

CHAPTER 1

**Labour and Welfare Bureau
Social Welfare Department**

**Administration of lump sum grants by the
Social Welfare Department**

**Audit Commission
Hong Kong
27 October 2017**

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. 69 of the Director of Audit contains 9 Chapters which are available on our website at <http://www.aud.gov.hk>

Audit Commission
26th floor, Immigration Tower
7 Gloucester Road
Wan Chai
Hong Kong

Tel : (852) 2829 4210
Fax : (852) 2824 2087
E-mail : enquiry@aud.gov.hk

ADMINISTRATION OF LUMP SUM GRANTS BY THE SOCIAL WELFARE DEPARTMENT

Contents

	Paragraph
EXECUTIVE SUMMARY	
PART 1: INTRODUCTION	1.1
Background	1.2 – 1.4
Conventional subvention system	1.5 – 1.7
Lump sum grant subvention system	1.8 – 1.29
Audit review	1.30 – 1.34
General response from the Government	1.35 – 1.36
Acknowledgement	1.37
PART 2: FINANCIAL MONITORING	2.1
Reserves retained by non-governmental organisations	2.2 – 2.15
Audit recommendations	2.16
Response from the Government	2.17
Disclosure of non-governmental organisations' senior staff emoluments	2.18 – 2.26
Audit recommendations	2.27
Response from the Government	2.28 – 2.29

	Paragraph
Accounting inspections	2.30 – 2.33
Audit recommendations	2.34
Response from the Government	2.35
Cross-subsidisation between lump sum grant subventions and self-financing activities	2.36 – 2.40
Audit recommendations	2.41
Response from the Government	2.42
Controls over fixed assets and petty cash	2.43 – 2.44
Audit recommendations	2.45
Response from the Government	2.46
Review of non-governmental organisations' fees and charges	2.47 – 2.51
Audit recommendations	2.52
Response from the Government	2.53
PART 3: SELF-ASSESSMENT OF SERVICE QUALITY BY NON-GOVERNMENTAL ORGANISATIONS	3.1
Self-assessment mechanism	3.2 – 3.5
Conduct and reporting of self-assessment	3.6 – 3.7
Audit recommendations	3.8
Response from the Government	3.9
Implementation of Service Quality Standards	3.10 – 3.12
Audit recommendations	3.13
Response from the Government	3.14

	Paragraph
Conduct of internal service inspections	3.15 – 3.16
Audit recommendation	3.17
Response from the Government	3.18
PART 4: MONITORING OF SERVICE DELIVERY BY SOCIAL WELFARE DEPARTMENT	4.1
Underperformance of non-governmental organisations	4.2 – 4.3
Audit recommendations	4.4
Response from the Government	4.5
Subventions to non-governmental organisations based on caseloads attained	4.6 – 4.23
Audit recommendations	4.24
Response from the Government	4.25
Setting of non-governmental organisations’ performance standards	4.26 – 4.27
Audit recommendation	4.28
Response from the Government	4.29
Use of service resources by non-governmental organisations	4.30 – 4.31
Audit recommendations	4.32
Response from the Government	4.33
Renewal of Funding and Service Agreements	4.34 – 4.36
Audit recommendation	4.37
Response from the Government	4.38

	Paragraph
Performance visits and conduct of annual performance review	4.39 – 4.47
Audit recommendations	4.48
Response from the Government	4.49
PART 5: GOVERNANCE AND MANAGEMENT MATTERS	5.1
Implementation of Best Practice Manual guidelines	5.2 – 5.10
Audit recommendations	5.11
Response from the Government	5.12
Adoption of other good governance practices	5.13 – 5.21
Audit recommendation	5.22
Response from the Government	5.23
Addressing the problem of high staff turnovers of non-governmental organisations	5.24 – 5.30
Audit recommendations	5.31
Response from the Government	5.32
PART 6: REVIEW OF LUMP SUM GRANT SUBVENTION SYSTEM	6.1
2008 review of lump sum grant subvention system	6.2 – 6.13
Audit recommendations	6.14
Response from the Government	6.15
Way forward	6.16 – 6.18
Audit recommendation	6.19
Response from the Government	6.20

Appendices	Page
A : Subventions to 165 non-governmental organisations under lump sum grant subvention system (2016-17)	147 – 154
B : Service Quality Standards (31 March 2017)	155 – 156
C : Best Practice Manual (31 March 2017)	157 – 160
D : Social Welfare Department: Organisation chart (extract) (30 June 2017)	161
E : Recommendations of the Lump Sum Grant Independent Review Committee (2008)	162 – 167
F : Acronyms and abbreviations	168

ADMINISTRATION OF LUMP SUM GRANTS BY THE SOCIAL WELFARE DEPARTMENT

Executive Summary

1. The Social Welfare Department (SWD) is responsible for developing and co-ordinating welfare services in Hong Kong. It provides subventions to non-governmental organisations (NGOs) for the provision of welfare services to the public. Welfare services provided by NGOs comprise elderly services, family and child welfare services, rehabilitation services, and youth and corrections services. Under these four areas of welfare services, there are some 140 types of services (e.g. elderly services include day care centres for the elderly and integrated home care services).

2. Before January 2001, subventions were provided to NGOs through the conventional subvention system, under which the SWD paid NGOs for the actual costs incurred in the delivery of recognised welfare services. In January 2001, a lump sum grant (LSG) subvention system was rolled out as a major revamp of the provision of funding to NGOs. NGOs receiving subventions under the conventional subvention system are not obliged to but may voluntarily opt for the LSG subvention system. In 2016-17, of the 170 NGOs receiving subventions from the SWD, 165 (97%) were under LSG subvention system, while the other five (3%) NGOs remained in the conventional subvention system. In 2016-17, the total amount of LSG subventions paid to the NGOs was \$12.5 billion.

3. LSG subvention is provided on an NGO basis. The annual amount of LSG subvention to an NGO is the sum of staff salaries, provision for provident funds and other charges (e.g. administrative expenses, utilities and overtime allowance for drivers), minus the NGO's fee income recognised by the SWD (e.g. monthly residential fee of \$1,994 for elderly nursing homes as at 1 April 2016). Under the LSG subvention system, NGO management has the autonomy and flexibility in the deployment of subvention resources to meet the service needs. Within the context of the Funding and Service Agreements (FSAs), which include the carrying out of FSA

Executive Summary

related activities and other support services, NGOs have flexibility in deploying the LSG subventions to pay their expenses (staff expenses and other operating expenses).

4. An NGO can retain unspent LSG subvention in a reserve (i.e. known as the LSG Reserve) to meet future spending. The cumulative reserve (separate from Provident Funds (PF) Reserve and Holding Account balances — see para. 8) is capped at 25% of the annual operating expenditure (excluding expenditure for provident funds) of the subvented services of the NGO. Any amount above the 25% cap is subject to claw-back and should be returned to the Government. The reserve can be used at the discretion of the NGO on FSA activities and FSA related activities.

5. The SWD draws up an FSA for each service (see para. 1) that a service unit of an NGO provides. For example, if a unit provides two services, two FSAs are drawn up and the SWD regards the unit as two “agreement service units” (ASUs). The FSA defines the welfare service to be provided by an ASU. It also stipulates the Output Standards (e.g. enrolment rates) and Outcome Standards (e.g. percentage of service users with improved capability in managing family problems) to be achieved by the ASU, Essential Service Requirements (ESRs — e.g. staff qualifications and opening hours of institutions) to be met by the ASUs, the need to observe the 16 Service Quality Standards (SQSs), and the need to follow the requirements laid down in the LSG Manual and LSG Circulars. The NGOs are also required to adopt the best practices laid down in the Best Practice Manual (BPM — see para. 22) developed under the auspices of the LSG Steering Committee (see para. 6). As at 31 March 2017, the SWD drew up FSAs for 2,691 ASUs of the 165 NGOs.

6. An LSG Steering Committee has been appointed by the Labour and Welfare Bureau (LWB) to monitor the implementation of the LSG subvention system and identify areas for improvement. An LSG Independent Complaints Handling Committee has also been set up to handle LSG-related complaints that cannot be satisfactorily addressed at the NGO level.

7. The Audit Commission (Audit) has recently conducted a review of the administration of LSGs by the SWD. In addition to data analyses and examination of the SWD records (covering NGOs and ASUs), Audit paid visits to: (a) five NGOs and five of their ASUs to examine specifically certain welfare services with underperformance in the period 2014-15 to 2016-17; and (b) six NGOs and 18 of their ASUs to examine their use of LSG subventions in general.

Executive Summary

Financial monitoring

8. *Need to implement good practices on the use of reserves.* As at 31 March 2016, a total of \$4.7 billion of reserves was retained by NGOs. Of these reserves: (a) \$1.7 billion was LSG Reserve (see para. 4) held by 150 NGOs; (b) \$1.8 billion was balances in Holding Accounts held by 122 NGOs (the Holding Accounts arose because the SWD withheld the claw-back of LSG Reserves above the 25% cap (see para. 4) for three years from 2004-05 to 2006-07); and (c) \$1.2 billion was PF Reserve held by 159 NGOs. NGOs may use the LSG Reserves and Holding Account balances for FSA activities and FSA related activities, while PF Reserve can only be used for provident fund contributions. NGOs are expected to follow the guidelines of the BPM (see para. 5) relating to the use of the reserves. The aggregate amount of these reserves had risen by 38% from \$3.4 billion in 2011-12 to \$4.7 billion in 2015-16. In six of the NGOs visited by Audit (see para. 7(b)), Audit noted that some NGOs had planned their use of reserves. The SWD needs to: (a) take further measures to facilitate NGOs to share, adopt and implement the good practices relating to the use of reserves and disclose the use of reserves according to the BPM guidelines; (b) in circumstances where NGOs are unable to comply with the BPM guidelines, ensure that NGOs provide strong justifications and give consent for exemption where appropriate; and (c) keep in view the balances of reserves and where necessary, remind NGOs to take further measures to maximise the use of the reserves for enhancing FSA activities and FSA related activities (paras. 1.9, 2.3 to 2.5, 2.8, 2.10 and 2.11).

9. *NGOs with persistent LSG operating deficits.* Audit found that in 2015-16, 31 NGOs had incurred LSG operating deficits. Of these 31 NGOs, 14 had incurred deficits for three consecutive years from 2013-14 to 2015-16. Of these 14 NGOs, 8 had depleted their LSG reserves (i.e. LSG Reserves and Holding Account balances) and financed their operations from non-FSA sources (e.g. income from self-financing activities). The remaining 6 NGOs still had LSG reserves after offsetting their LSG deficits against their reserves. The SWD needs to: (a) ascertain the reasons for NGOs having persistent LSG operating deficits, and offer advice where warranted; and (b) keep under review the operation of those NGOs in deficits for possible financial viability issues and to ensure smooth provision of FSA activities to the public (paras. 2.13 and 2.15).

Executive Summary

10. ***Disclosure of NGOs' senior staff emoluments.*** In March 2003, the Director of Administration issued a Circular Memorandum (the Memorandum) requiring a subvented body to review and disclose annually the remunerations of its top three-tier staff unless it meets one or more of the exemption criteria (e.g. the average government subvention received in past four years constituted a proportion of 50% or less of the subvented body's average operating income in the same period). In 2015-16, of the 165 NGOs receiving LSG subventions, 66 (40%) were not exempted from the disclosure requirement. Audit found that: (a) ***Deferring the implementation of disclosure requirement.*** The effective date for implementation of the disclosure requirement was 1 April 2003. However, the SWD implemented the disclosure requirement with effect from a later date in 2009-10. There was no documentary evidence indicating that the Labour and Welfare Bureau (LWB) had approved deferring the implementation of the disclosure requirement; and (b) ***More NGOs may be required to disclose senior staff emoluments.*** In July 2017, the Director of Administration informed the SWD that the SWD's prevailing practice of reviewing and disclosing the remunerations of NGOs' top three-tier staff had been at variance with the intents of the Memorandum. The SWD had applied the 50% income threshold based on the consolidated operating income of the NGO instead of the operating income of the NGO under the purview of the LWB and the SWD. If the intents of the Director of Administration's Memorandum had been applied, more NGOs would have been required to disclose their senior staff emoluments. The SWD should discuss with the LWB on its planned actions in the coming annual review (paras. 2.18 to 2.20, 2.22 and 2.24).

11. ***Scope for improvement in accounting inspections.*** The SWD's Finance Branch conducts accounting inspections at NGO premises which include reviewing compliance with accounting and financial reporting requirements as laid down in the LSG Manual, and reviewing/advising on internal control procedures. Audit reviewed the accounting inspections conducted by the SWD's Finance Branch and found that: (a) in 2016-17, of the 53 NGOs involving a total of 120 ASUs planned to be inspected, inspections at 6 NGOs (11% of 53) involving a total of 21 ASUs (18% of 120) had not been conducted as planned; (b) some irregularities (e.g. inclusion of non-FSA expenses in LSG) and internal control weaknesses (e.g. in revenue collection and receipt) were commonly found in inspections of ASUs of NGOs; (c) internal control weaknesses of ASUs of some NGOs had existed for a long period of time; and (d) there are other risk factors that the Finance Branch had not been considered in formulating its risk-based inspections (e.g. NGOs with operating deficits) (paras. 2.30 and 2.33).

Executive Summary

12. ***Cross-subsidisation between LSG subventions and self-financing activities.*** It is common that NGOs providing FSA activities (including FSA related activities) also provide non-FSA activities. NGOs are not allowed to use LSG subventions to cross-subsidise non-FSA activities. Audit found that: (a) ***Need to apportion head office overheads.*** Each of the six NGOs visited by Audit had established a head office, which carried out central administrative and support functions for the respective NGO. In 2015-16, the six NGOs incurred overheads totalling some \$71.9 million for their head offices. For three NGOs, the head office overheads (ranging from \$10.5 million to \$22.2 million in 2015-16) had been allocated entirely to FSA activities; and (b) ***Need to adopt appropriate bases for apportioning overheads.*** The bases used by the two NGOs for apportioning the overheads between FSA activities and non-FSA activities were not always consistent and proportionate. For example, the emolument of \$1.57 million of an NGO's Chief Executive Officer for 2015-16 had been solely charged to FSA activities (paras. 2.36 to 2.40).

Self-assessment of service quality by non-governmental organisations

13. ***Inadequacies in conduct and reporting of self-assessment.*** NGOs are required to conduct and submit to the SWD self-assessment of attainment of Output Standards, Outcome Standards, ESRs and SQSs on a regular basis. Audit's examination of the Output/Outcome Standards reported by NGOs to the SWD in the period 2014-15 to 2016-17 revealed that: (a) there were cases where these Standards had not been accurately reported by NGOs, resulting in overstatement or understatement of performance reported; and (b) there was room for improvement in measuring service effectiveness. For example, in measuring the service effectiveness upon completion of training of service users, of the 30 cases of service users examined by Audit, an NGO conducted clinical assessments of 14 cases via telephone only, instead of on site. Furthermore, the NGO regarded training as having completed when service users had completed 10% or more of the planned training sessions (paras. 3.2, 3.6 and 3.7).

