHS's investments and related strategies by holding regular meetings and contacts with the Financial Controller.

Funding of capital expenditure

4.19 According to the LSG Circular, both the LSG and the LSG Reserve are intended for funding the operating expenditure for FSA and related activities. The LSG Circular states that:

- (a) **minor or routine capital expenditure** may legitimately be charged to the LSG or the LSG Reserve;
- (b) for major acquisitions or renovation works, NGOs should tap the Lotteries Fund either through annual block grants or major grants (Note 16);
- (c) noting that there are resource constraints in annual block grant allocations, the SWD does not think that it should debar the use of the LSG or the LSG Reserve for **marginal capital items** where justified either on resource or timing grounds;
- (d) in the course of delivering or improving their services, NGOs may come across situations in which procurement of capital items would be essential both in terms of expediency and operational needs; and
- (e) **NGOs are advised to put in place proper procedures and mechanism regarding the use of the LSG and the LSG Reserve.**

Note 16: *Block grants are used for minor works or replenishment of furniture and equipment of existing premises providing SWD-subvented services. Major grants are used to finance projects which include construction of purpose-built premises and major renovation/maintenance works exceeding \$500,000 for existing premises.*

Audit observations and recommendations

Need to define major acquisitions and renovation works

4.20 The LSG Circular requires the FHS to obtain funding from the Lotteries Fund for major acquisitions or renovation works (see para. 4.19(b)). **However, the LSG Circular has not defined what amounts to major acquisitions or renovation works. The Circular also has not defined what constitutes minor/routine/marginal capital expenditure (see para. 4.19(a) and (c)). Neither has the FHS devised any guidelines in this regard.** Audit noted that, in one case (Case 2), the FHS carried out considerable renovation works for its premises in 2009-10. The FHS had not obtained funding from the Lotteries Fund for the renovation works. The cost of the renovation works was met by the LSG. **Audit considers that, with better advance planning, the FHS should be able to tap the Lotteries Fund for financing major renovation works (see para. 4.19(b)). This would leave more funds available in the LSG for financing operating expenditure for FSA and related activities (see para. 4.19), including service enhancement and staff development.**

Case 2

Considerable renovation works in 2009-10

1. In June 2009, the FHS leased new premises for use as an office and training centre. The FHS needed to renovate the premises before moving in.
2. The renovation works were completed in September 2009 at a cost of \$1,988,467, which was met by the LSG.

Audit comments

3. The cost (some \$2 million in total) of the renovation works was substantial. Such renovation works should not be taken as minor/routine/marginal capital items as referred to in the LSG Circular (see para. 4.19(a) and (c)). Audit has reservation on the appropriateness of funding the works by the LSG, given that the LSG is intended for funding operating expenditure, and that the LSG Circular requires the funding of major acquisitions and renovation works by the Lotteries Fund.

Source: FHS records

*Audit recommendations***4.21 Audit has recommended that the FHS should:**

- (a) seek the advice of the SWD on the appropriateness of charging the cost (some \$2 million) of the renovation works in 2009-10 to the LSG, and make necessary adjustments;
- (b) in consultation with the SWD, devise guidelines on the use of the LSG for funding capital expenditure; and
- (c) put in place proper procedures and mechanism to ensure that the guidelines in (b) above are followed when using the LSG for funding capital expenditure.

4.22 Audit has also *recommended* that the Director of Social Welfare should consider issuing additional guidelines (e.g. in the form of financial thresholds) to all NGOs receiving the LSG regarding what constitutes minor/routine/marginal capital expenditure that may be charged to the LSG.

Response from the Fu Hong Society

4.23 The FHS agrees with the audit recommendations in paragraph 4.21. The Chairman, FHS Council has said that:

- (a) the LSG Circular provides flexibility for NGOs to use the LSG or the LSG Reserve for marginal capital items where justified either on resource or timing grounds. In 2005, the FHS Head Office had also carried out renovation works exceeding \$2 million, which was charged to the LSG. The SWD raised no objection to the arrangement;
- (b) in 2009, the FHS found a nearby premises available for lease. With the SWD's permission, the FHS rented the premises. If the FHS had to apply for the Lotteries Fund for renovation, which took long processing time, the FHS would have to pay the rent and rates for the empty premises during the processing period, and the use of the premises for service enhancement would have been delayed. The use of the LSG to carry out the renovation works in this case is considered a fair and logical application of the LSG well within the spirit of the provision of the LSG. So far, the SWD has not raised any query on such an arrangement; and
- (c) if the SWD formulates new guidelines on capital expenditure which are agreed by NGOs, the FHS will also follow.

Response from the Administration

4.24 The **Director of Social Welfare** agrees with the audit recommendations in paragraphs 4.21 and 4.22. He has said that the SWD will:

- (a) provide comments and advice when the FHS seeks advice on this subject matter; and
- (b) issue guidelines to NGOs receiving the LSG regarding what constitutes minor/routine/marginal capital expenditure that may be charged to the LSG.

Funding of administrative support for non-subservated activities

4.25 ***Principle of no cross-subsidisation.*** Apart from subservated activities, the FHS also carries out non-subservated activities on a self-financing basis. According to the FHS's audited financial statements of 2009-10, the non-subservated activities accounted for 3% of the FHS's total operating expenditure. It is an established principle of the Government that there should be no cross-subsidisation from subservated to non-subservated activities. As stipulated in Financial Circular No. 9/2004 "Guidelines on the Management and Control of Government Funding for Subservated Organisations", subservated organisations running self-financing activities without any subvention from the Government should **ensure that there is no cross-subsidisation of self-financing activities by the subservated programmes in money or in kind.**

4.26 The FHS's non-subservated activities are mainly provided through the following service units:

- (a) ***Hin Dip Centre.*** It provides training for persons with autism and developmental disabilities (see item (j) of Appendix B); and
- (b) ***Casa Famiglia.*** It provides a home with warm and family environment to persons with intellectual disabilities (see item (d) of Appendix B).

Similar to other service units, the Hin Dip Centre and the Casa Famiglia receive central administrative support from the Head Office, such as preparing accounts and handling personnel matters.

Audit observations and recommendations

Need to apportion central administrative costs

4.27 The FHS does not have a mechanism to apportion the central administrative costs (or overhead costs) among service units. In 2009-10, the FHS incurred \$18.5 million in running the Head Office. **The FHS charged all such central administrative costs to the LSG, although some of the costs were related to administrative support for non-subservated service units (e.g. Hin Dip Centre and Casa Famiglia homes).** This resulted in cross-subsidising non-subservated activities by the LSG. Given that these non-subservated activities accounted for a small proportion of the FHS's operating expenditure (i.e. 3% before apportioning the central administrative cost in 2009-10 — see para. 4.25), the amount of cross-subsidisation would also be small. However, in order to comply with the principle of no cross-subsidisation, the FHS needs to take measures to rectify the practice of charging the full cost of the Head Office to the LSG.

