

# Report No. 56 of the Director of Audit — Chapter 3

## FU HONG SOCIETY

### Summary

1. The Fu Hong Society (FHS) is a non-profit-making organisation incorporated under the Companies Ordinance (Cap. 32). Its objectives 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. 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). The FHS is governed by a Council, supported by a number of committees and sub-committees. As at 31 December 2010, the FHS had 979 staff. It is serving over 3,000 persons with disabilities. The Audit Commission (Audit) has recently conducted a review of the FHS.

2. The SWD monitors the activities of a wide range of subvented non-governmental organisations (NGOs) in the welfare sector. *Given that some of the audit recommendations in this review may be generally applicable to other LSG-subvented NGOs, Audit has recommended that the Director of Social Welfare should consider disseminating the relevant audit recommendations for their reference and for wider application.*

#### Corporate governance

3. **Membership.** 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, including 59 inactive members (e.g. those moved to a new address without informing the FHS). 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 has recommended that the FHS should enhance its strategy for promoting and revitalising its membership.*

4. **Governance structure.** Of the 18 members serving the Council as at 30 September 2010, 6 (33%) had served the Council continuously for 10 years. The situation was similar for the FHS committees. There is a risk that the FHS may be overly dependent on a number of key persons to serve in its governance structure. The FHS also has not laid down the attributes required of committee members, which should be taken into account in their appointment. *Audit has recommended that the FHS should: (a) step up measures to attract more new talent to join the Council/committees; and (b) consider laying down the essential attributes required of members of different committees.*

5. **Attendance at meetings.** There is room for improvement in the attendance of some Council/committee meetings. In spite of the low attendance of some members, there were cases where they were reappointed to the Council/committees. *Audit has recommended that the FHS should: (a) remind Council/committee members to attend meetings as far as possible; (b) take into account the attendance records of committee members when considering their reappointments; and (c) provide FHS members with the attendance statistics of Council members who stand for re-election.*

6. **Roles of the President and Vice Presidents.** As at 30 September 2010, the FHS had a President and three Vice Presidents. The FHS had not clearly specified their roles. The FHS's Audit Committee reports directly to the President, instead of to the Council which is the governing board. *Audit has recommended that the FHS should: (a) clearly delineate the division of roles and line of responsibilities among the Council, the President and the Vice Presidents; and (b) ensure that the Audit Committee reports regularly to the Council.*

7. **Declaration of interests.** Under the FHS's two-tier reporting system for the declaration of interests, Council/committee members need to disclose their general interests upon appointment/reappointment in a declaration form. Audit review found that there were late submissions of declaration forms. *Audit has recommended that the FHS should ensure that Council/committee members submit their declaration forms promptly.*

### **Standard of services and performance management**

8. **Funding and Service Agreements (FSAs).** The FHS has entered into FSAs with the SWD. The FSAs set Essential Service Requirements (ESRs) and Service Quality Standards (SQSs) for LSG-subvented services. Service units conduct self-assessment of compliance with the ESRs/SQSs. The FHS guidelines do not provide adequate guidance on self-assessment. During audit visits to four service units, Audit could not find records of self-assessment. Audit also noted that there were shortcomings in their implementation of the SQSs. *Audit has recommended that the FHS should ensure that: (a) clear guidelines on self-assessment are provided to service units; (b) self-assessments are properly documented; and (c) shortcomings identified during self-assessments are promptly rectified.*

9. **Inspection of service units.** The SQS Coordinating Team organises inspection visits to service units to ensure compliance with the SQSs. The inspection cycle is long and there are no established procedures for the Team to follow up its recommendations. *Audit has recommended that the FHS should enhance the inspection mechanism of the Team.*

10. **Performance measurement and reporting.** Of the 29 key performance indicators (KPIs) for 2010-11, the targets of 11 KPIs were set lower than the actual performance in past three years. Besides, the FHS had only published selected KPIs in its annual report. *Audit has recommended that the FHS should: (a) periodically review the KPI targets; and (b) consider publishing more KPIs in the public domain.*