14. ***Inadequacies in implementation of SQSs.*** According to the SWD, as SQSs provide a broad overview of what the ASUs should do in order to deliver quality services, NGOs are expected to tailor-make their own SQS manuals to facilitate the attainment of SQSs. Audit visited 18 ASUs of 6 NGOs and found that: (a) there were cases of non-compliance with the NGOs' SQS manuals (e.g. two service users took

Executive Summary

temporary leave from an ASU for more than 7 days (ranging from 9 to 30 days) without the approval of the Superintendent); (b) 11 ASUs had not used the SWD's self-assessment checklist to assist their conduct of self-assessment on SQSs; and (c) an ASU's checklist indicated that the ASU had made available its annual reports and service pamphlets at its office in audio and Braille formats to service users. Audit, however, could not locate such documents in the ASU's office (paras. 3.10 to 3.12).

Monitoring of service delivery by Social Welfare Department

15. *Underperformance of NGOs.* If an ASU of an NGO is found to be non-conforming with the required performance standards, the NGO is required to submit to the SWD an action plan detailing how the service is to be improved. If an NGO fails to improve after repeated efforts, the ultimate sanction will be for the SWD to withdraw its LSG for the ASU in question. In the period January 2001 to September 2017, the SWD had exercised its power to terminate the LSG subvention of one NGO. Audit examined 20 ASUs that had underperformance in Output/Outcome Standards in three or more consecutive years in the five-year period 2012-13 to 2016-17. Audit found that although the NGOs concerned had submitted action plans to improve their services in each of the consecutive years, the underperformance persisted. In the five-year period, excluding the 6 ASUs whose subventions were based on caseloads attained (see para. 16 below), all the other 14 ASUs had received full LSG subventions (paras. 4.2 and 4.3).

16. *Subventions to NGOs based on caseloads attained.* In view of the unexpected low utilisation rates of the home care service for persons with severe disabilities (HCS) and the integrated support service for persons with severe physical disabilities (ISS), and in order to optimise the use of public money, subventions to the NGOs providing the HCS and the ISS have been pegged to the number of users served (i.e. caseloads) since April 2015 and August 2015 respectively. Of the six ASUs providing the HCS and the two ASUs providing the ISS, Audit visited two HCS ASUs and one ISS ASU. For each of the three ASUs visited, Audit examined 50 cases of users, covering the period from April 2015 to December 2016, to ascertain the adequacy of provision of subventions to NGOs based on caseloads attained by the ASUs (paras. 4.7 and 4.12). Audit found that:

- (a) *Need to review underperformance in provision of HCS and ISS.* While the eight ASUs (six ASUs providing the HCS and two ASUs providing the

Executive Summary

ISS) had attained the required caseloads and received full subventions from the SWD in 2015-16 and 2016-17, the ASUs had significant underperformance in the provision of the HCS and the ISS (e.g. for an ASU providing the HCS, while the agreed number of service hours to meet the care needs of service users in 2016-17 was 158,400, the actual number achieved was only 34,201);

- (b) ***Different determining factors used in computing caseloads.*** Different determining factors were used in computing caseloads by the three ASUs visited. While one ASU would include a case in the caseload when a person was admitted as a service user after assessing his/her eligibility for the service, the other two ASUs would include a case when a care plan had been formulated for the service user after admission;
- (c) ***Cases with no support services provided.*** There were cases where no support service (e.g. nursing care service) had been provided to the service users (e.g. of the 50 cases examined by Audit, for one ASU visited, 13 (26%) service users had no support services provided);
- (d) ***Delay in discharging service users.*** There was delay in discharging service users by two ASUs visited. Of the 28 cases where there was delay, in 22 cases, the service users could have been discharged in the last financial year but were instead discharged in the new financial year. As the SWD only takes into account the number of users discharged as at 31 March of the last financial year in calculating subventions to the ASUs in the new financial year, discharging users in the new financial year means that subventions would continue to be paid to the ASUs for the discharged service users;
- (e) ***Service users receiving both HCS and ISS.*** To avoid duplication of resources, a service user can be admitted into either the HCS or the ISS, but not both. Audit, however, found that in the three ASUs visited, four service users received both the support services under the HCS and the ISS; and
- (f) ***Need to review arrangement for calculating subventions to ASUs.*** In view of the three ASUs' higher-than-expected discharge rates (ranging from 27% to 38%), Audit recalculated the subventions provided to these ASUs in years 2015-16 and 2016-17 based on the number of daily active users

Executive Summary

instead of the number of active users as at 31 March of the last financial year (the SWD's methodology of calculating subventions to the ASUs providing the HCS and the ISS). Audit's recalculation, using the number of daily active users as the basis, indicated that potential savings in subventions of \$12.9 million in 2015-16 and \$4.1 million in 2016-17 to the three ASUs could be achieved. Savings in subventions realised could be used for the provision of other welfare services (paras. 4.10, 4.13, 4.14, and 4.19 to 4.22).

17. ***Inadequacy in setting of NGOs' performance standards.*** Output Standards and Outcome Standards, which are service-specific and are stipulated in FSAs drawn up with ASUs, spell out concretely the service performance standards expected of NGOs. However, Audit noted that of the 2,691 FSAs drawn up with ASUs as at 31 March 2017, 2,209 (82%) did not contain Outcome Standards. For example, of five ASUs providing the same welfare service, three ASUs were required to attain Outcome Standards while the other two were not so required (paras. 4.26 and 4.27).

18. ***Need to ensure service resources are properly used by NGOs.*** NGOs are allowed to use LSG subventions for carrying out FSA activities and FSA related activities. NGOs should consult the SWD in a timely manner as to what constitutes "FSA related" activities before conducting such activities. During Audit's visits to the 11 NGOs (see para. 7), Audit found that an ASU of one NGO had organised activities for children below the age of 6 and retired men who were not target service users under the FSA. The ASU had not sought clarification from the SWD on whether the activities were "FSA related" activities and could be carried out. Audit also found that, for another NGO's ASU, there is room for improvement in the management of emergency places to cater for children whose families have crisis and cannot provide proper care to the children. The residential period for these emergency places was 6 weeks. However, on the date of Audit's visit, of the 20 emergency places, 6 places had been occupied by children for more than 22 months to 31 months, and 13 unused places were reserved by social workers over the phone (one of the 13 places had been reserved for 72 days). Furthermore, in the period April 2016 to June 2017, of the 39 cases of reservations that had subsequently been cancelled by social workers, 9 had been reserved but unused for 5 to 7 months and 15 for 3 to 4 months (paras. 4.30 and 4.31).

Executive Summary

19. *Need to conduct comprehensive reviews of performance of ASUs with non-time-defined FSAs.* As at 31 March 2017, of the 2,691 FSAs, 985 (37%) were time-defined (i.e. they normally had an agreement period of three or five years) and 1,706 (63%) were non-time-defined (i.e. without a specified agreement period). Audit noted that while ASUs with time-defined FSAs are subjected to comprehensive reviews (i.e. taking into account the ASU's attainment on Output Standards, Outcome Standards, ESRs and SQSs, results of the SWD's performance visits (see para. 20) and complaints against the ASU), there are no such reviews for ASUs with non-time-defined FSAs (paras. 4.34 to 4.36).

20. *Inadequacies in conducting performance visits.* The SWD carries out performance visits to ASUs of NGOs to assess the performance of ASUs. Audit examined the SWD's records of the performance visits conducted in the period 2012-13 to 2016-17 and accompanied the SWD's staff in carrying out eight performance visits during May to July 2017. Audit found that: (a) as at 31 March 2017, of the 2,691 ASUs, 542 (20%) had never been visited by the SWD; and (b) in accompanying the SWD's staff in the conduct of performance visits, all the 25 service users interviewed by the SWD staff were pre-selected by the ASUs and some of the service users who were requested to complete questionnaires were selected by the ASUs. Furthermore, the samples for examination of ASUs' records pertinent to service operation were not always selected by the SWD's staff themselves (paras. 4.39, 4.41, 4.42 and 4.45).

21. *Need to improve the conduct of annual performance review.* Audit reviewed the annual performance review of the ASUs conducted by the SWD and found that: (a) the annual performance review covered only the attainment of Output Standards and Outcome Standards. There was no information, for example, on the attainment of other performance standards (i.e. the ESRs and the SQSs) and the results of performance visits conducted by the SWD; and (b) there was no evidence indicating that the results of annual performance review had been submitted to the SWD's directorate staff for their reference and deliberations (para. 4.47).

Governance and management matters

22. *Need to improve the implementation of BPM guidelines.* The BPM (see para. 5), which came into effect in July 2014, encourages NGOs to enhance their governance in financial management, human resource management as well as

Executive Summary

corporate governance and accountability. The BPM provides guidelines for 14 strategic items (e.g. “use of reserve” and “NGOs’ policies and procedures on complaints handling”). Seven of the 14 items are “Level One guidelines” which NGOs are expected to follow unless they have strong justifications not to do so, while the other 7 items are “Level Two guidelines” which NGOs are encouraged to adopt. NGOs have been given a transition period of three years (i.e. by 30 June 2017) to implement the guidelines. NGOs are required to submit self-assessment reports to the SWD to report the progress of implementing Level One guidelines, while the submission of such reports for Level Two guidelines is on a voluntary basis. Audit found that: (a) there were incidents where NGOs did not accurately report their implementation of the BPM guidelines in their self-assessment reports; (b) of the 165 NGOs which submitted 2015-16 self-assessment reports for Level One guidelines, 58 (35%) were late in submitting their reports; (c) of the 154 NGOs which submitted 2015-16 self-assessment reports for Level Two guidelines on a voluntary basis, only 38 had fully implemented the 7 items of the Level Two guidelines; and (d) during the development of the BPM, best practices were to be formulated for 18 items. In April 2014, subsequent to consultations with the welfare sector, best practices for 14 of the 18 items were formulated and incorporated as guidelines into the BPM. During 2014 to 2017, the SWD had made attempts to forge an agreement on the best practices to be formulated for the four outstanding items relating to human resource management (e.g. staff remuneration policy and pay policy with a clear salary structure and/or starting points), but to no avail (paras. 5.2 to 5.6, 5.8 and 5.9).

23. ***Need to adopt other good governance practices.*** The Efficiency Unit’s “Guide to Corporate Governance for Subvented Organisations” (the Guide) has been included as one of the references in the annex of the LSG Manual. Audit’s visits to the six NGOs revealed that there is room for these NGOs to adopt the good governance practices set out in the Guide. Audit found that: (a) only 2 of the 6 NGOs had compiled attendance rates of board/committee members; (b) in the period 2013-14 to 2015-16, in the six NGOs, the proportion of board/committee members who did not attend any board/committee meetings was as high as 21.2%. There were also cases where board/committee members with low attendance rates had been re-appointed to the board/committees; (c) only 2 NGOs had adopted a two-tier reporting system for declaration of interests; (d) for 4 NGOs, registration forms were not used to record members’ declaration of interests. For one NGO, not all members’ declaration forms were available for Audit’s inspection. Furthermore, for another NGO, only the directorships of board members were required to be declared. Other interests (e.g. pecuniary interest) were not required to be declared; and (e) as at 31 August 2017, 2 NGOs had not prepared strategic plans. One of the 2 NGOs had also not prepared action plans (paras. 5.13, 5.14, 5.16, 5.18 and 5.20).

Executive Summary

24. *Need to address the problem of high staff turnovers of NGOs.* During 2013-14 to 2015-16, staff turnovers of the six NGOs visited by Audit were on the high side, ranging from some 14% to 35%. One of the six NGOs did not have the practice of conducting exit interviews with staff leaving the organisation. Exit interviews conducted by the other 5 NGOs in 2015-16 indicated that, of the 274 staff leaving the NGOs, many (133 or 48.6%) left for job-related reasons. Audit further noted that pay-related issues had affected staff morale and stability at the six NGOs. While the LSG subvention to the NGO was based on staff being funded at mid-point salaries of the Government's pay scales, the determination of actual pay could be based on a number of factors including skillsets, grades, seniority, and experience of individual staff. Inevitably, some NGO staff were paid above the mid-point salaries or even above the maximum-point salaries, others were paid below the mid-point salaries. Salary setting for some ranks had not been transparent (paras. 5.27, 5.28 and 5.30).

Review of lump sum grant subvention system

25. *2008 review of the LSG subvention system.* In 2008, the LSG Independent Review Committee conducted a review of the LSG subvention system. Its review report contained 36 recommendations on ways to improve the system. In February 2009, the LWB and the SWD accepted in principle all the recommendations. Audit noted that there is room for improvement in the implementation of the recommendations: (a) *Need to obtain feedback from NGOs on actuarial or related studies conducted.* In one recommendation, the LSG Independent Review Committee recommended that the Government should make available an actuarial service for NGOs to apply for on a voluntary basis. The service aimed to enable NGOs to assess, through conducting actuarial studies, their ability to meet staff commitments and projected payroll cost. Since November 2014, NGOs have also been allowed to commission actuarial studies or related studies (e.g. a finance and human resource system review). At 31 July 2017, 11 NGOs had applied for funding (ranging from \$25,500 to \$841,500) from the Social Welfare Development Fund for conducting studies by external consultants. To ensure the proper use of the Fund and the usefulness of the studies, the SWD needs to obtain feedback from all NGOs that have conducted the studies and promulgate the feedback to NGOs; and (b) *Need to better manage potential conflicts of interest.* In another recommendation, the LSG Independent Review Committee recommended that a complaints handling committee should be set up to determine on LSG-related complaints. In April 2009, the LSG Independent Complaints Handling Committee (the Committee) was therefore established (see para. 6). Audit examined the minutes of the 31 Committee meetings

Executive Summary

held in the period April 2009 to March 2017 and found that: (a) a member of the Committee was the head of a school run by an NGO being complained. During July 2011 to November 2012, 7 complaints relating to the NGO were deliberated at four Committee meetings. Although the member was connected to the NGO, the member declared no potential conflicts of interest in declaration forms. In two of the four Committee meetings, the member had participated in discussions. In one of the meetings, the member had endorsed the results that the complaint was not substantiated; and (b) in 21 of the 31 Committee meetings, Committee members had declared potential conflicts of interest. However, none of the minutes of the meetings indicated that the Chairman had made decisions on the declarations in accordance with the guidelines adopted by the Committee (paras. 6.2 to 6.4, 6.6, 6.7, 6.9, 6.10 and 6.12).

26. *Need to conduct a review to optimise the LSG subvention arrangements.* This Audit Review has identified room for improvement in the administration of LSG subventions by the SWD and in the use of LSG subventions by NGOs (see paras. 8 to 24). More than eight years have lapsed since the LSG subvention system was last reviewed in 2008 (see para. 25). Meanwhile, Audit noted that individual members of the LSG Steering Committee, Members of the Legislative Council and the welfare sector had from time to time called for another review of the LSG subvention system. It is now an opportune time to conduct a further review to optimise the LSG subvention arrangements (paras. 6.17 and 6.18).