Audit recommendations

4.28 **Audit has recommended that the FHS should:**

- (a) **in consultation with the SWD, devise a mechanism (e.g. adopting a cost allocation method) to apportion the central administrative costs between subservated and non-subservated activities; and**
- (b) **ensure that costs (including central administrative costs) relating to non-subservated activities are not charged to the LSG.**

Response from the Fu Hong Society

4.29 The FHS agrees with the audit recommendations. The **Chairman, FHS Council** has said that:

- (a) the FHS agrees to discuss with the SWD on issues relating to the apportionment of central administrative costs between subservated and non-subservated activities;
- (b) the FHS agrees to ensure no cross-subsidisation; and
- (c) the FHS is helping the Government to address the community's need without using the Government's grant. There is no additional staff cost because the administrative support for the non-subservated units only accounts for a small proportion of the entire FHS operations.

Response from the Administration

4.30 The **Director of Social Welfare** agrees with the audit recommendations. He has said that the SWD will provide comments on the FHS's proposal regarding the mechanism to apportion the central administrative costs between subvented and non-subvented activities.

Funding of accommodation for non-subvented activities

4.31 In January 2005, the SWD supported the FHS's proposal to operate the Hin Dip Centre (see Photograph 2) within an FHS premises, i.e. the Fu Hong Society Rehabilitation Centre (FHSRC). The SWD indicated that the Hin Dip Centre should operate on a **self-financing basis**. The FHS has charged the Hin Dip Centre a monthly rental. The amount charged in 2009-10 was \$3,800 per month.

Photograph 2

Hin Dip Centre operating within an FHS premises



Source: FHS Annual Report 2008-09

Audit observations and recommendations

Need to properly account for accommodation costs

4.32 According to the FHS's basis of calculation, the monthly rental was determined with reference to the FHSRC's electricity and water charges in 2005 and 2006, as follows:

Monthly rental (\$3,800 per month) = $A \times B$ where

A = average monthly electricity and water charges of the FHSRC from July 2005 to June 2006

B = area occupied by the Hin Dip Centre \div total floor area of the FHSRC

Audit notes that **since September 2006, a fixed monthly rental of \$3,800 has been charged to the Hin Dip Centre and no rental adjustment has been made to keep up with changes in electricity and water charges over the years.** Based on the FHS's method mentioned above, Audit has revised the calculation (see Appendix H), taking account of changes in cost elements. Table 7 shows that there is a discrepancy of \$106,880 (44%) between Audit's calculation and the amount charged to the Hin Dip Centre for the past three years from 2007-08 to 2009-10.

Table 7

Rentals for the Hin Dip Centre (2007-08 to 2009-10)

Year	Amount charged (a) (\$)	Rental per Audit's calculation (b) (\$)	Discrepancy (c) = (b) – (a) (\$)
2007-08	45,600 (Note)	81,261	35,661 (44 %)
2008-09	45,600 (Note)	84,192	38,592 (46 %)
2009-10	45,600 (Note)	78,227	32,627 (42 %)
Overall	136,800	243,680	106,880 (44%)

Source: Audit analysis of FHS records

Note: \$45,600 = monthly rental of \$3,800 \times 12 months

Audit recommendations

- 4.33 **Audit has recommended that the FHS should, in consultation with the SWD:**
- (a) **revise the basis of calculation of rentals for the Hin Dip Centre, taking into account changes in cost elements (e.g. electricity and water charges) over the years; and**
 - (b) **make necessary adjustments to the LSG Reserve on the basis of the revised calculations.**

Response from the Fu Hong Society

4.34 The FHS agrees with the audit recommendations. The **Chairman, FHS Council** has said that the Hin Dip Centre only opens during daytime office hours and consumes only limited electricity and water. Comparing with the consumption of electricity and water in a similar day centre, the monthly rental of \$3,800 for the Hin Dip Centre is already well above the cost of utility consumption.

Response from the Administration

4.35 The **Director of Social Welfare** agrees with the audit recommendations. He has said that the SWD will provide comments when the FHS comes up with a proposal to revise the basis of calculation of rentals.

Funding of the provision of facilities to a social enterprise

4.36 The **Hong Yung Services Limited (HYSL)** is a social enterprise set up under the auspices of the FHS in 2003. It aims to explore job training and employment opportunities for persons with disabilities. As at 30 September 2010, two FHS Council members sat on the HYSL governing council.

4.37 The FHS has made arrangements with the HYSL to provide services to each other. As at 31 December 2010, four service agreements were signed between the FHS and the HYSL (see Appendix I). In three of the agreements, the FHS undertook to provide

facilities (e.g. accommodation, utilities and management services) to the HYSL for operating offices (see Photograph 3) and co-operative shops (see Photograph 4 — Note 17) in the FHS premises.

Photograph 3

HYSL's office operating in an FHS premises



Source: Photograph provided by the FHS

Note 17: *The co-operative shops aimed to:*

- (a) *provide light refreshments and retail services to the community and members of the FHS;*
- (b) *provide job attachment training and employment opportunities for persons with disabilities, including service users of the FHS; and*
- (c) *develop confidence of persons with disabilities in an open employment environment.*

Photograph 4

A co-operative shop run by the HYSL in an FHS premises



Source: Photograph taken by Audit

Audit observations and recommendations

Need to ensure no cross-subsidisation

4.38 Table 8 shows that the amounts payable by the HYSL for using the facilities of the FHS.

Table 8

**Amounts payable by the HYSL for using the facilities of the FHS
(31 December 2010)**

Agreement	Facilities provided to the HYSL	Amount payable by the HYSL
1	(a) office accommodation and a storeroom (Note) of 467 square feet in total; and (b) other facilities such as telephone rentals, water, electricity, stationery and office cleaning.	\$1 per annum
2	(a) co-operative shop venue of 150 square feet; and (b) other facilities such as telephone rentals, water and electricity.	Nil
3	(a) co-operative shop venue of 400 square feet; and (b) other facilities such as telephone rentals, water and electricity.	\$4,000 per month

Source: FHS records

Note: The storeroom was not exclusively used by the HYSL. According to the FHS, the storeroom was set up as a warehouse for providing vocational skills training in logistics to service users of the FHS.