## **Financial and fund management**

11. **Management of the LSG Reserve.** Despite the substantial amount (\$90 million at 31 March 2010) of its LSG Reserve, the FHS has not formulated a strategic plan for setting the priority and timeframe for using it. *Audit has recommended that the FHS should formulate a strategic plan for using the LSG Reserve.*

12. **Investment strategy.** An investment strategy helps an organisation select its investment portfolio. The FHS had not laid down such an investment strategy for its LSG Reserve. *Audit has recommended that the FHS should formulate and document an investment strategy.*

13. **Capital expenditure.** The LSG is intended for funding operating expenditure. For major acquisitions or renovation works, NGOs should tap the Lotteries Fund. Audit noted that the FHS carried out considerable renovation works for its premises in 2009-10. The cost (some \$2 million) of the works was met by the LSG. *Audit has recommended that the FHS should: (a) seek the advice of the SWD on the appropriateness of charging the cost of the works to the LSG; and (b) in consultation with the SWD, devise guidelines on the use of the LSG for funding capital expenditure.*

14. **Administrative support for non-subvented activities.** The FHS charged all central administrative costs to the LSG, although some of the costs were related to administrative support for non-subvented service units. *Audit has recommended that the FHS should, in consultation with the SWD, devise a mechanism to apportion the central administrative costs between subvented and non-subvented activities.*

15. **Accommodation for non-subvented activities.** The FHS's Hin Dip Centre, located within an FHS premises, provides non-subvented activities. The FHS has charged the Centre a fixed monthly rental. Since September 2006, no rental adjustment has been made. *Audit has recommended that the FHS should, in consultation with the SWD, revise the basis of calculation of the rentals, taking into account changes in cost elements over the years.*

16. **Provision of facilities to a social enterprise.** The Hong Yung Services Limited (HYSL) is a social enterprise set up under the auspices of the FHS. The FHS has signed service agreements with the HYSL. Audit noted that the FHS had not documented any cost analyses for determining the amounts payable by the HYSL for using the FHS facilities. *Audit has recommended that the FHS should review the service agreements with the HYSL to ascertain the appropriate fees to be charged.*

### **Human resource management**

17. **Staff turnover.** The overall staff turnover rate in the FHS was 19% in 2009-10. The turnover rates of some frontline staff were particularly high (e.g. 38% for Rehabilitation Worker II). Management information on staff turnover (e.g. turnover rates by ranks) was not regularly submitted to the relevant committees. *Audit has recommended that the FHS should: (a) provide the relevant committees with regular management information on staff turnover; and (b) step up measures to address the staff turnover problem.*

18. **Work injury.** The number of work injury cases in the FHS had slightly decreased in recent years. However, audit analysis shows that the number of serious injury cases had increased. *Audit has recommended that the FHS should: (a) take effective measures to reduce the risk of work injury; and (b) in consultation with the SWD, review the adequacy of the service units in providing a safe physical environment.*

19. **Staff recruitment.** Audit reviewed the FHS's recent recruitment exercises and found areas where improvement could be made (e.g. open recruitment not always conducted, and lack of criteria for shortlisting applicants for interview). *Audit has recommended that the FHS should strengthen the recruitment process.*

### **Other administrative issues**

20. **Purchase of goods and services.** Audit examined a sample of 30 purchases and found that they were generally in order. There were areas where improvements could be made, i.e. sufficient quotations were not invited in one purchase, and supplier's signature was missing on some contract copies kept by the FHS. *Audit has recommended that the FHS should ensure that: (a) quotations are invited in accordance with the procurement guidelines; and (b) signed copies of all purchase contracts are kept.*

### **Response from the FHS and the Administration**

21. The Chairman, FHS Council and the Director of Social Welfare agree with the audit recommendations.

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