Audit recommendations

27. **Audit recommendations are made in the respective sections of this Audit Report. Only the key ones are highlighted in this Executive Summary. Audit has recommended that the Director of Social Welfare should:**

Financial monitoring

- (a) **take further measures to facilitate NGOs to share, adopt and implement the good practices relating to the use of reserves and disclose the use of reserves according to the BPM (para. 2.16(a));**
- (b) **in circumstances where NGOs are unable to comply with the BPM guidelines, ensure that the NGOs provide strong justifications and the SWD gives consent for exemption where appropriate (para. 2.16(b));**

Executive Summary

- (c) **keep in view NGOs' balances of reserves and where necessary, remind NGOs to take further measures to maximise the use of the reserves, as required by the BPM guidelines, for enhancing FSA activities and FSA related activities to better the provision of welfare services to the public (para. 2.16(c));**
- (d) **ascertain the reasons for some NGOs having incurred large or persistent LSG operating deficits and offer advice where warranted (para. 2.16(d));**
- (e) **keep under review the operation of NGOs in deficits for possible financial viability issues and offer advice where warranted (para. 2.16(e));**
- (f) **take immediate action to obtain covering approval, from the Secretary for Labour and Welfare, for deferring the implementation of the requirement for the review and disclosure of emoluments of NGOs' staff in top three tiers (para. 2.27(a));**
- (g) **take necessary follow-up action on the advice of the Director of Administration on the implementation of the requirement for the review and disclosure of emoluments of NGOs' staff in top three tiers (para. 2.27(b));**
- (h) **take measures to ensure that the accounting inspections are conducted as planned in the future and to assist NGOs to improve their internal controls and minimise occurrence of irregularities, and consider taking into account other risk factors in formulating plans for accounting inspections (para. 2.34(a), (b) and (d));**
- (i) **request the three NGOs (see para. 12) which have not apportioned the head office overheads between FSA activities and non-FSA activities to apportion such overheads (para. 2.41(a));**
- (j) **request the two NGOs that have anomalies in apportioning the overheads between FSA activities and non-FSA activities (see para. 12) to review their bases of apportionment and properly apportion the costs (para. 2.41(c));**

Executive Summary

- (k) take measures to help NGOs adopt an appropriate basis for apportioning overheads between FSA activities and non-FSA activities (para. 2.41(d));

Self-assessment of service quality by NGOs

- (l) remind NGOs of the importance of accurate reporting of their Output/Outcome Standards and of the need to exercise due care in computing the Standards, and provide more guidelines to NGOs to facilitate and enhance their conduct of measurement of Outcome Standards (para. 3.8(a) and (b));
- (m) urge NGOs to take measures to ensure that their ASUs observe the requirements laid down in their own SQS manuals in the implementation of SQSs and encourage NGOs to make use of the self-assessment checklist on SQSs as well as remind NGOs to exercise due care in completing the self-assessment checklist (para. 3.13);

Monitoring of service delivery by SWD

- (n) closely monitor those ASUs of NGOs which have had persistent underperformance in the provision of services and instigate timely action, where warranted, to tackle cases of persistent underperformance in accordance with provisions in the LSG Manual (para. 4.4(a) and (c));
- (o) ascertain the reasons for the significant underperformance in the provision of the HCS and the ISS and determine the way forward for the two services (para. 4.24(a));
- (p) follow up with the ASUs to align their understanding and practices regarding the counting of HCS and ISS cases into the caseloads reportable to the SWD (para. 4.24(b));
- (q) remind case managers of the HCS and the ISS to ensure that necessary support services are provided to service users as far as possible (para. 4.24(c));

Executive Summary

- (r) **provide to the ASUs more guidelines on discharging service users (para. 4.24(d));**
- (s) **take measures to address the issue of service users receiving both the HCS and the ISS (para. 4.24(e));**
- (t) **with a view to optimising the use of public money, explore the feasibility of fine-tuning the existing arrangements for calculating subventions to the ASUs providing the HCS and the ISS (para. 4.24(f));**
- (u) **to properly monitor the effectiveness of services provided by ASUs, step up efforts to set Outcome Standards with ASUs and incorporate such standards into the pertinent FSAs (para. 4.28);**
- (v) **remind NGOs that the SWD should be consulted prior to the conduct of activities which they regard as FSA related activities but not stipulated in FSAs (para. 4.32(b));**
- (w) **communicate with the NGO on how best to handle the cases of children occupying the emergency places longer than the stipulated periods (see para. 18) and set a reasonable timeframe for social workers to complete the admission procedures (para. 4.32(c) and (e));**
- (x) **consider conducting, on a periodic basis, comprehensive reviews of the performance of ASUs with non-time-defined FSAs (para. 4.37);**
- (y) **closely monitor the progress of special visitation programme visits (which are being conducted by the SWD to cover those ASUs which have never been visited) to accomplish the visits within the stipulated timeframe (para. 4.48(a));**
- (z) **take enhanced measures to ensure that, as far as possible, service users to be requested to complete questionnaires or interviewed are not pre-selected by ASUs and that the staff of the SWD responsible for conducting performance visits select samples for examination at ASUs themselves (para. 4.48(d) and (e));**

Executive Summary

- (aa) consider extending the coverage of annual performance review (e.g. to include the attainment of ESRs and SQSs) (para. 4.48(h));
- (ab) take measures to ensure that the results of NGOs' compliance with the ESRs, SQSs, Output Standards and Outcome Standards are brought to the attention of the SWD's directorate periodically (para. 4.48(i));

Governance and management matters

- (ac) remind NGOs to provide accurate information on the progress of implementation of BPM guidelines and submit self-assessment reports in a timely manner (para. 5.11(a));
- (ad) enhance the promotion of Level Two guidelines among NGOs (para. 5.11(c));
- (ae) step up efforts to forge agreement between the NGOs' management and the staff side on the four items of the BPM relating to human resource management (para. 5.11(d));
- (af) make greater efforts to encourage NGOs to adopt the good practices outlined in the Efficiency Unit's Guide (para. 5.22);
- (ag) remind NGOs receiving LSG subventions to monitor their staff turnovers and take measures to address the problem of high staff turnovers (para. 5.31(a));

Review of LSG subvention system

- (ah) in order to help the conduct of actuarial studies or related studies in future, obtain feedback from all NGOs that have conducted the studies and promulgate the feedback to NGOs (para. 6.14(a));
- (ai) take measures to improve the management of potential conflicts of interest in the handling of complaints by the LSG Independent Complaints Handling Committee (para. 6.14(b)); and

Executive Summary

- (aj) **in carrying out the review on the enhancement of the LSG subvention system, take into account the audit findings and recommendations in this Audit Report (para. 6.19).**

Response from the Government

28. The Director of Social Welfare agrees with the audit recommendations. The Secretary for Labour and Welfare has said that the LWB has tasked the SWD to set up a Task Force to work with stakeholders to conduct a review on the enhancement of the LSG subvention system. The review will take into account the audit findings and recommendations in this Audit Report.

PART 1: INTRODUCTION

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

Background

1.2 The Social Welfare Department (SWD) is responsible for developing and co-ordinating welfare services in Hong Kong. It provides subventions to non-governmental organisations (NGOs) for the provision of welfare services to the public.

1.3 Welfare services provided by NGOs comprise elderly services, family and child welfare services, rehabilitation services, and youth and corrections services (see Photographs 1 to 4). Under these four areas of welfare services, there are some 140 types of services. Examples are as follows:

- (a) ***Elderly services.*** The services include community care and support services for elderly persons (e.g. day care centres for the elderly, integrated home care services, and neighbourhood elderly centres) and residential care services for elderly persons (e.g. care and attention homes for the elderly and nursing homes);
- (b) ***Family and child welfare services.*** The services include a variety of family and child welfare services and programmes. Examples are family and child protective services for child abuse and spouse battering, day child care service, and adoption service;
- (c) ***Rehabilitation services.*** The services include rehabilitation services for persons with disabilities (e.g. pre-school service for children with disabilities, sheltered workshops, and care-and-attention homes for severely disabled persons) and preventive and rehabilitative services for drug abusers; and

Introduction

- (d) *Youth and corrections services.* The services include:
- (i) outreaching social work service and school social work service, and provision of centre-based services for children and youth;
 - (ii) services for offenders, which include counselling, employment assistance and supportive services for offenders, discharged prisoners and ex-offenders; and
 - (iii) services for community development, which include community work and group services for the general public with particular focus on the needs of vulnerable groups, outreaching support, casework and group work services to assist street sleepers, ex-mentally ill persons, and ex-offenders to integrate into the community.

Photographs 1 to 4

Welfare services provided by NGOs

Photograph 1

Elderly services



Photograph 2

Family and child welfare services



Photograph 3

Rehabilitation services



Photograph 4

Youth and corrections services



Source: SWD records

Introduction

1.4 In 2016-17, the SWD paid subventions of \$12.5 billion in the form of lump sum grant (LSG — see paras. 1.8 to 1.19) to 165 NGOs for the provision of welfare services. Appendix A shows, for 2016-17, a breakdown of the welfare services provided by the 165 NGOs and the individual amounts of LSG subventions granted to them (Note 1).

Conventional subvention system

1.5 Prior to the establishment of the LSG subvention system in January 2001, subventions were provided to NGOs through the conventional subvention system. Today, the conventional subvention system is still in use alongside the LSG subvention system, albeit for a few NGOs only (see para. 1.20).

1.6 Under the conventional subvention system, the SWD pays NGOs for the actual costs incurred in the delivery of recognised welfare services. The system had been criticised in several areas including:

- (a) the system was rigid, inflexible, complex and bureaucratic with tight input control over NGOs by imposing standard staffing structures, levels of pay and staff qualifications. It involved elaborate rules and procedures in

Note 1: *In addition to the LSG subventions, the SWD also provides other subventions/subsidies to the NGOs:*

- (a) subventions to NGOs under the conventional subvention system (see para. 1.6);*
- (b) refund of rent and rates to NGOs and payments to NGOs for specific purposes (e.g. dementia supplement for the elderly with disabilities, anti-violence programme, and services for asylum seekers and torture claimants);*
- (c) other payments for welfare services (e.g. contracted residential care homes for the elderly and residential care places for the elderly purchased under the Nursing Home Place Purchase Scheme); and*
- (d) grants under the Lotteries Fund to finance the capital expenditure of welfare projects and the experimental projects with limited duration. The Lotteries Fund is mainly funded by the proceeds of the Mark Six Lottery.*

vetting of staff qualifications and reimbursement of expenses for procurement and recognised items. NGOs were not allowed to freely deploy resources (e.g. an NGO was not allowed to reallocate the resources among the services) or retain any surpluses. There was, therefore, no incentive for NGOs to encourage more effective use of resources to achieve lower costs, better value for money or improved services to users;

- (b) once subvention was provided to an NGO to run a particular service, it was seldom revised even when service needs had changed or the modes of operation required revamping. It did not encourage innovation and service re-engineering to meet changing community needs; and
- (c) there were inherent difficulties in defining and measuring results, particularly in terms of linking outcomes of service objectives with resource inputs.

1.7 In 1994, the Government commissioned a consultancy study to review the conventional subvention system. The study, completed in 1998, concluded that the system required a revamp including:

- (a) the conventional subvention system, which was an input-based funding system, should be changed so as to provide more flexibility to NGOs to manage their resources;
- (b) clearer sets of performance measures should be introduced to make subvented NGOs more accountable for their service quality; and
- (c) a cultural change should be initiated to arouse the sector's awareness of the need to deliver services in a responsive, cost-effective and competitive manner.

Lump sum grant subvention system

Key features of LSG subvention system

1.8 Subsequent to the consultancy study, the Government organised, from February to May 2000, a series of briefings for NGOs and attended meetings with

Introduction

various public organisations and advisory committees including the Panel on Welfare Services of the Legislative Council (LegCo), various advisory bodies (e.g. the Elderly Commission and the Social Welfare Advisory Committee), staff associations, individual LegCo Members, and numerous concern groups on details of the reform package. In January 2001, the LSG subvention system was rolled out as a major revamp of the provision of funding to NGOs. Under this system, annual funding is granted to individual NGOs on a lump sum basis. NGOs receiving subventions under the conventional subvention system (see para. 1.6) are not obliged to but may voluntarily opt for the LSG subvention system.

1.9 The aim of introducing the LSG subvention system was to enhance efficiency and effectiveness, improve quality, encourage innovation, strengthen accountability and provide flexibility, with a view to deploying resources in the most cost-effective manner to meet changing needs in the community. Under the LSG subvention system, NGO management has the autonomy and flexibility in the deployment of subvention resources to meet the service needs. Within the context of the Funding and Service Agreements (FSAs — see para. 1.18), which include the carrying out of FSA related activities and other support services (e.g. central administration and supervisory support), NGOs have flexibility in deploying their LSG subventions (except the provident funds — see para. 2.3(b)) to pay expenses including the following:

- (a) staff expenses: salary, allowances and personnel-related expenses (including fringe benefits) for their staff based on their own staffing structure and remuneration; and
- (b) other operating expenses.

LSG subvention is provided on an NGO basis. NGOs' management may redeploy LSG resources across service units as long as these are among the service units governed by FSAs after assessing needs. The operation of the LSG subvention system is described in more detail in paragraphs 1.12 to 1.19.

1.10 The Director of Social Welfare is responsible for ensuring that the social welfare services delivered by the SWD or NGOs are meeting the Government's policy objectives, and that they remain so in the light of changing circumstances. Thus, the SWD works closely with NGOs to review the effectiveness of the services rendered

and to obtain regular feedback from NGOs in the process of service planning and evaluation.

1.11 NGOs receiving Government subventions are responsible for effective planning and cost-effective administration of the services and activities governed by FSAs. In discharging this role under the LSG, NGOs are expected to build in an accountability mechanism and be flexible and proactive in responding to the changing needs of the community. NGOs receiving LSG and other social welfare subventions are directly accountable to the SWD and the public (e.g. through public disclosure of Annual Financial Reports (AFRs) — see para. 1.18(d)) for proper control and prudent use of public funds and for compliance with the conditions spelt out in the LSG Manual and other guidelines. It is the responsibility of NGOs' board and management to maintain proper control of the LSG and ensure that the use of LSG meets the requirements and objectives set out in FSAs. To avoid misunderstanding, NGOs should consult the SWD in a timely manner as to what constitutes FSA related activities before conducting such activities. NGOs must also take speedy actions to rectify any anomalies identified by the SWD.

Operation of LSG subvention system

1.12 ***Calculation of LSG subvention.*** The annual amount of LSG subvention to an NGO, which opted for the LSG subvention system in 2001, is the sum of items (a), (b) and (c) minus item (d) as described below:

- (a) ***Staff salaries.*** The salaries, known as “Benchmark” salaries and “Snapshot” salaries according to the SWD, were calculated based on the following principles:
 - (i) the “Benchmark” salaries for the LSG of each NGO were determined on the basis of the mid-point salaries of the Government's pay scales (Civil Servant Master Pay Scale and

Introduction

Model Scale 1) as at 31 March 2000 (Note 2) of the NGO's recognised staff establishments (Note 3) as at 1 April 2000;

- (ii) a "Snapshot" of staff strength of each NGO as at 1 April 2000 (i.e. "Snapshot Staff") was taken and its salary subvention for 2000-01 was projected. The "Snapshot" salaries were then compared with the "Benchmark" salaries;
- (iii) NGOs with "Snapshot" salaries above the "Benchmark" salaries received the "Snapshot" salaries. Their "Snapshot" salaries were reduced annually in steps of 2% per annum starting from 2008-09 (Note 4) to reach the "Benchmark" salaries so that NGOs delivering the same type and level of service would receive the same level of subvention; and
- (iv) for NGOs with "Snapshot" salaries below the "Benchmark" salaries, they received the "Benchmark" salaries in one step provided that their service had already been fully commissioned

Note 2: *After a review in the civil service, the salary levels of various civil service ranks were adjusted downward with effect from 1 April 2000. However, the higher pay scale as at 31 March 2000 was used as the initial level of funding to help NGOs adapt to the LSG funding mode.*

Note 3: *The SWD has set out recognised staff establishments for different types of services (see para. 1.3) provided by an NGO. These establishments are set for the purpose of calculating the subvention for the welfare services concerned and are not for benchmarking of manpower or staffing structure. Details of the establishments are available on the SWD website (http://www.swd.gov.hk/en/index/site_ngo/page_subventions/sub_modesofsub/id_2907). As an example, according to the pertinent recognised staff establishment, for an NGO which runs a day care centre for the elderly with a capacity of 60 places, the centre would need 0.2 Social Work Officer, 1 Registered Nurse, 1.5 Enrolled Nurses, 1 Occupational Therapist II/ Physiotherapist II, 10 Personal Care Workers, 1 Clerical Assistant, 3 Workmen II, and 3 Motor Drivers.*

Note 4: *The reduction was planned to start from 2006-07. To facilitate NGOs to meet contractual commitments to "Snapshot Staff", the reduction was postponed to 2008-09. NGOs which had genuine financial difficulties were also allowed to further postpone to 2009-10. To meet such commitments, the SWD also provided special grants to NGOs (see para. 1.14).*

(otherwise in line with the agreed phased commissioning of the facility/service).