4.39 Audit noted that the FHS had not documented any cost analyses for determining the amounts payable by the HYSL. In the absence of such analyses, the costs of providing the facilities to the HYSL cannot be ascertained. **In accordance with the “no cross-subsidisation” principle, the FHS is required to ensure that no public resources are used to subsidise the operation of the HYSL.**

Use of premises as office by a third party

4.40 Audit notes that for the premises in which the HYSL has established an office (see Agreement 1 in Table 8), the FHS’s tenancy agreement with the landlord does not have any provision for the use of the premises by a third party and for purposes other than the permitted use specified in the agreement. As stated in the tenancy agreement, the FHS agrees with the landlord:

- (a) that the premises is “restricted to be used for the sole purpose of operating a sheltered workshop” and “for no other purpose whatsoever”; and
- (b) “not to assign, underlet, or otherwise part with the possession of the premises whether by subletting, lending, sharing or other means whereby any person who is not a party to this Tenancy Agreement obtains the use or possession of the premises”.

For the avoidance of doubt, Audit considers it necessary for the FHS to seek the SWD’s advice on whether the use of part of the premises by the HYSL (which is a separate entity not subvented by the SWD) is permitted under the tenancy agreement.

Need to seek timely approval of the Council

4.41 **Audit noted that the FHS had not always obtained the Council’s approval before entering into service agreements with the HYSL.** Of the four service agreements with the HYSL (see para. 4.37), the FHS had not obtained the Council’s prior approval for three agreements, which were signed with the HYSL in January 2008, July 2009 and December 2009. The Council’s covering approval was only obtained in June 2010.

Audit recommendations

4.42 **Audit has recommended that the FHS should:**

- (a) **seek the SWD’s advice on the appropriateness of the arrangement under which the FHS premises is used as an office by the HYSL which is a separate entity (see para. 4.40);**
- (b) **review the service agreements with the HYSL to ascertain the appropriate fees to be charged, taking into account the need to comply with the “no cross-subsidisation” principle; and**
- (c) **ensure that prior approval of the Council is obtained before entering into any collaborative arrangements with social enterprises (e.g. the HYSL) in future.**

Response from the Fu Hong Society

4.43 The FHS agrees with the audit recommendations. The **Chairman, FHS Council** has said that:

- (a) the HYSL is an associated/affiliated company of the FHS. Its aim is to support the FHS's workshop and supported employment services. It operates on a self-financing basis. It provides real-life vocational skills training and acts as a transition platform to assist service users with disabilities to enter the competitive employment open market. The FHS will discuss with the SWD on the appropriateness of the arrangement under which the FHS premises is used as an office by the HYSL;
- (b) the two co-operative shops are owned by the FHS. The FHS only contracts out the daily management of the shops to the HYSL. For the co-operative shop referred to in Agreement 2 (see Table 8 in para. 4.38), it is open to internal FHS service users and staff members only. It is strictly used for training and not for profit-making. No payment from the HYSL is required; and
- (c) for the co-operative shop referred to in Agreement 3 (see Table 8), as the shop is open to the public and operated in a business mode, the HYSL pays the FHS an administration fee of \$4,000 per month for operating the business. The calculation basis of the administration fee is that the co-operative shop has only 400 square feet, and that the FHS is paying a rent of about \$23,000 per month for the whole premises of 2,620 square feet. Hence, the shop is charged with a sum of \$3,500 on a pro-rata basis. Together with \$500 for other facilities, the administration fee of \$4,000 per month is reasonable.

Response from the Administration

4.44 The **Director of Social Welfare** agrees with the audit recommendation in paragraph 4.42(a) and will follow up with the FHS on the appropriateness of the arrangement under which the FHS premises is used as an office by the HYSL. He has said that:

- (a) while the SWD agrees with the principle of “no cross-subsidisation” between subvented and non-subvented services, the SWD has in recent years encouraged NGOs to provide self-financing services to complement the existing subvented welfare services;
- (b) the SWD notes that NGOs may not be able to secure suitable premises immediately and may have to operate their self-financing services on subvented premises in the interim; and
- (c) on this issue, the SWD will exercise flexibility provided that there is no adverse impact on the subvented services.

PART 5: HUMAN RESOURCE MANAGEMENT

5.1 This PART examines the human resource management of the FHS, and suggests measures for improvement in the following areas:

- (a) staff turnover (paras. 5.2 to 5.9);
- (b) work injury (paras. 5.10 to 5.16);
- (c) staff recruitment (paras. 5.17 to 5.22); and
- (d) performance appraisal (paras. 5.23 to 5.26).

Staff turnover

5.2 During the period 2007-08 to 2009-10, the FHS had on average 971 staff. Every year, about 22% of the staff left the FHS. To help reduce staff turnover, the FHS had taken measures which included paying a special allowance to staff of two service units in 2008 (Note 18), giving Care Assistants more opportunities for promotion, and relieving Care Workers II of duties (e.g. cleaning work) other than caring work.

5.3 The FHS requires staff to provide, among other information, the reasons for resignation in a staff leaving form. From time to time, the FHS analyses the staff's reasons for resignation.

Audit observations and recommendations

Need to reduce staff turnover

5.4 The overall staff turnover rate in the FHS dropped from 25% in 2007-08 to 19% in 2009-10. However, Audit noted that the annual staff turnover rates of some frontline staff were particularly high (see examples in Table 9). Upon enquiry, the FHS explained that the high staff turnover rates in these ranks were due to the fact that young job seekers would look for upward mobility, and that the job nature was not welcomed by Form 5 graduates or young people. **Audit considers that the FHS needs to address the staff retention problem. The large proportion of less experienced workers may also affect the FHS's service quality.**

Note 18: *The allowance was paid to frontline staff (e.g. Assistant Rehabilitation Workers, Care Assistants, Care Workers II and Rehabilitation Workers II) serving in the two service units in 2008. It aimed to compensate the staff for factors such as the remoteness of the service units and the special nature of their jobs.*

Table 9
Staff turnover rates in selected ranks
(2007-08 to 2009-10)

Rank	Turnover rate		
	2007-08	2008-09	2009-10
Rehabilitation Worker II	31 %	31 %	38 %
Assistant Rehabilitation Worker	41 %	44 %	37 %
Overall	35%	37%	37%

Source: FHS records

Need to better analyse reasons for resignation

5.5 Audit reviewed the FHS's analysis on the reasons for resignation (see para. 5.3) and found that it might not provide adequate information to help the FHS understand the causes for the high staff turnover. The analysis showed that of all staff resigned in 2009-10, 40% left the FHS in search of "better jobs" or for "other reasons". However, the analysis did not show what the "other reasons" were, nor did it explain why the staff considered the FHS jobs to be unsatisfactory.

Need to provide management information on staff turnover

5.6 Although the FHS had analysed the staff turnover rates by ranks and service units, such management information was not submitted to the relevant committees (e.g. the Human Resources Committee) on a regular basis. **In view of the high staff turnover, Audit considers that the FHS management should keep a close watch on this issue and monitor the staff turnover rates on a regular basis.**

5.7 Audit also noted that the analysis on the reasons for resignation was not submitted to the Human Resources Committee for consideration. According to the FHS, a function of the Committee is to establish fair and effective personnel policy for the FHS. **There is a need to provide the Human Resources Committee with management information on the reasons for staff leaving the FHS, so as to help it tackle the staff turnover problem.**

Audit recommendations

5.8 Audit has recommended that the FHS should:

- (a) **take measures to collect more precise information about the reasons for resignation, including for example:**
 - (i) **revising the design of the staff leaving form; and**
 - (ii) **obtaining more detailed information about the reasons for resignation at exit interviews with the staff concerned;**
- (b) **provide the relevant committees (e.g. the Human Resources Committee) with regular management information on staff turnover rates and analysis of reasons for staff leaving the FHS; and**
- (c) **step up measures to address the staff turnover problem, including devising more effective measures to help retain staff of those ranks with particularly high turnover rates.**

Response from the Fu Hong Society

5.9 The FHS agrees with the audit recommendations. The **Chairman, FHS Council** has said that:

- (a) the management will review the current staff leaving form and the exit interview questionnaire;
- (b) the management will provide regular management information on staff turnover rates and analysis of reasons for staff leaving the FHS to the Human Resources Committee; and
- (c) the high turnover of Rehabilitation Workers II and Assistant Rehabilitation Workers is a common problem among NGOs. The FHS Council, through the Human Resources Committee, has been vigilant on this matter. It is difficult for the FHS to retain staff with financial means. The FHS has adopted other approaches to enhance staff loyalty and commitment. The FHS will continue stepping up measures to address the staff turnover problem.

Work injury

5.10 Every year, a number of FHS staff sustained injury at work. According to SQS 9, it is the responsibility of an NGO to provide a safe physical environment for its staff

(see Appendix E). The FHS has a mechanism to help reduce the risk of work injury. Examples of measures taken under the mechanism are:

- (a) providing training sessions on occupational health and safety to service units every year;
- (b) assessing on a regular basis the suitability of frontline staff in certain ranks (e.g. Care Worker) for manual handling work (see also Note 20 to para. 5.13);
- (c) conducting investigation of work injury cases to identify their causes;
- (d) setting up safety committees (Note 19) in service units to review the investigation results and make recommendations to prevent recurrence of similar incidents; and
- (e) classifying the nature of accidents for work injury cases and reviewing regularly the trend of accidents of different categories for accident prevention.

Table 10 shows the number of work injury cases in the FHS from 2007-08 to 2009-10.

Table 10
Work injury cases
(2007-08 to 2009-10)

Year	Number of work injury cases
2007-08	73
2008-09	62
2009-10	68
Total	203

Source: FHS records

Note 19: *A safety committee includes the service unit manager, an occupational therapist/physiotherapist, and selected staff of the service unit.*

Audit observations and recommendations

Need to continue reducing work injury

5.11 As can be seen from Table 10, the number of work injury cases had slightly decreased in recent years. An analysis of the work injury cases, however, shows a different trend. **While the overall number of work injury cases had decreased, the number of serious injury cases had increased.** Table 11 shows that, for work injury resulting in more than 70 days of work injury leave (WIL), the number of cases increased from nil in 2007-08 to 7 in 2009-10.

Table 11

**WIL resulting from injury occurred between 2007-08 and 2009-10
(31 December 2010)**

Length of WIL	Number of cases			Increase (+) / decrease (–) in number of cases (d) = (c) – (a)
	2007-08 (a)	2008-09 (b)	2009-10 (c)	
10 days or below	60	45	55	
11 to 40 days	11	6	5	
41 to 70 days	2	4	1	
Subtotal (70 days or less)	73	55	61	–12
71 to 100 days	0	1	5	
101 to 200 days	0	2	1	
201 to 300 days	0	0	1	
Over 300 days	0	4	0	
Subtotal (more than 70 days)	0	7	7	+7
Total	73	62	68	–5

Source: Audit analysis of FHS records

5.12 As at 31 December 2010, the 68 cases of work injury in 2009-10 had resulted in WIL of 1,253 days (1,085 days taken in 2009-10 and 168 days in 2010-11). The related staff cost amounted to about \$689,000. In December 2010, the FHS informed Audit that some service users were getting older and weaker over the years. Helping the ageing service users would require staff working together, sometimes with an aid (e.g. a ceiling hoist). The space of some service units might no longer be adequate for this purpose and the working environment would pose work injury risk to staff. In Audit's view, the high staff turnover (see para. 5.4) might also be a possible factor for the high work injury rate.

Hiring relief staff

5.13 The FHS guidelines allow service units to hire relief staff to cover for those who are on WIL. **Audit however noted that service units seldom hired relief staff. Of the 1,085 days of WIL in 2009-10, relief staff were only hired for 40 days (4%).** This is not entirely satisfactory. Although the FHS explained to Audit that service units might find it difficult to hire relief staff for a short period of time, Audit considers that sharing out the workload of the injured staff by other serving staff for a prolonged period is not desirable. It may increase the risk of work injury among the serving staff (Note 20), and is not conducive to restoring staff morale.