Thereafter, the NGO's staff salaries are adjusted annually according to the civil service pay adjustment;

- (b) **Provision for provident funds.** "Snapshot Staff" and "non-Snapshot Staff" are generally entitled to provident fund benefits. The NGO's provision for provident funds is calculated on an actual entitlement basis for "Snapshot Staff" (see para. 1.12(a)(ii)) and at 6.8% of the mid-point salaries of the Government's pay scales of the recognised staff establishments for "non-Snapshot Staff" recognised posts (i.e. in recognised staff establishments) (Note 5). When a member of the "Snapshot Staff" within the recognised staff establishment leaves the NGO, the provision of provident fund will be replaced by 6.8% of the mid-point salary of the recognised rank of that staff member in the "Snapshot" as at 1 April 2000 (the salary portion of the LSG remains unchanged, subject to the coming down to the "Benchmark" salaries (see para. 1.12(a)(iii));
- (c) **Other charges.** The provision of other charges refers to other miscellaneous operational expenses (e.g. administrative expenses, utilities, stores and equipment, programme expenses and food, etc.) and allowances (e.g. overtime allowance for drivers in day care centres for the elderly, incentive payments for sheltered workshop workers, etc.). Other charges are adjusted according to the Composite Consumer Price Index published regularly by the Census and Statistics Department; and
- (d) **Recognised fee income.** The SWD allows an NGO to make charges for its welfare services provided. Such charges are stipulated by the SWD (e.g. monthly residential fee of \$1,994 for elderly nursing homes and annual membership fee of \$21 for neighbourhood elderly centres as at 1 April 2016).

Note 5: *Provision of provident funds for "Snapshot Staff" is calculated as follows: 5% of the staff's monthly salaries for first 10 years of service; 10% for 11th to 15th years of service; and 15% for 16th or onward years of service. The number of "Snapshot Staff" had decreased from 21,638 as at 1 April 2000 to 6,395 as at 1 September 2016. The SWD does not maintain information on the number of "non-Snapshot Staff" employed by NGOs.*

Introduction

1.13 The above method of calculation of subvention also applies to an NGO that joined the LSG subvention system after 2001. However, the staff salaries are funded by the SWD according to the “Benchmark” salaries (see para. 1.12(a)(i)) prevailing at the time when the NGO joined the system (i.e. taking into account annual civil service pay adjustments). Furthermore, provision of provident funds is provided at 6.8% of the mid-point salaries of the Government’s pay scales of the recognised staff establishments (see para. 1.12(b)). In determining other charges, the SWD makes reference to the expenditure incurred for the provision of other similar services at that time.

1.14 *Special funding for NGOs.* In order to address NGOs’ concern over their financial viability, the SWD had provided additional special funding to NGOs subsequent to 1 April 2000, as follows:

- (a) an NGO might apply to the SWD for a Tide-Over Grant covering a five-year period from 2001-02 to 2005-06 for the NGO to honour their contractual commitments to “Snapshot Staff”. In the period, \$1,473 million had been paid to 125 NGOs;
- (b) after the termination of the Tide-Over Grant in 2005-06, an NGO might apply to the SWD for a Special One-off Grant to meet especially the NGO’s contractual commitments to “Snapshot Staff” as well as to meet the NGO’s financial commitments for service re-engineering and organisational restructuring as a result of transiting to the LSG subvention system. A Special One-off Grant of \$912.4 million had been approved for 124 NGOs (unspent balances were subject to clawback to the SWD);
- (c) in 2008-09, the Lotteries Fund Advisory Committee allocated a one-off grant of \$200 million for subvented NGOs to strengthen support and training for staff and enhance service quality;
- (d) in 2008-09, an additional \$200 million recurrent funding (about 3% of NGOs’ total recurrent subvention) was provided to help NGOs strengthen their administrative capacity; and
- (e) in 2014-15, another additional recurrent funding of \$470 million was allocated to NGOs to strengthen their central administrative and supervisory support, increase the provision for other charges (see para. 1.12(c)), and

recruit and retain paramedical staff more effectively or hire paramedical services to deliver their subvented services.

1.15 ***Retention of unspent funds.*** An NGO can retain unspent LSG subvention in a reserve to meet future spending. The cumulative reserve (separate from Provident Funds Reserve (PF Reserve) and Holding Account — see para. 2.3) is capped at 25% of the annual operating expenditure (excluding expenditure for provident funds) of the subvented services of the NGO. Any amount above the 25% cap is subject to claw-back and should be returned to the Government. The reserve can be used at the discretion of the NGO on FSA activities and FSA related activities.

1.16 ***Accountability of NGOs.*** Under the LSG subvention system, the SWD draws up an FSA for each service (see para. 1.3) that a service unit of an NGO provides. For example, if a unit provides two services, two FSAs are drawn up and the SWD regards the unit as two “agreement service units” (ASUs).

1.17 For services commencing after the establishment of the LSG subvention system, the duration of FSAs is three or five years depending on the types of services provided. For services commencing before the establishment, the FSAs are not subject to any time constraints.

1.18 An FSA defines the welfare service to be provided by an ASU. It also stipulates the following:

- (a) the Output Standards (e.g. enrolment rates, hours of training per service user, and number of street sleepers approached within one year) and Outcome Standards (e.g. percentage of service users with improved capability in managing family problems, and percentage of service users with improved self-esteem after receiving the service from the unit) to be achieved by the ASU;
- (b) Essential Service Requirements (ESRs) (e.g. staff qualifications, opening hours of institutions, and availability of appropriate equipment) to be met by the ASU;

Introduction

- (c) the need to observe the 16 Service Quality Standards (SQSs — see Appendix B). The SQSs apply unanimously to all ASUs of NGOs. The SQSs define the policies, procedures and practices that an ASU should have in place in order to deliver quality services to service users. For example, SQS14 states that an ASU should respect the service users' rights for privacy and confidentiality. An ASU is, therefore, required to have measures in place to ensure that personal care activities are conducted in a manner whereby the privacy and dignity of individual service users are respected; and
- (d) the need to follow the requirements laid down in the LSG Manual and LSG Circulars. The LSG Manual sets out, for example, the roles and responsibilities of the SWD and NGOs, the structure of the LSG (e.g. the 25% cap — see para. 1.15), and other operational guidelines (e.g. the need to submit to the SWD AFRs (Note 6) on the use of LSG subvention by NGOs). The LSG Circulars supplement the LSG Manual.

1.19 The NGOs are also required to adopt the best practices (which have been agreed by representatives of NGOs' management, staff side, service users and professional groups) laid down in the Best Practice Manual (BPM — see Appendix C) developed under the auspices of the LSG Steering Committee (see para. 1.24). The BPM aims to enhance NGOs' financial management, human resource management, as well as corporate governance and accountability. It comprises two levels of guidelines. Level One guidelines are those that NGOs are expected to follow unless they have strong justifications not to do so. Level Two guidelines are those that NGOs are encouraged to adopt. The BPM came into effect on 1 July 2014 and NGOs are given three years (i.e. by 30 June 2017) to review their existing policies and procedures with a view to meeting the best practice requirements of the BPM. More details on paragraphs 1.18 and 1.19 are provided in PARTs 2 to 5 of this Audit Report.

Note 6: *An NGO must prepare on cash accounting basis an AFR in respect of all its FSA activities (including support services to FSA activities) funded by the LSG as well as other social welfare subventions/subsidies (e.g. refund of rent and rates), and submit the AFR to the SWD together with the auditor's review report.*

NGOs joining LSG subvention system

1.20 In 2001, of the 182 NGOs under the conventional subvention system, 96 (53%) joined the LSG subvention system. In 2016-17, of the 170 NGOs receiving subventions from the SWD (Note 7), 165 (97%) were under the LSG subvention system, while the other five (3%) (Note 8) NGOs remained in the conventional subvention system.

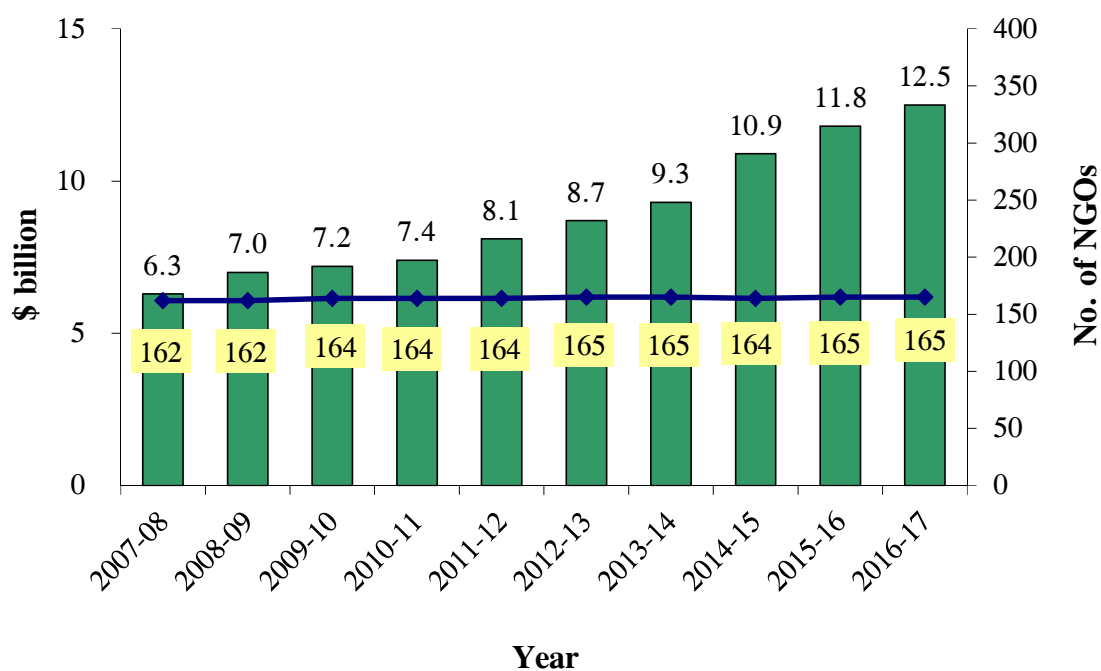
1.21 In the ten-year period 2007-08 to 2016-17, LSG subventions had doubled from \$6.3 billion in 2007-08 to \$12.5 billion in 2016-17 (see Figure 1). In 2016-17, LSG subventions granted to the 165 NGOs ranged from \$79,000 to \$1,121 million (see Table 1 and Appendix A). As at 31 March 2017, the SWD drew up FSAs for 2,691 ASUs of the 165 NGOs. Of the 2,691 ASUs, 717 (27%) ASUs were providing elderly services, 508 (19%) ASUs were providing family and child welfare services, 1,179 (44%) ASUs were providing rehabilitation services, and 286 (10%) ASUs were providing youth and corrections services.

Note 7: *The number of NGOs receiving SWD subventions decreased from 182 in 2000-01 to 170 in 2016-17.*

Note 8: *The five NGOs were Hong Kong Chiu Chow Po Hing Buddhism Association Limited, New Kowloon Women Association Limited, The Baptist Convention of Hong Kong, The Hong Kong Council of the Church of Christ in China, and The Society for the Aid and Rehabilitation of Drug Abusers. In 2016-17, these five NGOs received a total subvention of \$20.4 million from the SWD.*

Figure 1

LSG subventions
(2007-08 to 2016-17)



Legend: ■ LSG subventions
◆ Number of NGOs

Source: SWD records

- Remarks:
1. The increase in subventions in the period 2007-08 to 2016-17 was due to reasons such as civil service pay and inflationary adjustments (see para. 1.12(a) and (c)), additional subventions for NGOs' new services or new ASUs and for enhancement of services and the LSG subvention system (see para. 1.14(c) to (e)).
 2. An NGO left the LSG subvention system in 2014-15 while another NGO joined the system in 2015-16.

Table 1

**LSG subventions granted to 165 NGOs
(2016-17)**

Subvention granted to each NGO (Note) (\$ million)	No. of NGOs	Total subventions granted (\$ million)
More than 200	22 (13%)	8,314 (66%)
More than 100 to 200	11 (7%)	1,779 (14%)
More than 50 to 100	12 (7%)	822 (7%)
50 or below	120 (73%)	1,615 (13%)
Total	165 (100%)	12,530 (100%)

Source: Audit analysis of SWD records

Note: The highest and lowest amounts of subvention granted were \$1,121 million and \$79,000 respectively.

Administration of LSG subventions by SWD

1.22 A number of branches of the SWD are responsible for the administration of the LSG subvention system:

- (a) ***Finance Branch.*** The Finance Branch carries out functions such as conducting income and expenditure analyses based on NGOs' AFRs and carrying out inspections of the accounting records of NGOs' ASUs. The inspections include reviewing compliance with accounting and financial reporting requirements as laid down in the LSG Manual, and reviewing/advising on internal control procedures. As at 30 June 2017, 14 staff of the Finance Branch were involved in the review of AFRs and accounting inspections;
- (b) ***Service Branches.*** There are a total of five Service Branches involved in LSG service matters, namely the Clinical Psychological Service Branch, the Elderly Branch, the Family and Child Welfare Branch, the

Introduction

Rehabilitation and Medical Social Services Branch and the Youth and Corrections Branch. The Clinical Psychological Service Branch provides psychological assessment and psychotherapy to service users of the other four Service Branches. These other four branches are responsible for the planning, development and implementation of welfare services, which include services provided by NGOs receiving LSG subventions, to meet local community needs as well as for setting service specifications for NGOs' FSA activities (i.e. Output Standards, Outcome Standards and ESRs). As at 30 June 2017, the five Service Branches had 112 staff involved in LSG service matters; and

- (c) **Subventions Branch.** The Subventions Branch formulates, executes, reviews and interprets subvention rules and procedures. It also monitors and evaluates the quality of NGOs' welfare services. Monitoring and evaluation work includes:
- (i) examining the quarterly statistical information submitted by NGOs in respect of each ASU's performance on Output Standards and Outcome Standards (see para. 1.18(a));
 - (ii) examining the reports of annual self-assessment conducted by NGOs in respect of each ASU's compliance with ESRs and SQSs and achievement of planned targets of Output Standards and Outcome Standards (see para. 1.18);
 - (iii) conducting review visits/surprise visits in selected ASUs of NGOs to ascertain compliance with Output Standards, Outcome Standards, ESRs and SQSs; and
 - (iv) conducting on-site assessment of new ASUs and other ASUs with identified/suspected problem areas in service performance (Note 9).