Audit recommendations

5.14 **Audit has recommended that the FHS should:**

- (a) **look into the causes of work injury, particularly those serious cases, and take effective measures to reduce the risk of work injury;**
- (b) **in consultation with the SWD:**
 - (i) **review the adequacy of the service units in providing a safe physical environment as required by SQS 9 (e.g. the use of suitable furniture and equipment), taking into account changes in user requirements (e.g. as a result of ageing of service users) over the years; and**
 - (ii) **devise an action plan for providing a safer physical environment at service units; and**

Note 20: *According to the guide "Manual Handling in Health Care Services" issued by the Labour Department, the safety and health risks rise with the increasing frequency, repetition and duration of people-handling activities by any one employee in a work period. Having insufficient employees to complete a task is a safety and health risk factor.*

- (c) **consider hiring relief staff to cover for those injured at work as far as possible.**

Response from the Fu Hong Society

5.15 The FHS agrees with the audit recommendations. The **Chairman, FHS Council** has said that:

- (a) the FHS has a mechanism to look into the causes and devise measures for reducing the risk of work injury (see para. 5.10). The work injury situation in the FHS has been a standing agenda item for the Services Monitoring Committee meetings for years. The work nature of the services (e.g. challenging behaviour of service users) unavoidably induces higher chances of work injury. It is agreed that further improvement should be made to reduce the risk of work injury;
- (b) review of the adequacy of the service units in providing a safe physical environment is done. Service units have plans, such as re-provisioning of units, for negotiation with the SWD. The FHS would request the SWD for more facilities and greater areas of service units to suit the needs of the ageing service users. To ensure that service users are provided with a safer environment, the FHS will suggest to the SWD that the FHS should not admit new service users when vacancy arises in the service units so as to spare more room for the current users; and
- (c) the FHS has in place the practice of hiring relief staff to cover for those injured at work. Of the 68 work injury cases in 2009-10, the WIL in 55 cases was 10 days or less (see Table 11 in para. 5.11). Service units might find it difficult to hire relief staff for such a short period of time, not to mention that orientation has to be given before the relief staff can start working. In fact, some service units even have difficulties in filling up all establishment posts.

Response from the Administration

5.16 The **Director of Social Welfare** agrees with the audit recommendations in paragraph 5.14(b). He has said that the SWD will follow up with the FHS to review the adequacy of the service units in providing a safe physical environment and to devise an action plan for improvement.

Staff recruitment

5.17 The FHS has issued guidelines on staff recruitment and other staff-related matters. The SWD has also published guidelines (e.g. LSG Circulars) suggesting best practices on personnel matters.

5.18 In 2009-10, the FHS recruited 212 staff to fill vacancies in 19 ranks. Job applications were sent to the Head Office. For vacancies in service units, the Head Office passed the applications to the relevant service units for further processing (e.g. shortlisting applicants, conducting interviews and skill tests, etc.). Recruitment records for successful applications were filed in personnel files after the recruitment exercise.

Audit observations and recommendations

Need to review retention period for recruitment records

5.19 The LSG Circular suggests that “all applications, eligible or otherwise, should be retained for a reasonable period (say six months) after the completion of the recruitment exercise”. In practice, the FHS retains recruitment records for unsuccessful applications for three months only. Audit notes that this practice, which is not entirely in line with the LSG Circular guidelines, is not clearly laid down in the FHS guidelines.

Need to strengthen the recruitment process

5.20 Audit reviewed the FHS’s recent recruitment exercises. In October 2010, Audit examined a sample of 10 recruitment exercises conducted between July and September 2010 (i.e. within three months before Audit examination — Note 21). Each exercise was conducted to fill a vacancy in a service unit. Audit found that:

- (a) ***Open recruitment not always conducted.*** In 1 (10%) exercise for filling the vacancy of an Assistant Rehabilitation Worker, contrary to the FHS guidelines, open recruitment was not conducted as no attempt was made to fill it by internal or external applications. Instead, the FHS assigned a new recruit in the Care Assistant rank to fill the vacancy before she took up employment as Care Assistant. Without opening the recruitment to other applicants, the new recruit might not be the best available person for the vacancy;

Note 21: *The FHS did not keep recruitment records for unsuccessful applications for more than three months (see para. 5.19). Recruitment exercises prior to July 2010 were hence not selected for examination.*

- (b) ***Inadequate control over processing of applications.*** The FHS did not keep track of the applications to ensure that they were processed by the service units concerned. Table 12 shows that in 6 (60%) exercises, 62% of the applications submitted by external applicants were untraceable. The whereabouts of the applications could not be located during Audit examination and there was no evidence showing that they had been properly processed by the service units;

Table 12
Applications from external applicants in selected recruitment exercises
(July to September 2010)

Recruitment exercise	Number of applications from external applicants received by Head Office (a)	Number of applications in (a) processed by service units (b)	Number of untraceable applications (c) = (a) – (b)
1	5	1	4 (80%)
2	8	1	7 (88%)
3	20 (Note)	6	13 (65%)
4		1	
5	9	6	3 (33%)
6	3	2	1 (33%)
Overall	45	17	28 (62%)

Source: Audit analysis of FHS records

Note: FHS records did not show the breakdown for these two exercises.

- (c) ***Lack of shortlisting criteria.*** In 9 exercises, open recruitment was conducted and applicants were shortlisted for interview in accordance with the FHS guidelines. Audit noted that in all 9 exercises, the criteria for shortlisting applicants for interview were not recorded; and
- (d) ***Applicants' performance in skill tests not accounted for.*** In 2 (20%) exercises, the service units required the applicants to take skill tests (e.g. test of writing skills). However, Audit could not locate any records showing the results of the skill tests. The recruitment records also did not show how the skill tests had been taken into account in assessing the overall rating of the applicants.

Audit recommendations

5.21 **Audit has recommended that the FHS should:**

- (a) **in consultation with the relevant committees (e.g. the Services Monitoring Committee and the Human Resources Committee), review the appropriateness of the three-month retention period for recruitment records of unsuccessful applications;**
- (b) **lay down the retention period for recruitment records in the FHS guidelines; and**
- (c) **strengthen the recruitment process by:**
 - (i) **taking measures to ensure that all job vacancies are filled by open recruitment as far as possible;**
 - (ii) **monitoring all job applications to ensure that they are given due consideration and processed by the service units concerned;**
 - (iii) **recording the criteria for shortlisting applicants for interview; and**
 - (iv) **recording the results of skill tests taken by applicants and taking into account their performance in assessing their overall rating.**

Response from the Fu Hong Society

5.22 The FHS agrees with the audit recommendations. The **Chairman, FHS Council** has said that:

- (a) the three-month retention period is considered reasonable due to the personal data privacy issue and the high turnover of frontline staff. The FHS will review the practice and consult relevant committees;
- (b) the FHS will lay down the retention period in the recruitment policy; and
- (c) the FHS will review the recruitment policy and devise measures to improve the recruitment process. Recommendations will be forwarded to the Human Resources Committee for consideration.

Performance appraisal

5.23 In accordance with the FHS's guidelines, all staff should have performance appraisal conducted annually. The ED is the most senior staff in the FHS. The ED's performance appraisal was conducted by the Council.

Audit observations and recommendation

5.24 Audit noted that the appraisal of the ED was not conducted on an annual basis. Only one performance appraisal was conducted for each tenure of service. For the tenure from March 2005 to February 2008, a performance appraisal was conducted in January 2008. For the tenure from March 2008 to February 2011, a performance appraisal was conducted in December 2010.

Audit recommendation

5.25 **Audit has *recommended* that the FHS should conduct annual appraisals of the ED's performance in accordance with FHS guidelines.**

Response from the Fu Hong Society

5.26 The FHS agrees with the audit recommendation. The **Chairman, FHS Council** has said that the Council formed a panel to review the employment terms of the ED in November 2010. The panel has recommended the Council to carry out appraisal of the ED on an annual basis and this recommendation was endorsed at the Council meeting in December 2010.

PART 6: OTHER ADMINISTRATIVE ISSUES

6.1 This PART examines issues relating to the purchase of goods and services (paras. 6.2 to 6.7), and the control of assets (paras. 6.8 to 6.11) of the FHS.

Purchase of goods and services

6.2 Goods and services for the FHS are purchased by the Head Office and service units. In addition to one-off purchases, the FHS also enters into term contracts with suppliers to purchase, for example, foodstuffs, cleaning materials and car rental for a fixed period of time. The FHS has laid down procurement guidelines, including ways of seeking quotations/tenders from suppliers/contractors.

Audit observations and recommendations

6.3 Audit examined a sample of 30 purchases conducted in 2008-09 and 2009-10, comprising 15 one-off purchases and 15 purchases under term contracts. **Audit's sample check found that the purchases of goods and services were generally in order. Areas where improvements could be made are set out in paragraphs 6.4 to 6.6.**

Need to invite sufficient quotations

6.4 Audit noted that, in one (3%) purchase, the FHS only obtained a single quotation. Case 3 shows the details.

Case 3

Inviting insufficient quotations

1. The Head Office undertook to purchase equipment (i.e. closed-circuit television and access control system) for a renovation project.
2. Only one supplier was invited to submit a quotation for the supply of the equipment.
3. In June 2009, the Head Office accepted the quotation. The equipment was purchased at a cost of \$95,263.

Audit comments

4. The FHS did not follow the procurement guidelines which require five invitations for quotations for items costing between \$50,001 and \$100,000.

Source: FHS records

Need to retain signed copies of term contracts

6.5 The FHS did not always keep signed copies of the term contracts. Audit noted that, of the 15 term contracts examined by Audit, the supplier's signature was missing on 12 (80%) contract copies kept by the FHS, which bore its own authorised signature only. **Without the suppliers' signatures, there might be difficulties for the FHS to enforce these contracts should the need arise.**

Audit recommendations

6.6 **Audit has recommended that the FHS should ensure that:**

- (a) **sufficient number of quotations are invited in accordance with the procurement guidelines; and**
- (b) **signed copies of all purchase contracts are kept to better protect its contractual rights and entitlements.**

Response from the Fu Hong Society

6.7 The FHS agrees with the audit recommendations. The **Chairman, FHS Council** has said that:

- (a) in Case 3, the Authorised Person of the project selected a contractor through a tender process. The contractor contracted out the setting up of the closed-circuit television and access control system to a supplier. However, this supplier did not meet the requirements of the FHS. The Authorised Person then selected another supplier (i.e. the one referred to in Case 3) without conducting a re-tendering procedure. Consequently, the FHS was not aware of the number of quotations invited in this case; and
- (b) despite the FHS's repeated requests, suppliers seldom return signed contracts to the FHS. In view of the practical difficulties, from October 2010, the bulk purchase contract has been changed to a notice letter issued by the FHS and suppliers' signatures are not required. The FHS agrees to ensure that signed copies of all purchase contracts are kept to better protect its contractual rights and entitlements.

Control of assets

6.8 The FHS has laid down guidelines on the control of assets. According to the guidelines, items costing more than \$500 and usually used for more than a year should be regarded as an asset item for control purpose, and should be recorded in asset registers. Disposal of asset items has to be properly authorised and recorded.

Audit observations and recommendations

Need to improve its asset control

6.9 Audit reviewed the control of assets in the Head Office and three service units. Audit selected for review a total of 160 asset items (i.e. 40 items each for the Head Office and the three service units) and noted that:

- (a) ***Disposal of assets not properly accounted for.*** Of the 160 asset items selected for review, a total of 40 items had been disposed of. Of these 40 items:
 - (i) the authority for disposal of 4 (10%) items was not recorded. As a result, Audit could not ascertain whether the disposal had been properly authorised; and

- (ii) the appropriate authority for the disposal of 5 (13%) items had not been obtained. Instead of seeking approval for the disposal from the Regional Manager (Note 22) as required by the FHS guidelines, the service units sought and obtained approval from their Service Unit Managers (who reported to the Regional Manager);
- (b) ***Asset items not located.*** Of the 120 items which were still in use, 3 (3%) items, costing \$6,460 in total, could not be located, namely a player for laser disc/video compact disk, an external zip drive for computers, and a disk-criminator; and
- (c) ***Asset registers not properly kept.*** Audit also noted that the asset registers might not be properly kept. For example, in a service unit visited by Audit, its asset register showed no record of an air-conditioner in use. While the service unit could not provide the cost record of the air-conditioner, Audit considers that its cost would likely be more than the \$500 threshold (see para. 6.8), i.e. it should have been recorded in the asset register.

Audit recommendations

6.10 **Audit has recommended that, in order to improve its control over assets, the FHS should take measures to ensure that:**

- (a) **all asset disposals are properly authorised and recorded;**
- (b) **all assets are recorded in the asset registers; and**
- (c) **items in the asset registers are properly kept and are safeguarded from misuse.**

Response from the Fu Hong Society

6.11 The FHS agrees with the audit recommendations.

Note 22: *The FHS guidelines required the disposal of asset items costing over \$10,000 each to be approved by the Regional Manager.*

Appendix A
(para. 1.2 refers)

**Classification of service users by major disabilities
(2009-10)**

Disability	Number of persons	Percentage
Limited intelligence	8	0.24 %
Mild intellectual disabilities	424	12.72 %
Moderate intellectual disabilities	972	29.15 %
Severe intellectual disabilities	487	14.61 %
Severe physical disabilities with intellectual disabilities	385	11.55 %
Physical disabilities	80	2.40 %
Psychiatric disabilities	734	22.01 %
Autism	234	7.02 %
Sensory integration dysfunction	10	0.30 %
Total	3,334	100%

Source: FHS records

Appendix B
(paras. 1.4, 1.6 and
4.26 refer)