Note 9: *The conduct of self-assessment by NGOs and the carrying out of other control functions by the SWD are the integral parts of the SWD's Service Performance Monitoring System. The System was established jointly by the SWD and NGOs receiving LSG subventions in 1999 to ensure that quality welfare services are provided to the public and to increase the accountability of both the SWD and the NGOs in service delivery.*

As at 30 June 2017, 36 staff in the Subventions Branch were involved in handling service performance monitoring, complaints handling, administrative support work and subvention matters (e.g. examining the report of annual self-assessment conducted by NGOs in respect of implementation of BPM — see para. 1.19).

1.23 An organisation chart covering the aforesaid branches of the SWD as at 30 June 2017 is shown at Appendix D.

LSG Steering Committee

1.24 In February 2001, an LSG Steering Committee (Note 10) was appointed by the Labour and Welfare Bureau (LWB) (i.e. the policy bureau of the SWD). The Committee is responsible for:

- (a) monitoring the implementation of the LSG subvention system and identifying areas for improvement;
- (b) discussing and suggesting solutions to problems arising from the implementation of the system;
- (c) facilitating communication and sharing of information and experience relating to the implementation of the system among the SWD, NGOs and their staff, and service users under the LSG subvention system;
- (d) monitoring the implementation of the recommendations of the review report on the LSG subvention system published by the LSG Independent Review Committee in December 2008 (see paras. 1.25 and 1.26); and
- (e) drawing up the BPM (see para. 1.19).

Note 10: *The LSG Steering Committee is chaired by the Director of Social Welfare and comprises two ex-officio members (i.e. Principal Assistant Secretary for Labour and Welfare (Welfare) and Assistant Director of Social Welfare (Subventions)) and 17 non-official members. Non-official members comprise representatives from NGOs' management, staff unions, service users and independent members of professional background.*

Introduction

LSG Independent Review Committee

1.25 In January 2008, an LSG Independent Review Committee (Note 11) was appointed by the LWB to review the LSG subvention system objectively, comprehensively and independently. The terms of reference of the Committee were:

- (a) to review the LSG subvention system with a view to assessing its overall effectiveness and identifying scope for improvement covering but not limited to:
 - (i) the overall implementation of the system;
 - (ii) the flexibility, efficiency and cost-effectiveness in the use of public funds and in service delivery by subvented NGOs;
 - (iii) the accountability and corporate governance of subvented NGOs;
 - (iv) the impact of the LSG on the quality of welfare service; and
 - (v) the handling of complaints related to the implementation of the system; and
- (b) to report findings and make recommendations to the Secretary for Labour and Welfare.

1.26 In December 2008, the LSG Independent Review Committee submitted to the Secretary for Labour and Welfare its review report, which concluded that the principles of the LSG subvention system were sound, the system was worth retaining, and every effort should be made to improve it. To this end, 36 recommendations on ways to improve the LSG subvention system (e.g. drawing up the BPM, reviewing the deadline for NGOs to submit AFRs and setting up an Independent Complaints Handling Committee) were made (see para. 6.2). The LWB accepted all the recommendations. The Committee was subsequently dissolved in December 2008.

Note 11: *The Committee comprised a non-official Chairman and four non-official members from different professional backgrounds (e.g. law and accounting).*

LSG Independent Complaints Handling Committee

1.27 In April 2009, an LSG Independent Complaints Handling Committee (Note 12) was set up in accordance with one of the 36 recommendations of the LSG Independent Review Committee. The Committee handles LSG-related complaints that cannot be satisfactorily addressed at the NGO level. The SWD provides secretariat support to the Committee. The secretariat screens complaints received, conducts direct investigation into complaints where necessary, and replies to complainants and NGOs concerned on outcomes of investigations on behalf of the Committee. The Committee relays decisions and recommendations to the SWD for following up with NGOs, and where appropriate, suggests improvements to the LSG subvention system.

1.28 In the period June 2009 to March 2017 (about eight years), the Committee received 1,241 complaints (see Table 2). The complaints were related to NGOs' compliance with service requirements, use of subventions and service performance.

Note 12: *The Committee comprises one Chairman, one Vice-chairman and six members. All of them are independent individuals from various backgrounds (e.g. law and medicine).*

Table 2

**Complaints received by
LSG Independent Complaints Handling Committee
(2009-10 to 2016-17)**

Year	No. of complaints
2009-10	106 (Note)
2010-11	153
2011-12	139
2012-13	141
2013-14	136
2014-15	155
2015-16	211
2016-17	200
Total	1,241

Source: SWD records

Note: The Committee started to receive complaints in June 2009.

1.29 Of the 1,241 complaints received, the LSG Independent Complaints Handling Committee investigated 127 complaints. These 127 complaints involved a total of 493 complaint issues. Of these 493 issues:

- (a) 423 (86%) issues were related to non-compliance with service requirements;
- (b) 56 (11%) issues were related to misuse of subventions; and
- (c) 14 (3%) issues were related to NGOs' management decisions on service provision.

Of the 493 complaint issues, 152 (31%) complaint issues were either fully or partially substantiated.

Audit review

1.30 The Audit Commission (Audit) has recently conducted a review of the administration of LSGs by the SWD. The review has focused on the following areas:

- (a) financial monitoring (PART 2);
- (b) self-assessment of service quality by NGOs (PART 3);
- (c) monitoring of service delivery by the SWD (PART 4);
- (d) governance and management matters (PART 5); and
- (e) review of the LSG subvention system (PART 6).

Audit has found room for improvement in the above areas and has made recommendations to address the issues.

1.31 In conducting this review, Audit carried out data analyses and examination of records at the Finance Branch and the Subventions Branch and visited 11 NGOs (Note 13). Of the 11 NGOs, Audit paid visits to:

- (a) five NGOs and five of their ASUs to examine specifically certain welfare services with underperformance (e.g. home care service for persons with severe disabilities) in the period 2014-15 to 2016-17. These NGOs were identified from Audit's data analyses and examination of records conducted at the Subventions Branch, based on criteria such as persistent underperformance or sudden change of performance patterns (e.g. years of

Note 13: *According to the LSG Manual, the Director of Audit may carry out such examination as he thinks fit into the economy, efficiency and effectiveness with which the NGOs have used public resources in discharging their functions.*

Introduction

underperformance followed immediately by a year of good performance). These five NGOs were selected for case studies on areas examined in this audit review; and

- (b) six NGOs and 18 of their ASUs to examine their use of LSG subventions in general. Matters covered included governance, delivery of services and financial arrangements. The NGOs were selected from the 165 NGOs receiving LSG subventions in accordance with a number of factors including the amounts of 2016-17 LSG subventions, the types of welfare services provided, and other factors such as the results of NGOs' self-assessment of service performance (NGOs with relatively better performance were selected alongside those with not so good performance).

1.32 Of the 23 ASUs visited:

- (a) 3 ASUs were providing elderly services;
- (b) 4 ASUs were providing family and child welfare services;
- (c) 14 ASUs were providing rehabilitation services; and
- (d) 2 ASUs were providing youth and corrections services.

1.33 The 11 NGOs had the following salient features:

- (a) **Welfare services.** The 11 NGOs (7% of 165 NGOs in 2016-17) had in total 716 ASUs (27% of 2,691 ASUs in 2016-17) which were LSG-subvented. The services provided by the ASUs comprised all the four types of welfare services provided by NGOs (see para. 1.3), namely, elderly services (151 ASUs), family and child welfare services (152 ASUs), rehabilitation services (361 ASUs), and youth and corrections services (52 ASUs);
- (b) **LSG subventions.** In 2016-17, the LSG subventions granted to the 11 NGOs (see Table 3) totalled some \$3,546 million (28% of \$12.5 billion in 2016-17); and

Table 3

**LSG subventions granted to 11 NGOs visited by Audit
(2016-17)**

Subvention granted to each NGO (\$ million)	No. of NGOs visited by Audit
More than 200	7
More than 100 to 200	1
More than 50 to 100	1
50 or below	2
Total	11

Source: Audit analysis of SWD records

- (c) ***Non-FSA activities.*** Apart from providing FSA activities funded by LSG subventions, the 11 NGOs also conducted non-FSA activities to render other services for the public. The funding for non-FSA activities include income from activities conducted by NGOs on a self-financing basis and from other subventions/grants/subsidies provided by government departments. In 2015-16, consolidated income (including income from all sources) of the 11 NGOs totalled \$9,052 million (Note 14). Of this amount, more than 50% of the income was generated from non-FSA activities.

1.34 In this Audit Report:

- (a) the 5 NGOs visited by Audit (see para. 1.31(a)) are denoted as NGOs A to E;

Note 14: *As at the time of completion of the fieldwork of this audit in September 2017, the 2016-17 audited financial statements of the 11 NGOs were not yet available.*

Introduction

- (b) another 6 NGOs visited by Audit (see para. 1.31(b)) are denoted as NGOs F to K;
- (c) the 23 ASUs of these 11 NGOs visited by Audit are denoted as ASU A to ASU W; and
- (d) the other NGOs and ASUs for which Audit carried out examination of the SWD records at the Finance Branch and the Subventions Branch (see para. 1.31) but did not pay visits are denoted by numerical numbers (e.g. NGO 1 and NGO 2, and ASU 1 and ASU 2).

General response from the Government

1.35 The Director of Social Welfare welcomes Audit's review on the "administration of lump sum grants by the SWD" and agrees with the audit recommendations with a view to enhancing the financial monitoring, performance of service delivery as well as the governance and management of NGOs.

1.36 The Secretary for Labour and Welfare has said that the LWB has tasked the SWD to set up a Task Force to work with stakeholders to conduct a review on the enhancement of the LSG subvention system. The Task Force, comprising members from LWB, SWD, NGO management, staff side, service users and independent persons, will oversee and chart the review, including discussion of specific areas in the LSG environment to be covered in the review, the audit findings and recommendations in this Audit Report, examination of specific areas where data collection from the sector is required, and consideration of the findings and recommendations of the review.

Acknowledgement

1.37 Audit would like to acknowledge with gratitude the full cooperation of the staff of the SWD and the NGOs visited by Audit during the course of the audit review.

PART 2: FINANCIAL MONITORING

2.1 This PART examines the SWD's financial monitoring of NGOs receiving LSG subventions, focusing on the following issues:

- (a) reserves retained by NGOs (paras. 2.2 to 2.17);
- (b) disclosure of NGOs' senior staff emoluments (paras. 2.18 to 2.29);
- (c) accounting inspections (paras. 2.30 to 2.35);
- (d) cross-subsidisation between LSG subventions and self-financing activities (paras. 2.36 to 2.42);
- (e) controls over fixed assets and petty cash (paras. 2.43 to 2.46); and
- (f) review of NGOs' fees and charges (paras. 2.47 to 2.53).

Reserves retained by non-governmental organisations

2.2 As mentioned in paragraph 1.15, an NGO receiving LSG subventions is allowed to retain unspent funds (excluding those mentioned in para. 2.3) in a reserve, up to a cap of 25% of the annual operating expenditure of the NGO, to meet future spending on FSA activities and FSA related activities. This reserve is known as the LSG Reserve.

2.3 In addition to the LSG Reserve, an NGO also retains two other types of reserves, namely, the Holding Account and the PF Reserve:

- (a) ***Holding Account.*** In order to facilitate NGOs to achieve their financial viability and to honour contractual commitments to "Snapshot Staff" after the cessation of the Tide-Over Grant (see para. 1.14(a)) in 2006-07, the SWD withheld the claw-back of LSG Reserves above the 25% cap for three years from 2004-05 to 2006-07. The cumulative LSG Reserves as at

Financial monitoring

31 March 2007 are kept in an account known as the Holding Account of individual NGOs. According to the SWD, NGOs may use such balances for FSA activities and FSA related activities; and

(b) **PF Reserve.** Provision for provident funds can only be used for provident fund contributions (e.g. for contributions to the Mandatory Provident Fund Schemes). For “Snapshot Staff”, the provident fund surplus (Note 15) is subject to claw-back as the provision is calculated on an actual entitlement basis, whereas for “non-Snapshot Staff”, the subvention is paid at 6.8% (Note 16) of the mid-point salaries of the recognised staff establishments (see para. 1.12(b)). While PF Reserve for “non-Snapshot Staff” is not capped by the 25% rule as in the case of LSG Reserve, NGOs have been advised to fully deploy their provident fund provisions and reserves for “non-Snapshot Staff” on provident fund contributions, including possibly special contributions to award “non-Snapshot Staff” for their good performance. The cumulative PF Reserve arises due to the following reasons:

- (i) when an NGO does not fill up the vacant posts soon or employs fewer “non-Snapshot Staff” than the recognised staff establishments while the provision of provident fund contributions is based on the recognised staff establishments (see Note 3 to para. 1.12(a)); and
- (ii) according to the SWD, it is not uncommon that NGOs provide their “non-Snapshot Staff” with the minimum 5% contributions as required under the Mandatory Provident Fund Schemes Ordinance (Cap. 485) and the staff may be salaried lower than the mid-point. This gives rise to the surplus of 1.8% (6.8% – 5%) in provision and the surplus between the actual provident fund contributions on paid salaries and the 6.8% of mid-point provisions.

Note 15: *Surplus in provident fund arises from the time lag between the provision of provident funds to “Snapshot Staff” and the time that the staff left their NGOs.*

Note 16: *The 6.8% contribution rate was set by the SWD.*

2.4 Table 4 shows a breakdown of reserves retained by NGOs in the period 2011-12 to 2015-16 while Table 5 shows an analysis of the balances of reserves retained by NGOs as at 31 March 2016.

Table 4

**Reserves retained by NGOs
(2011-12 to 2015-16)**

Reserve	As at 31 March				
	2012	2013	2014	2015	2016
	(\$ billion)				
LSG Reserve	0.7	0.8	0.9	1.4	1.7
Holding Account	1.9	1.9	1.8	1.8	1.8
PF Reserve	0.8	0.9	1.1	1.2	1.2
Total	3.4	3.6	3.8	4.4	4.7

Source: SWD records

Table 5

**Balances of reserves retained by NGOs
(31 March 2016)**

Balance	LSG Reserve (Note 1)	Holding Account (Note 2)	PF Reserve (Note 3)
	(No. of NGOs)		
Nil	15	22	6
> \$0 to \$100,000	5	7	7
> \$100,000 to \$1,000,000	33	31	58
> \$1,000,000 to \$5,000,000	60	30	49
> \$5,000,000 to \$10,000,000	16	19	15
> \$10,000,000 to \$20,000,000	11	9	11
> \$20,000,000 to \$30,000,000	9	6	10
> \$30,000,000 to \$40,000,000	4	6	3
> \$40,000,000 to \$50,000,000	2	3	2
> \$50,000,000 to \$60,000,000	3	2	0
> \$60,000,000 to \$70,000,000	3	3	1
> \$70,000,000 to \$80,000,000	2	1	1
> \$80,000,000 to \$90,000,000	0	1	0
> \$90,000,000 to \$100,000,000	1	0	0
> \$100,000,000	1	4	2
Total	165	144	165

Source: Audit analysis of SWD records

Note 1: The largest balance of NGOs' LSG Reserves was \$180 million.

Note 2: The largest balance kept in NGOs' Holding Accounts was \$170 million.

Note 3: The largest balance of NGOs' PF Reserves was \$112 million.

Need to implement good practices on use of reserves

2.5 As shown in Table 4, total reserves had risen by 38% from \$3.4 billion in 2011-12 to \$4.7 billion in 2015-16. Furthermore, the total balances of:

- (a) LSG Reserve had risen by 143% from some \$0.7 billion in 2011-12 to \$1.7 billion in 2015-16;
- (b) Holding Account had slightly decreased from \$1.9 billion to \$1.8 billion (Note 17) in the period 2011-12 to 2015-16; and
- (c) PF Reserve had increased by 50% from some \$0.8 billion in 2011-12 to \$1.2 billion in 2015-16.