**Service units of the Fu Hong Society
(31 December 2010)**

Type	Total number of service units	Main service provided by the service units		
		Day training and vocational rehabilitation service	Residential service	Community support service
(a) Adult training centre	5	✓		
(b) Adult training centre cum hostel	8		✓	
(c) Care and attention home	5		✓	
(d) Casa Famiglia (Note 1)	4		✓	
(e) Clinical psychology services	1	Psychological support and training services		
(f) Community psychiatric support services	1			✓
(g) Day care service for persons with severe disabilities	2			✓
(h) District support service	1			✓
(i) Halfway house	3		✓	
(j) Hin Dip Centre (Note 2)	1	✓		
(k) Home/hostel for persons with moderate intellectual disabilities	2		✓	
(l) Home/hostel for persons with severe to low moderate intellectual disabilities	3		✓	
(m) Joyful Corner (Note 3)	1	✓		
(n) Rehabilitation Centre Management Office	1	✓		
(o) Sensory integration therapy service	2	✓		
(p) Supported hostel	1		✓	
(q) Vocational rehabilitation and development services	10	✓		
Total	51			

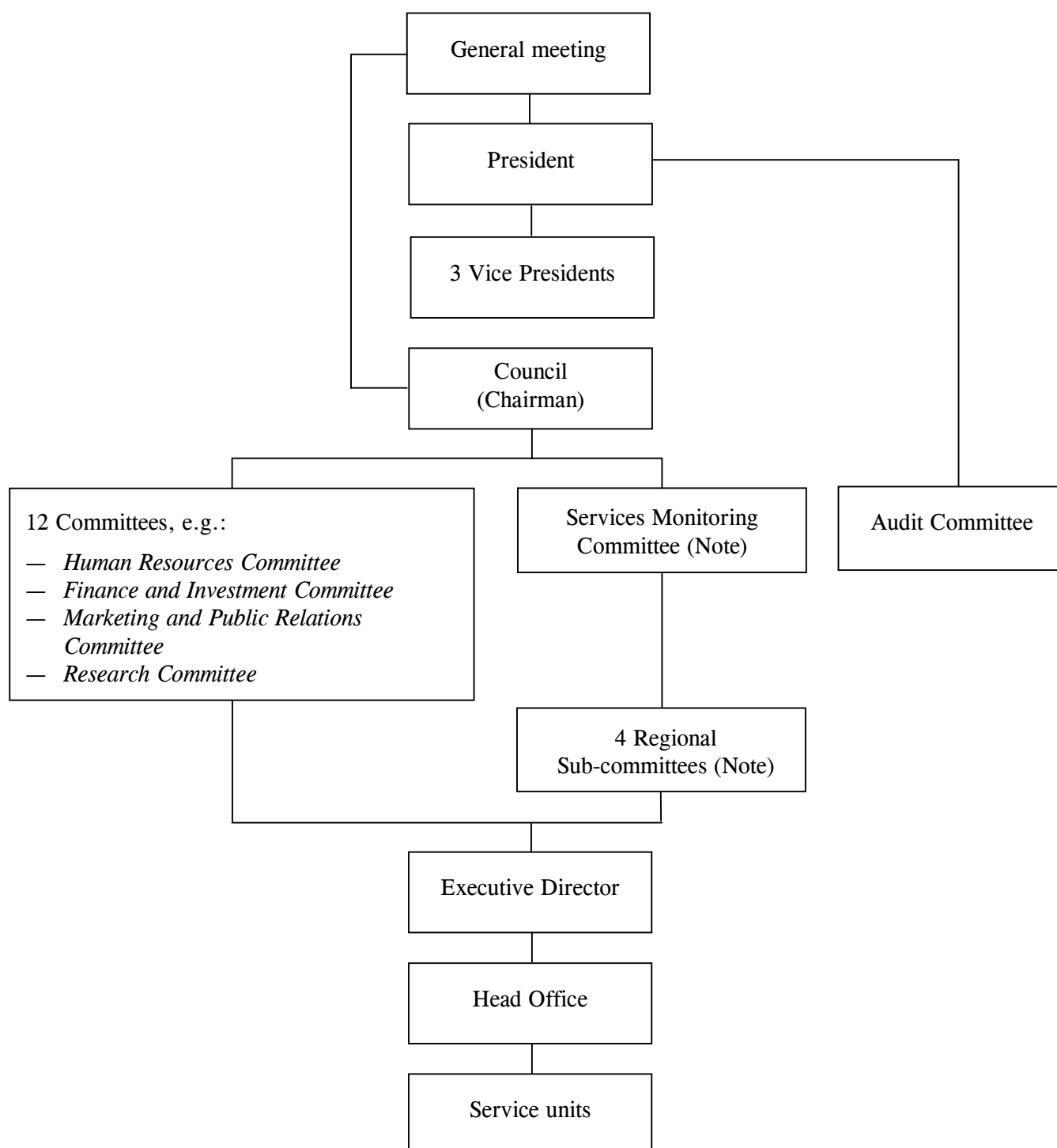
Source: FHS records

Note 1: Casa Famiglia provided a home with warm and family environment to persons with intellectual disabilities.

Note 2: Hin Dip Centre provided training for persons with autism and developmental disabilities.

Note 3: Joyful Corner was a co-operative shop providing persons with disabilities the opportunities to work, communicate and meet the general public.

**Fu Hong Society
Organisation chart
(31 December 2010)**



Source: FHS Annual Report 2009-10

Note: Prior to December 2010, the Services Monitoring Committee and the Regional Sub-committees were known as the Management Committee and the Regional Management Sub-committees respectively.

**Committees and sub-committees of the Fu Hong Society
(31 December 2010)**

Committee/sub-committee
<i>Committee</i>
(1) Admission Board
(2) Advisory Committee on Community Psychiatric Services
(3) Advisory Committee on Services for Persons with Autism
(4) Audit Committee
(5) Building Development and Maintenance Committee
(6) Business Development and General Services Committee
(7) Casa Famiglia Management Committee
(8) Exchange Programme Committee
(9) Finance and Investment Committee
(10) Human Resources Committee
(11) Marketing and Public Relations Committee
(12) Research Committee
(13) Services Monitoring Committee
(14) Tender Board
<i>Sub-committee</i>
(1) Regional Sub-committee (Hong Kong Island South)
(2) Regional Sub-committee (Shatin, Kwun Tong and Hong Kong Island East)
(3) Regional Sub-committee (Tsuen Kwai Tsing and Sham Shui Po)
(4) Regional Sub-committee (Tuen Mun and Yuen Long)

Source: FHS records

**Service Quality Standards
(31 December 2010)**

1. ***Service information.*** The service unit ensures that a clear description of its purpose, objectives and mode of service delivery is publicly available.
2. ***Review and update policies and procedures.*** The service unit should review and update the documented policies and procedures, describing how it will approach key service delivery issues.
3. ***Records.*** The service unit maintains accurate and current records of service operations and activities.
4. ***Roles and responsibilities.*** The roles and responsibilities of all staff, managers, the Management Committee and/or the Board or other decision-making bodies should be clearly defined.
5. ***Human resources.*** The agency/service unit implements effective staff recruitment, contracting, development, training, assessment, deployment and disciplinary practices.
6. ***Planning, evaluation and feedback.*** The service unit regularly plans, reviews and evaluates its own performance, and has an effective mechanism whereby service users, staff and other interested parties can provide feedback on its performance.
7. ***Financial management.*** The service unit implements policies and procedures to ensure effective financial management.
8. ***Legal obligations.*** The service unit complies with all relevant legal obligations.
9. ***Safe physical environment.*** The service unit takes all reasonable steps to ensure that it provides a safe physical environment for its staff and service users.
10. ***Entry and exit.*** The service unit ensures that service users have clear and accurate information about how to enter and leave the service.
11. ***Need of service users.*** The service unit has a planned approach to assessing and meeting service users' needs (whether the service user is an individual, family, group or community).
12. ***Informed choices.*** The service unit respects the service users' rights to make informed choices of the service they receive as far as practicable.
13. ***Private property.*** The service unit respects the service users' rights in relation to private property.
14. ***Privacy and confidentiality.*** The service unit respects the service users' rights for privacy and confidentiality.
15. ***Complaints.*** Each service user/staff member is free to raise and have addressed, without fear of retribution, any complaints he or she may have regarding the agency or the service unit.
16. ***Freedom from abuse.*** The service unit takes all reasonable steps to ensure that service users are free from abuse.

Source: SWD records

Appendix F
(para. 3.23 refers)

Key performance indicators with targets set below past performance

KPI	Target	Actual performance		
	2010-11	2007-08	2008-09	2009-10
1. Percentage of service users satisfied with agency services	80 % for district support service and 85 % for other services	96.1 %	94.9 %	94.5 %
2. Percentage of family members/carers satisfied with agency services	80 % for district support service and 90 % for other services	99.2 %	99.1 %	98.7 %
3. Number of volunteers attending the FHS's/service units' services	11,325	11,685	11,848	12,195
4. Number of service organisations/partners networked	138	144	179	154
5. Number of family members'/carers' meetings	110	238	149	161
6. Number of family members/carers participating in task groups/committees/SQS visits	100	151	164	124
7. Number of family members/carers attending programmes/talks/meetings organised for them	4,680	6,316	6,473	6,491
8. Number of staff hours for attending relevant seminars, talks, conferences, workshops, field visits and courses	18,588	21,935	26,699	23,055
9. Number of service unit general staff meetings with the Regional Manager/ Assistant Regional Manager	82	134	96	100
10. Number of joint disciplinary projects/programmes for continuous service development	10	20	46	14
11. Number of donors	300	301	562	315

Source: Audit analysis of FHS records

Investment guidelines for Lump Sum Grant Reserves

Type of investment	Investment criterion/condition
<p>(a) Hong Kong dollar bank deposits:</p> <p style="padding-left: 20px;">(i) Fixed deposit (one year or less); and</p> <p style="padding-left: 20px;">(ii) 24-hour call deposit.</p>	<p>(1) Total value of deposits with any one bank shall not exceed \$500,000 or 25% of the balance of the LSG Reserve prevailing at the time of investment, whichever is greater;</p> <p>(2) the bank must be licensed under the Banking Ordinance (Cap. 155); and</p> <p>(3) sufficient liquidity must be maintained to meet the use of the LSG Reserve, including the required refund to the Government.</p>
<p>(b) Hong Kong dollar bonds or CDs (short to medium term with a maturity period of one to five years)</p>	<p>(1) Total value of bonds/CDs shall not exceed 50% of the balance of the LSG Reserve prevailing at the time of investment;</p> <p>(2) total value of bonds/CDs/bank deposits with any one issuer shall not exceed \$50 million, or 50% of the balance of the LSG Reserve prevailing at the time of investment, whichever is the lower;</p> <p>(3) the credit rating of the issuer must not be lower than the rating of A3 given by Moody's Investors Service, Incorporated or A- given by Standard & Poor's Corporation; and</p> <p>(4) sufficient liquidity must be maintained to meet the use of the LSG Reserve, including the required refund to the Government.</p>

Source: Lump Sum Grant Circular No. 8/2003

Appendix H
(para. 4.32 refers)

**Annual rentals of the Hin Dip Centre as revised by Audit
(2007-08 to 2009-10)**

Cost element	2007-08 (\$)	2008-09 (\$)	2009-10 (\$)
(a) Water	132,570	188,397	169,157
(b) Electricity	2,055,218	2,078,323	1,936,952
(c) Total (c) = (a) + (b)	2,187,788	2,266,720	2,106,109
(d) Revised annual rental (d) = (c) × $\frac{1,300 \text{ square feet occupied by the Hin Dip Centre}}{\text{Total floor area of 35,000 square feet of the FHSRC}}$	81,261	84,192	78,227

Source: Audit analysis of FHS records

**Service agreements with the Hong Yung Services Limited
(31 December 2010)**

Agreement	Nature	Period
1	Provision of facilities for the HYSL office	July 2010 to June 2012
2	Provision of facilities to the HYSL for running a co-operative shop at the FHS's workshop	January 2008 to December 2010
3	Provision of facilities to the HYSL for running a co-operative shop at the FHS's Joyful Corner	January 2010 to December 2011
4	The FHS pays \$5,000 per month for the HYSL to operate a procurement system for the FHS	August 2009 to August 2011

Source: FHS records

Acronyms and abbreviations

AGMs	Annual general meetings
Audit	Audit Commission
CDs	Certificates of deposit
ED	Executive Director
ESRs	Essential Service Requirements
FHS	Fu Hong Society
FHSRC	Fu Hong Society Rehabilitation Centre
FSAs	Funding and Service Agreements
HYSL	Hong Yung Services Limited
KPIs	Key performance indicators
LSG	Lump Sum Grant
LSG Circulars	Lump Sum Grant Circulars
LSG Manual	Lump Sum Grant Manual
LSG Reserve	Lump Sum Grant Reserve
NGOs	Non-governmental organisations
SQSs	Service Quality Standards
SQS Coordinating Team	Service Quality Standard Coordinating Team
SWD	Social Welfare Department
WIL	Work injury leave