Furthermore, as shown in Table 5, while the majority of the NGOs, regardless of their sizes of services and hence the subvention levels, had accumulated a balance of below \$30 million in LSG Reserve, Holding Account and/or PF Reserve, some NGOs had accumulated reserves in excess of \$100 million.

2.6 According to the Level One guidelines relating to the use of reserves (LSG Reserve and balance in Holding Account) of the BPM (see para. 1.19 and Appendix C), an NGO:

- (a) should maximise the use of the reserves in order to maintain or strengthen service delivery and implement strategic development plans, including building up a staff team with high quality; and
- (b) is required to, through convenient, effective and timely channels, disseminate information about the reserves in a reader-friendly format to staff members and the public. Such information should include briefly a plan on how the reserves will be used in the future.

Note 17: *While the Holding Account could be used to honour the contractual commitments with “Snapshot Staff” (see para. 2.3(a)), Audit noted that the number of “Snapshot Staff” had decreased by 70% from 21,638 as at 1 April 2000 (see para. 1.12(a)(ii)) to 6,395 as at 1 September 2016.*

Financial monitoring

2.7 According to the Level One guidelines relating to the use of PF Reserve of the BPM (see Appendix C), NGOs are required to:

- (a) maximise the use of PF Reserve for “non-Snapshot” staff for the designated purpose so as to enhance staff morale and their sense of belonging to the organisations; and
- (b) use convenient, effective and timely channels to disseminate information about the PF Reserve to staff members, including a brief plan on how the PF reserve will be used in the future.

2.8 NGOs are expected to follow the Level One guidelines, which include the practices relating to the use of reserves, unless they have strong justifications not to do so. They are given a transition period of three years (i.e. by 30 June 2017) to meeting the requirements of the BPM (see para. 1.19).

2.9 At the meeting of the LegCo Panel on Welfare Services held on 13 March 2017, the SWD reported the progress of the implementation of the BPM and shared the good practices of NGOs on the use of LSG Reserve. According to the SWD, it had also organised the Envisioning Programme on BPM, which consisted of seminars and workshops, from September 2015 to February 2016 for the senior management and boards of directors of NGOs to learn and share experiences and good practices on financial management, human resource management, corporate governance and public accountability.

2.10 In six of the NGOs visited by Audit (see para. 1.31(b)) during March to September 2017, Audit noted that some NGOs had planned their use of reserves. For example, one NGO, which had a total reserve of some \$35 million (being some \$11 million for LSG Reserve and some \$24 million for Holding Account balance), had planned to use \$20 million for service improvements and project enhancements, and upgrading the library system of its information accessibility centre. Another NGO was considering using LSG Reserve for incentive payments to staff. Some NGOs were also contemplating the use of PF Reserves.

2.11 Audit considers that the SWD needs to take further measures to facilitate NGOs to share, adopt and implement the good practices relating to the use of reserves and disclose the use of reserves according to the BPM guidelines. In circumstances where NGOs are unable to comply with the BPM guidelines, the SWD needs to ensure that NGOs provide strong justifications and give consent for exemption where appropriate. The SWD also needs to keep in view the balances of reserves and where necessary, reminds NGOs to take further measures to maximise the use of the reserves for enhancing FSA activities and FSA related activities.

Need to keep under review NGOs with persistent LSG operating deficits

2.12 In reviewing the reserves of the 165 NGOs receiving LSG subventions, Audit noted that while most of the NGOs had recorded LSG operating surpluses, some NGOs had incurred LSG operating deficits (see Table 6).

Table 6

**LSG deficits of NGOs
(2013-14 to 2015-16)**

	2013-14	2014-15	2015-16
No. of NGOs	83	31	31
Total amount of deficit	\$99,310,229	\$35,950,950	\$57,454,757
Lowest amount of deficit	\$863	\$2,714	\$2,042
Highest amount of deficit	\$12,902,923	\$6,395,623	\$10,615,385
Average amount of deficit	\$1,196,509	\$1,159,708	\$1,853,379

Source: Audit analysis of AFRs

2.13 Audit also noted that of the 31 NGOs that had incurred LSG deficits in 2015-16 (see Table 6), 14 had incurred deficits for three consecutive years from 2013-14 to 2015-16. Of these 14 NGOs, 8 had depleted their reserves (i.e. LSG Reserves and Holding Account balances) by the end of 2014-15. These 8 NGOs

Financial monitoring

financed their operations from other non-FSA sources (e.g. income from self-financing activities and donations and using their own reserves). Table 7 shows the 8 NGOs' financial positions for the years 2014-15 and 2015-16. Of the remaining 6 NGOs, the NGOs still had LSG reserves (i.e. LSG Reserves and Holding Account balances) after offsetting their LSG deficits against their LSG reserves (see Table 8).

Table 7

**Financing positions of eight NGOs having depleted their
LSG Reserves and Holding Account balances
(2014-15 and 2015-16)**

NGO	NGO's LSG deficit		NGO's overall operating surplus/(deficit) (Note 1)		NGO's overall reserve (Note 2)	
	2014-15 (\$)	2015-16 (\$)	2014-15 (\$)	2015-16 (\$)	2014-15 (\$)	2015-16 (\$)
NGO 1	(3,331,184)	(2,422,690)	25,560,821	(22,274,955)	55,756,621	32,684,207
NGO 2	(2,540,524)	(2,370,015)	46,546,051	52,025,542	805,650,494	834,727,626
NGO 3	(1,134,511)	(1,293,353)	1,044,230	(410,359)	8,944,617	8,128,412
NGO 4	(1,630,890)	(1,260,864)	8,531,101	3,859,683	54,388,120	56,985,844
NGO 5	(1,072,173)	(1,073,028)	19,873,549	15,664,619	260,708,236	270,047,074
NGO 6	(19,656)	(58,833)	2,867,150	46,638	16,155,210	16,200,818
NGO 7	(105,503)	(30,120)	492,791	285,428	14,801,161	15,086,589
NGO 8	(64,062)	(2,042)	1,638,511	1,663,405	6,451,671	6,775,135

Source: Audit analysis of AFRs and NGOs' consolidated financial statements

Note 1: The NGO's overall operating surplus/deficit comprises the LSG deficit and the surplus/deficit generated from operation of non-FSA activities (e.g. self-financing activities).

Note 2: The NGO's overall reserve was the cumulative amount of reserve after taking into account the NGO's overall operating surplus/deficit.

Table 8

**LSG deficits and reserves of six NGOs still having
LSG Reserves and Holding Account balances
(2013-14 to 2015-16)**

NGO	LSG deficits			LSG reserves as at 31 March 2016 (Note) (\$)
	2013-14 (\$)	2014-15 (\$)	2015-16 (\$)	
NGO K	(12,902,923)	(6,395,623)	(10,615,385)	46,454,078
NGO 9	(1,946,500)	(4,146,171)	(7,247,622)	48,815,711
NGO 10	(151,528)	(219,521)	(5,364,169)	73,306,038
NGO 11	(3,810,358)	(3,860,382)	(2,584,607)	16,450,408
NGO 12	(338,558)	(157,241)	(309,755)	1,051,185
NGO 13	(187,371)	(309,929)	(219,032)	1,758,924

Source: Audit analysis of AFRs

Note: Reserves included LSG Reserves and Holding Account balances.

Remarks: Figures in brackets represent deficits.

2.14 Audit further analysed the AFRs of NGOs 9 and K, which had incurred largest amounts of LSG deficits in 2015-16. They were also the two NGOs whose deficits had significantly increased in the period 2014-15 and 2015-16. Audit found that staff emoluments (including salaries, provident funds and allowances) accounted for 80% and 81% of the total expenditure of NGO 9 in years 2014-15 and 2015-16 respectively, while staff emoluments accounted for 70% and 72% of the total expenditure of NGO K in years 2014-15 and 2015-16 respectively. Table 9 shows that increases in expenditure on emoluments could be a reason for the NGOs' LSG deficits.

Table 9

**Staff emoluments of two NGOs
(2014-15 and 2015-16)**

Staff with annual emolument over \$500,000 (Note 1)	Number of staff		Increase in number of staff	Emoluments		Increase in emolument (\$ million)
	2014-15	2015-16		2014-15 (\$ million)	2015-16 (\$ million)	
NGO 9						
Between \$500,001 and \$1 million	29	36	7	22.6	28.6	6.0 (27%)
Over \$1 million	1	3	2			
	30	39				
NGO K						
Between \$500,001 and \$1 million	76	133	57	76.2	111.4	35.2 (46%)
Over \$1 million	15	19	4			
	91 (Note 2)	152 (Note 2)				

Source: Audit analysis of AFRs

Note 1: According to the LSG Manual, an NGO is required to disclose in the AFR the number of posts with annual personal emoluments of over \$500,000 paid by the LSG. The threshold was revised to \$700,000 in 2016-17.

Note 2: NGO K had 90 existing staff and one new recruit in 2014-15 and 152 existing staff in 2015-16 each receiving an annual emolument between \$500,001 and \$1 million or over \$1 million.

2.15 Under the LSG subvention system, NGOs are allowed flexibility in deploying LSG subventions within the context of FSAs for purposes including (but not limited to) staff expenses and other operating expenses (see para. 1.9). At an LSG Steering Committee Meeting (see para. 1.24) held in October 2003, the Director of Social Welfare stated that NGOs should enjoy autonomy in using LSGs or LSG Reserves on the condition that the regulations in the LSG Manual were complied with and the expenditure spent would not cause any financial difficulties to the NGOs. She, however, reminded that NGOs' management should bear in mind the accountability issue, both to the public and their staff. She reiterated that it was the SWD's responsibility to monitor NGOs' proper use of public resources and the subvention inspections (see para. 2.30) should continue to examine cases of irregular spending and would be conducted in line with the spirit of the LSG (i.e. promoting accountability and corporate governance). Audit considers that the SWD needs to ascertain the reasons for NGOs having persistent LSG operating deficits, and offer advice where warranted. The SWD also needs to keep under review the operation of those NGOs in deficits for possible financial viability issues and to ensure smooth provision of FSA activities to the public.

Audit recommendations

- 2.16 **Audit has *recommended* that the Director of Social Welfare should:**
- (a) **take further measures to facilitate NGOs to share, adopt and implement the good practices relating to the use of reserves (i.e. LSG Reserves, Holding Account balances and PF Reserves) and disclose the use of reserves according to the BPM;**
 - (b) **in circumstances where NGOs are unable to comply with the BPM guidelines, ensure that the NGOs provide strong justifications and the SWD gives consent for exemption where appropriate;**
 - (c) **keep in view NGOs' balances of reserves and where necessary, remind NGOs to take further measures to maximise the use of the reserves, as required by the BPM guidelines, for enhancing FSA activities and FSA related activities to better the provision of welfare services to the public;**

Financial monitoring

- (d) **ascertain the reasons for some NGOs having incurred large or persistent LSG operating deficits and offer advice where warranted; and**
- (e) **keep under review the operation of NGOs in deficits for possible financial viability issues and offer advice to NGOs where warranted.**

Response from the Government

2.17 The Director of Social Welfare agrees with the audit recommendations. She has said that:

- (a) the SWD will take follow up actions as recommended;
- (b) the welfare sector has agreed to allow NGOs time to review and set out their policies and guidelines on the implementation of the BPM during the three-year period from 1 July 2014 to 30 June 2017. The analyses on the 2016-17 cycle will be available in early 2018. The SWD will sustain measures to monitor NGOs' compliance with the BPM and facilitate NGOs to share, adopt and implement good practices on optimal use of reserves and disclosure of the use of such reserves; and
- (c) the SWD will examine NGOs' LSG Reserve and their financial position as shown in their audited financial statements to ascertain their ongoing financial viability.

Disclosure of non-governmental organisations' senior staff emoluments

2.18 In March 2003, in the light of public concern, the Director of Administration issued a Circular Memorandum (the Memorandum) promulgating a set of guidelines for the control and monitoring of remuneration practices in subvented bodies by Directors of government bureaux and Controlling Officers of government departments. The guidelines require a subvented body to review and disclose annually the remunerations of its top three-tier staff (hereinafter referred to as the disclosure

requirement) unless it meets one or more of the following exemption criteria (Note 18):

- (a) the subvented body receives government subvention of less than \$10 million a year; or
- (b) government subvention constitutes a proportion of 50% or less of the subvented body's operating income whereby the proportion is the average government subvention received in the past four years to the average operating income in the same period; or
- (c) the emoluments of top three-tier staff of the subvented body are funded entirely by income from sources other than the government.

According to the Memorandum, the subvented bodies should submit annual reports on the review of the number, rank and remunerations of their senior staff to their responsible Directors of Bureaux who may, with justifications, approve individual bodies to submit biennial or triennial review reports. To enhance transparency, Directors of Bureaux will work out with those subvented bodies under their purview suitable arrangements for public disclosure of their review reports. For a multi-disciplinary organisation providing services which fall under programme areas of different Directors of Bureaux, a Director of Bureau would be responsible for that part of the review report covering those senior staff who operate services under his/her policy purview. The Secretary for Financial Services and the Treasury subsequently promulgated in a separate circular the consequential amendments (e.g. "no double

Note 18: *There are other exemption criteria as follows:*

- (a) *government funds are provided as subscription/sponsorship fees;*
- (b) *government funds are provided as fees for the procurement of services;*
- (c) *organisations where their top three-tier positions are filled entirely by civil servants; and*
- (d) *organisations that are subject to statutory provisions or decisions approved by the Executive Council/the LegCo on staffing matters and where the provisions/decisions are in conflict with the new guidelines or have prescribed separate monitoring and control mechanisms (e.g. the Hospital Authority and the institutions funded by the University Grants Committee).*

Financial monitoring

housing benefits” rule in the subvented sector) to various financial circulars, memoranda and relevant guidelines in March 2003.

Deferring the implementation of disclosure requirement

2.19 The effective date for the implementation of the disclosure requirement was 1 April 2003. However, according to the Memorandum, the Directors of bureaux may, with justifications, approve implementation on a later date.

2.20 Instead of April 2003, the SWD implemented the disclosure requirement with effect from a later date in 2009-10 (Note 19). In January 2010, in a paper submitted in a meeting of the LSG Steering Committee to seek the members’ views on the implementation details of the Memorandum, the SWD stated that as the LSG subvention system had only been implemented for a short period of time by the time of 2003 and the LSG Manual had to be revised to include the disclosure requirement, the SWD only implemented the disclosure requirement in 2009-10. Audit, however, noted that although the membership of the LSG Steering Committee includes a representative of the LWB, there was no documentary evidence indicating that the LWB had, in accordance with the requirement of the Memorandum (see paras. 2.18 and 2.19), approved deferring the implementation of the disclosure requirement.

Note 19: *In September 2017, the SWD informed Audit that since the implementation of the LSG subvention system in 2001, NGOs have been required to disclose their personal emolument expenditures including the number of posts with personal emoluments in excess of \$500,000 in the AFRs submitted to the SWD. Furthermore, during 2001 to 2012, NGOs were required to provide information on personal emoluments of the top three highest paid staff members of the service unit or central administration office during the SWD’s accounting inspections (see para. 1.22(a)).*

More NGOs may be required to disclose senior staff emoluments

2.21 The SWD has implemented the disclosure requirement since 2009-10. In applying the exemption criteria, the SWD has used “the NGO’s operating income from the SWD” (Note 20) for meeting the criterion regarding “government subvention” (see para. 2.18). Regarding the 50% income threshold (see para. 2.18(b)), the SWD has used the NGO’s consolidated operating income as the basis for determining whether the threshold is met (see also Note 22(a) to para. 2.24(a)). On a financial year basis, NGOs not meeting the exemption criteria should submit a review report on remuneration packages for staff in the top three tiers (Note 21) to the SWD by 31 October. Information in the review report includes the number of staff, staff ranks, total staff cost, and a breakdown of staff salaries, provident funds, cash allowances and non-cash benefits (e.g. medical and dental insurance). NGOs are also required to make public disclosure of the review reports through prescribed means (e.g. uploading the information to the NGOs’ websites or reporting the information in their annual reports). Since June 2017, the SWD has made available all the NGOs’ 2015-16 review reports on the SWD’s website by uploading the reports or hyperlinking to the reports posted on the NGOs’ websites.

2.22 In 2015-16, of the 165 NGOs receiving LSG subventions, 66 (40%) were not exempted from submission of the review reports (these 66 NGOs are marked with an asterisk in Appendix A). These 66 NGOs employed a total of 870 staff in top three tiers. Table 10 shows the emoluments of these 870 staff while Table 11 provides information on the 10 NGOs with the highest emoluments for first-tier staff.

Note 20: *NGOs’ operating income from the SWD includes LSG subventions and other subsidies from the SWD (e.g. rent and rates subsidies) but excludes certain payments for welfare services (e.g. contracted residential care homes for the elderly).*

Note 21: *According to the SWD, the first-tier staff is the executive head of the NGO who is directly responsible to the NGO Board/Management Committee. The second-tier staff are responsible to the executive head of the NGO while the third-tier staff are responsible to the second-tier staff.*

Financial monitoring

Table 10

**Emoluments of NGO staff in top three tiers
(2015-16)**

Range of total annual remuneration paid by LSG subventions/other subsidies	No. of staff	No. of NGOs
<i>First tier</i>		
≤ \$500,000	4	4
> \$500,000 to \$1 million	25	15
> \$1 million to \$1.5 million	31	31
> \$1.5 million to \$2 million	14	13
> \$2 million	3	3
Subtotal	77	66
<i>Second tier</i>		
≤ \$500,000	34	10
> \$500,000 to \$1 million	146	36
> \$1 million to \$1.5 million	41	18
> \$1.5 million to \$2 million	4	2
> \$2 million	0	0
Subtotal	225	66
<i>Third tier</i>		
≤ \$400,000	159	14
> \$400,000 to \$600,000	131	12
> \$600,000 to \$800,000	130	21
> \$800,000 to \$1 million	138	16
> \$1 million to \$1.2 million	6	2
> \$1.2 million to \$1.4 million	4	1
Subtotal	568	66
Total	870	

Source: Audit analysis of SWD records

Table 11

Ten NGOs with highest emoluments for first-tier staff
(2015-16)

	Emolument (Note) (a) (\$ million)	NGO's operating income from the SWD (see para. 2.21) (b) (\$ million)	Percentage of emolument to NGO's operating income from the SWD (c) = (a) ÷ (b) × 100%	No. of ASUs of NGO
1	2.1	575	0.4%	28
2	2.0	627	0.3%	83
3	2.0	392	0.5%	79
4	2.0	300	0.7%	42
5	1.9	311	0.6%	75
6	1.8	38	4.7%	7
7	1.8	238	0.8%	58
8	1.8	278	0.6%	54
9	1.6	381	0.4%	62
10	1.6	255	0.6%	51

Source: SWD records

Note: All the 10 NGOs had only one staff in the first tier.

Financial monitoring

2.23 In June 2013, the SWD saw a need to seek confirmation from the Administration Wing of the Chief Secretary for Administration's Office (the Administration Wing) on whether the use of "NGO's operating income from the SWD" was in line with the criterion of "government subvention" (which includes subventions received by an NGO from various Government bureaux/departments) (see para. 2.18(b)) insofar as exemption criteria are concerned. The SWD, therefore, sought clarification and advice from the Administration Wing on whether the exemption criteria that the SWD had adopted, particularly in exempting an NGO receiving 50% or less of its operating income from the SWD from the reporting requirement, were in line with the guidelines promulgated by the Memorandum. In July 2013, the Administration Wing asked the SWD to seek advice from the Financial Services and the Treasury Bureau (FSTB). According to the SWD, in late July 2013, the SWD contacted the FSTB which advised that it would need more time to consider the matter. The SWD could not find any records on the FSTB's response to the SWD. In October 2017, the FSTB informed Audit that there was no written correspondence between the SWD and the FSTB.

2.24 In January 2017, the SWD further sought clarifications from the Administration Wing and the FSTB. There followed a series of deliberations via e-mail exchanges and meetings among the SWD, the Administration Wing and the FSTB from January to June 2017 to clarify the meaning of the exemption criteria as stated in the Memorandum in the light of relevant records of past discussions. In July 2017, noting the SWD's plan to send reminder of the disclosure requirement to subvented NGOs shortly and after consulting the FSTB, the Administration Wing conveyed the following advice to the SWD:

- (a) in determining whether a subvented body should be subject to the review and reporting requirement, the relevant Director of Bureau/Controlling Officer should look at the part of the operating income relating to the subvented services under his/her purview, i.e. a bureau/department has to monitor only those subvented bodies that receive subventions from the bureau/department for its responsible service/policy area and when those subventions account for more than 50% of the operating income of the subvented bodies in that specific service/policy area. The SWD's prevailing practice has been at variance with the intents of the Memorandum (Note 22);
- (b) the responsibility for administering the 2003 Guidelines rests with the relevant Director of Bureau. Detailed arrangements for monitoring the remuneration practices should be left to the relevant Director of Bureau and any departure from the Memorandum should be justified. The SWD should discuss with the LWB on its planned actions in the coming annual review; and

Note 22: *The SWD's prevailing practice in calculating the 50% threshold and the calculation as intended by the Memorandum (see para. 2.18(b)) are compared below:*

- (a) *The SWD's existing calculation:*

$$\frac{\textit{The NGO's operating income from the SWD}}{\textit{Operating income of the NGO as a whole (in accordance with the NGO's audited consolidated financial statements)}} \times 100\%$$

- (b) *Calculation according to the intents of the Memorandum:*

$$\frac{\textit{The NGO's operating income from the SWD}}{\textit{Operating income of the NGO under the purview of the Secretary for Labour and Welfare/ the Director of Social Welfare}} \times 100\%$$

Financial monitoring

- (c) the Administration Wing would, together with the FSTB, carry out a survey for the purpose of finding out from all relevant bureaux/departments how they have been implementing the Memorandum and whether they have encountered problems. It would analyse the findings and consider whether the Memorandum needs to be updated or revised (Note 23).

2.25 In August 2017, the SWD informed the Administration Wing (with a copy of the e-mail sent to the LWB) that the SWD would continue to adopt its existing way of disclosing the remunerations of NGOs' senior staff until the Administration Wing had completed its survey on how the bureaux/departments implement the Memorandum and confirmed whether the Memorandum was required to be updated or revised (see para. 2.24(c)).

2.26 In October 2017, the Administration Wing informed Audit that:

- (a) the advice given by the FSTB and the Administration Wing to the SWD in July 2017 (in para. 2.24) has clearly explained the intents of the Memorandum and pointed out that the SWD should discuss with the LWB on how to take forward this year's annual review. In other words, there is no need for the SWD and the LWB to wait until the completion of the survey in order to decide how they should implement the guidelines. While the survey serves the purpose of finding out how bureaux/departments have been implementing the guidelines, it is not intended as a means to ascertain the intents of the Memorandum, which have already been clearly explained to the SWD in July 2017;
- (b) as the Secretary for Labour and Welfare is responsible for administering the 2003 guidelines, whether the SWD should continue with its prevailing practice should be subject to the views of the Secretary for Labour and Welfare who should be satisfied that there is proper justification for the departure from the intents of the Memorandum or otherwise; and
- (c) the Administration Wing has finalised the design of the survey and issued the questionnaire concerned to all relevant bureaux in early October 2017.

Note 23: *The Administration Wing had informed Members of the LegCo the intents of the Memorandum at a closed-door case conference held in June 2017.*

Audit recommendations

- 2.27 **Audit has recommended that the Director of Social Welfare should:**
- (a) **take immediate action to obtain covering approval, from the Secretary for Labour and Welfare, for deferring the implementation of the requirement for the review and disclosure of emoluments of NGOs' staff in top three tiers; and**
 - (b) **take necessary follow-up action on the advice of the Director of Administration (see para. 2.24).**

Response from the Government

2.28 The Director of Social Welfare agrees with the audit recommendations. She has said that:

- (a) the SWD has recently obtained covering approval from the Secretary for Labour and Welfare for the SWD to defer the implementation of the guidelines in the Memorandum to 2009-10; and
- (b) the SWD will take necessary follow-up action on the advice of the Director of Administration.

2.29 The Secretary for Labour and Welfare has also said that upon receipt of the SWD's written request, the LWB has given covering approval for the deferment.

Accounting inspections

2.30 According to the LSG Manual, NGOs should always ensure that adequate internal controls are in place having regard to the nature and sizes of their organisations and the services provided. The SWD has provided advice on internal control procedures in respect of important financial activities as part of the SWD's subvention inspection process. As mentioned in paragraph 1.22(a), the SWD's Finance Branch conducts accounting inspections at NGO premises which include reviewing compliance with accounting and financial reporting requirements

Financial monitoring

as laid down in the LSG Manual, and reviewing/advising on internal control procedures (e.g. ascertaining the adequacy of internal controls and checking whether LSG subventions are properly used).

2.31 Prior to 2016-17, accounting inspections of all the 165 NGOs receiving LSG subventions were conducted on a uniform cycle basis. On-site inspections of the accounting records of NGOs' ASUs were conducted. In determining the number of ASUs to be inspected, the SWD's Finance Branch considered the following factors:

- (a) whether the ASUs had previously been inspected;
- (b) whether significant irregularities were found in previous inspections of the ASUs; and
- (c) whether the ASUs had incurred significant amounts of staff emoluments or other charges.

2.32 From 2016-17 onwards, the frequency of accounting inspections of the 165 NGOs may vary having regard to a host of risk factors, such as the amount of LSG subvention to the NGO and the number of the ASUs operated by the NGO.

Scope for improvement in conducting accounting inspections

2.33 Audit reviewed the accounting inspections conducted by the SWD's Finance Branch and found that:

- (a) in 2016-17, of the 53 NGOs involving a total of 120 ASUs planned to be inspected, inspections at 6 NGOs (11% of 53) involving a total of 21 ASUs (18% of 120) had not been conducted within 2016-17 as planned;
- (b) some irregularities and internal control weaknesses were commonly found in inspections of ASUs of NGOs (see Table 12);

Table 12

**Common irregularities and internal control weaknesses
found in accounting inspections
(2014-15 to 2016-17)**

	2014-15	2015-16	2016-17
No. of NGOs inspected	50	67	47
No. of ASUs inspected	96	143	99
	2014-15	2015-16	2016-17
	No. of NGOs		
<i>Irregularity found</i>			
Cross-subsidisation between FSA and self-financing activities/inclusion of non-FSA items in AFR/unrecognised rent and rates expenditure charged to LSG	5	14	16
Incorrect charging/reporting of provident funds	9	15	17
Omission of FSA or FSA related items in AFR	5	8	5
Inclusion of non-cash items (e.g. depreciation) in/exclusion of cash items from AFR	19	15	15
Non-compliance with procurement procedures	10	19	18
<i>Area of internal control weakness found</i>			
Revenue collection and receipt (e.g. receipt registers not prepared)	16	11	22
Payment (e.g. invoices not stamped with a "PAID" chop upon settlement of expenses)	15	15	18
Bank account and cheque (e.g. late preparation of bank reconciliation statements and cheques remained unrepresented for more than six months)	17	16	27
Petty cash (e.g. no acknowledged receipts of petty cash reimbursements)	12	10	11
Programme income and expenses (e.g. financial reports not promptly reviewed after completion of programmes)	13	13	11
Fixed assets (e.g. incomplete/incorrect fixed asset registers)	15	18	25

Source: Audit analysis of SWD records

Financial monitoring

- (c) internal control weaknesses of ASUs of some NGOs had existed for a long period of time (see Table 13 for an example of NGO D having 90 ASUs as at November 2015); and

Table 13

Internal control weaknesses of NGO D's ASUs

	ASU (Note 1)		
	2008-09	2010-11	2013-14
<i>ASU of the NGO inspected (Note 2)</i>	1,2,3,4	1,5,6,7	8,9,10,11
<i>ASU having the following area of internal control weakness</i>			
Revenue collection and receipt	1,3,4	1,5,7	
Payment	1,2,3,4	1,5,6,7	
Bank account and cheque		1	
Petty cash		1,5,7	8,9,10,11
Advance of programme expenses to staff		5,7	9,10
Programme income and expenses	2,4		9,10,11
Fixed assets	1,2		8,10,11

Source: Audit analysis of SWD records

Note 1: The NGO's ASUs had also been inspected in 2016-17 but the inspection results had not yet been summarised by the Finance Branch as at the end of September 2017.

Note 2: Each number represents an ASU of the NGO.

- (d) there are other risk factors that the Finance Branch should consider in formulating its risk-based inspections (see para. 2.32). Such factors may include, for example, NGOs with operating deficits (see para. 2.12) and NGOs that were given qualified opinions by external auditors on their accounts. Audit noted that in 2014-15 and 2015-16, of the 165 NGOs,

4 had been given qualified opinions (e.g. because the auditor was not provided full set of statutory records).

Audit recommendations

- 2.34 **Audit has recommended that the Director of Social Welfare should:**
- (a) **ascertain the reasons why the accounting inspections at some NGOs have not been conducted as scheduled and take measures to ensure that the inspections are conducted as planned in the future;**
 - (b) **take measures (e.g. arranging training seminars and experience sharing sessions on good accounting practices of NGOs) to assist NGOs to improve their internal controls and minimise occurrence (especially repeated occurrence) of irregularities;**
 - (c) **for those NGOs that made no improvement in their internal controls or minimising the occurrence of irregularities (as shown in Table 13), consider the need for issuing a warning letter informing them that in accordance with the LSG Manual, the SWD may withhold or terminate LSG subventions if an NGO fails to exercise reasonable and prudent financial management or comply with the LSG requirements as laid down in the LSG Manual; and**
 - (d) **consider taking into account other risk factors (e.g. NGOs operated in deficits with possible ongoing financial viability issues and NGOs whose accounts have been given qualified opinions by external auditors) in formulating plans for accounting inspections.**

Response from the Government

2.35 The Director of Social Welfare agrees with the audit recommendations. She has said that the SWD:

- (a) has completed accounting inspections at the six NGOs (see para. 2.33(a)) in the first half of 2017-18 and will deploy sufficient resources to conduct accounting inspections as planned;

Financial monitoring

- (b) will issue reminders to NGOs annually to remind them of their responsibility to ensure that adequate internal controls are in place and will consider taking follow up actions where warranted; and
- (c) will take into account various risk factors in formulating plans for accounting inspections.

Cross-subsidisation between lump sum grant subventions and self-financing activities

2.36 It is common that NGOs providing FSA activities (including FSA related activities) also provide non-FSA activities (see para. 1.33(c)). NGOs are not allowed to use LSG subventions to cross-subsidise non-FSA activities. This requirement has been stated in the following key documents:

- (a) according to the LSG Manual, LSG subventions are intended for operating FSA activities or FSA related activities. NGOs should ensure that financial transactions are separately identified into FSA activities and non-FSA activities; and
- (b) according to Financial Circular No. 9/2004 “Guidelines on the Management and Control of Government Funding for Subvented Organisations”, subvented organisations (e.g. NGOs) should ensure that there is no cross-subsidisation of self-financing activities by subvented programmes in money or in kind.

According to the LSG Manual, to avoid misunderstanding, NGOs should consult the SWD in a timely manner as to what constitutes “FSA related” activities before conducting such activities.

2.37 For the six NGOs visited by Audit (see para. 1.31(b)), LSG subventions accounted for 25% to 62% of an NGO’s total income in 2015-16 (see Table 14).

Table 14

Sources of incomes of six NGOs visited by Audit
(2015-16)

NGO	Source of incomes			
	LSG subvention	Other sources		
		Other government subventions/grants/subsidies (Note) (a)	Self-financing activities (b)	Total (c) = (a) + (b)
F	34%	36%	30%	66%
G	53%	8%	39%	47%
H	40%	4%	56%	60%
I	25%	32%	43%	75%
J	62%	23%	15%	38%
K	39%	5%	56%	61%

Source: Audit analysis of NGO records

Note: Other government subventions/grants/subsidies include those provided by the SWD (other than LSG subventions — see Note 1 to para. 1.4) and those provided by other government departments/bureaux.

Need to apportion head office overheads

2.38 Each of the six NGOs visited by Audit (see para. 1.31(b)) had established a head office, which carried out central administrative and support functions for the respective NGO. In 2015-16, the six NGOs incurred overheads totalling some \$71.9 million for their head offices. For three NGOs (NGOs F, G and H which received LSG subventions totalling some \$205 million in 2015-16), the head office overheads (e.g. salaries, insurance, telephone charges) had been apportioned between FSA activities and non-FSA activities.

Financial monitoring

2.39 Audit, however, noted that for the remaining three NGOs (NGOs I, J and K which received LSG subventions totalling \$471 million in 2015-16), apportionment of head office overheads had not been made. Instead, the head office overheads had been allocated entirely to FSA activities. This was a cause for concern because:

- (a) ***Considerable non-FSA activities.*** NGO head offices provided central administrative support to both FSA activities and non-FSA activities. The non-FSA activities could be considerable (e.g. 75% of NGO I's income in 2015-16 was derived from sources other than LSG subventions — see Table 14 in para. 2.37) and would have taken up a significant portion of head office overheads. Despite this, the head office overheads had not been apportioned; and
- (b) ***Large amounts of head office overheads.*** The head office overheads in 2015-16 amounted to some \$10.5 million for NGO I, some \$16 million for NGO J and some \$22.2 million for NGO K. These large amounts of overheads, however, had not been properly accounted for.

The SWD needs to request the NGOs concerned to rectify the anomaly (i.e. overheads had not been apportioned by the NGOs between FSA activities and non-FSA activities).

Need to adopt appropriate bases for apportioning overheads

2.40 Audit also noted that the bases used by the NGOs for apportioning the overheads between FSA activities and non-FSA activities were not always consistent and proportionate. Examples are shown in Cases 1 and 2. The SWD needs to request the NGOs to address the anomalies in these two cases.

Case 1

**Apportionment of staff salaries of central kitchen
(2016-17)**

1. NGO H had 5 service units, comprising 3 service units for the conduct of FSA activities (FSA units) and 2 service units for non-FSA activities (non-FSA units). NGO H's central administrative branch provided kitchen services to the 5 service units. The central kitchen had 7 kitchen staff.

2. The 2016-17 salaries of the 7 kitchen staff totalled some \$1.3 million, of which some \$940,000 (72%) was apportioned to FSA activities on the following basis:

Rank of kitchen staff	No. of staff	Salaries allocated to	
		FSA activities (3 FSA Units)	Non-FSA activities (2 non-FSA units)
Chief	1	} 72%	
Cook	4		
Cook	1		} 28%
Assistant cook	1		
Total	7		

The rationale for using the above basis had not been documented.

3. According to the records of NGO H, the vast majority (98%) of the meals prepared by the central kitchen in 2016-17 were served to service users. As at 31 March 2017, there were 257 service users, comprising 119 (46%) at the non-FSA units and 138 (54%) at the FSA units. The apportionment of 72% of kitchen staff salaries to the FSA units (see para. 2 above) did not appear to be in line with the fact that only 54% of the kitchen services were provided to service users at the FSA units. Upon enquiry in June 2017, NGO H informed Audit that the basis for allocating kitchen staff salaries was set a long time ago. In the past, there were more service users at the FSA units.

Source: Audit analysis of NGO H records

Case 2

Apportionment of water charges, artisan salaries and emolument of Chief Executive Officer (2016-17)

1. NGO G rented part of a building for operating an FSA unit and a non-FSA unit, which occupied 95% and 5% of the rented areas respectively.
2. NGO G dealt with the key costs of accommodation for 2016-17 as follows:
 - (a) **Rent and rates** (Note). The total amount of \$677,600 was apportioned between the FSA unit and the non-FSA unit according to the proportion of rented areas occupied by them (see para. 1 above);
 - (b) **Electricity charges**. The FSA unit and the non-FSA unit maintained separate electricity meters. According to its meter, the non-FSA unit was charged an amount of \$7,190 for its use of electricity;
 - (c) **Water charges**. The FSA unit and the non-FSA unit did not have separate water meters. Charges of \$193,488 in total were levied on NGO G for the use of water at the FSA unit and the non-FSA unit. The NGO allocated the \$193,488 entirely to the FSA unit; and
 - (d) **Artisan salaries**. An artisan was responsible for conducting repair and maintenance works for the FSA unit and the non-FSA unit. The NGO allocated the artisan's annual salaries of some \$200,000 entirely to the FSA unit.

Allocating water charges and artisan salaries entirely to the FSA unit was at variance with the apportionment of other costs of accommodation (see (a) and (b) above). The water charges and artisan salaries had been over-apportioned to the FSA unit.

3. Furthermore, Audit noted that the emolument of the NGO's Chief Executive Officer (\$1.57 million for 2015-16 — based on the latest available AFR) had been solely charged to FSA activities.

Source: Audit analysis of NGO G records

Note: Apart from LSG subventions, the SWD separately subvented the NGO's rent and rates and paid them on an actual basis.

Audit recommendations

- 2.41 **Audit has *recommended* that the Director of Social Welfare should:**
- (a) **request the three NGOs (i.e. NGOs I, J and K — see para. 2.39), which have not apportioned the head office overheads between FSA activities and non-FSA activities, to apportion such overheads;**
 - (b) **remind NGOs of the need to apportion head office overheads between FSA activities and non-FSA activities;**
 - (c) **request the two NGOs that have anomalies in apportioning the overheads between FSA activities and non-FSA activities (i.e. NGOs H and G — see Cases 1 and 2 in para. 2.40) to review their bases of apportionment and properly apportion the costs; and**
 - (d) **take measures to help NGOs adopt an appropriate basis for apportioning overheads between FSA activities and non-FSA activities.**

Response from the Government

2.42 The Director of Social Welfare agrees with the audit recommendations. She has said that the LSG Manual provides that NGOs should consult the SWD in a timely manner as to what constitutes “FSA related” activities before conducting such activities (see para. 2.36). The SWD will:

- (a) request the NGOs concerned (see paras. 2.39 and 2.40) to rectify the anomaly; and
- (b) issue reminders to NGOs annually to remind them of the need to properly apportion costs between FSA activities and non-FSA activities, and to provide advice to NGOs where required.

Controls over fixed assets and petty cash

2.43 Internal controls are fundamental to sound and prudent financial management. The LSG Manual has set out internal controls governing the conduct of financial activities by NGOs. Control of fixed assets and petty cash are two of these internal controls. According to the LSG Manual:

- (a) the key internal control procedures relating to fixed assets include:
 - (i) **Identification number.** Each item of assets should be labelled/marked with an assigned serial number;
 - (ii) **Fixed asset register.** A fixed asset register should be kept, and should contain details such as identification numbers, physical locations of assets and authorisation for disposal of assets; and
 - (iii) **Physical checking.** Checking of assets should be conducted at least once a year. Results and records of checking should be retained; and
- (b) the key internal control procedures relating to petty cash include:
 - (i) **Surprise cash counts.** Supervisors of ASUs or independent officers from NGO headquarters should conduct surprise cash counts for petty cash; and
 - (ii) **Frequency of cash counts.** Surprise cash counts should be conducted at irregular intervals and at least, say, three times a year.

Need to properly follow internal control procedures

2.44 For the six NGOs visited (see para. 1.31(b)), Audit noted cases where the internal control procedures as set out in the LSG Manual had not been properly followed. Details are as follows:

- (a) ***Internal control procedures for fixed assets.*** Against the specified control procedures (see para. 2.43(a)), Audit examined 160 fixed asset items (Note 24). Audit found that of these 160 cases examined:
- (i) in 16 (10%) cases, the fixed asset items did not have any identification numbers;
 - (ii) in 22 (13.8%) cases, there was incorrect or missing information in the fixed asset registers, i.e. wrong asset locations, wrong/missing identification numbers, wrong descriptions of assets, no record of an item (a 16 port router) which had been physically located by Audit, and no record of authorisation for an item (a mobile phone) which had been written off; and
 - (iii) in 2 (1.3%) cases, the items recorded in the NGO's fixed asset register could not be physically located; and
- (b) ***Internal control procedures for petty cash.*** Against the specified control procedures (see para. 2.43(b)), Audit examined 19 petty cash accounts (Note 25). Audit found that of these 19 cases examined:
- (i) in 2 cases, at the time of Audit's visits, there were no records indicating that cash counts had been conducted in the past year; and
 - (ii) in 18 cases, less than three surprise cash counts were conducted annually, falling short of the suggested frequency of at least three times a year (see para. 2.43(b)(ii)).

Note 24: *At the six NGOs (see para. 1.31(b)), Audit visited a total of eight service units. For each service unit, Audit examined 20 fixed asset items.*

Note 25: *The six NGOs and eight service units visited by Audit maintained a total of 19 petty cash accounts (3 maintained by NGOs' head offices and 16 by NGOs' service units).*

Audit recommendations

- 2.45 **Audit has recommended that the Director of Social Welfare should:**
- (a) **take measures to assist NGOs to properly follow the internal control procedures set out in the LSG Manual; and**
 - (b) **require NGOs to step up their internal controls (e.g. conducting supervisory checks to ensure the accuracy of fixed asset registers).**

Response from the Government

2.46 The Director of Social Welfare agrees with the audit recommendations. She has said that NGOs should properly follow the advice on internal control procedures set out in the LSG Manual. The SWD will issue reminders to NGOs annually to remind them of their responsibility to ensure that adequate internal controls are in place and will provide advice to NGOs where required.

Review of non-governmental organisations' fees and charges

2.47 As mentioned in paragraph 1.12(d), NGOs make charges for their welfare services provided. Such charges are deducted from the LSG subventions payable to the NGOs.

2.48 According to a memo issued by the then Secretary for the Treasury to the then Secretary for Health and Welfare (Note 26) in July 1999, the general principles of fee-charging in subvented welfare services are:

- (a) to ensure more equitable use of public resources, subsidy levels as well as fee structure should be designed in such a manner that users who could afford should be made to take a fair share of the financially responsible and contribute to the cost of service;

Note 26: *The policy portfolio on welfare matters of the Health and Welfare Bureau was taken over by the LWB with effect from 1 July 2007.*

- (b) fees and charges could serve as a demand management tool to reduce unnecessary demand. In this regard, a totally free or heavily subsidised service would easily lead to misuse and reduces the overall efficiency and effectiveness of use of resources; and
- (c) fees and charges were sources of revenue which should not be ignored to enable government to free and redirect public resources to increase or improve services.

Fees and charges not adjusted for a long period of time

2.49 Audit, however, noted that the current fees and charges for subvented welfare services have been frozen at the existing level (Note 27) since 1997-98 (some 18 years), except the fees for residential care services for the elderly and persons with disabilities, which were revised in 2000-01.

2.50 In 2012, a working group (Note 28) was set up by the SWD to review the fee charging practices for subvented welfare services. The working group proposed that all fees and charges should remain unchanged until 2015. From October 2015 onwards, however, all fees and charges should be adjusted upwards by 10% every year until a cumulative adjustment of about 35% was achieved to compensate for adjustments not made in the past. The working group estimated that the cumulative savings in LSG subventions for five years would be some \$417 million. In September 2017, the SWD informed Audit that the working group subsequently proposed the option of adjusting all the fees and charges ranging from 7% to 10% from October 2015 for examination. The SWD considered that the impact on service users and the arrangements for resuming the adjustment of fees and charges needed to be further deliberated. In the interim, the existing level of fees and charges were maintained while the annual review continued to be conducted.

Note 27: *Fees and charges for subvented welfare services can be found on the SWD's website (www.swd.gov.hk).*

Note 28: *The working group comprised representatives from the Service Branches, Social Security Branch, Finance Branch and Subventions Branch of the SWD.*

Financial monitoring

2.51 In March 2017, the working group proposed to adopt a modest approach on the fees and charges by making reference to certain factors (e.g. the social security assistance price index compiled monthly by the Census and Statistics Department). The adjustment for the year 2017-18 would be in the region of 2.8%. The SWD also stated that the cumulative fees adjustment (see para. 2.50) would be deliberated after resuming the fees adjustment mechanism in 2018-19. In May 2017, the SWD submitted a proposal for fee adjustment in 2018-19 to the LWB and the FSTB for comments and advice. According to the FSTB, it had indicated to the LWB in June 2017 that it would offer comments as soon as practicable upon receipt of the LWB's policy support. In October 2017, the LWB informed Audit that during September to October 2017, the LWB had discussed with the SWD the proposed fees adjustment in 2018-19, and had advised the SWD on the way forward.

Audit recommendations

2.52 **Audit has *recommended* that the Director of Social Welfare should:**

- (a) **based on the response from the LWB and the FSTB on the proposed fees adjustment for subvented welfare services in 2018-19, take necessary action accordingly;**
- (b) **review regularly fees and charges for subvented welfare services; and**
- (c) **deliberate on the way forward of making cumulative fees adjustment for subvented welfare services.**

Response from the Government

2.53 The Director of Social Welfare agrees with the audit recommendations. She has said that the SWD will:

- (a) review regularly the fees and charges for subvented services; and
- (b) based on the advice from the LWB and the FSTB, follow up the proposed fee adjustment in 2018-19, and deliberate on the way forward.

PART 3: SELF-ASSESSMENT OF SERVICE QUALITY BY NON-GOVERNMENTAL ORGANISATIONS

3.1 This PART examines self-assessment of service quality by NGOs, focusing on the following issues:

- (a) conduct and reporting of self-assessment (paras. 3.6 to 3.9);
- (b) implementation of SQSs (paras. 3.10 to 3.14); and
- (c) conduct of internal service inspections (paras. 3.15 to 3.18).

Self-assessment mechanism

3.2 In accordance with FSAs, ASUs are required to conduct self-assessment of attainment of Output Standards, Outcome Standards, ESRs and SQSs. They need to submit to the SWD's Subventions Branch:

- (a) a quarterly statistical report on the actual performance on Output Standards and Outcome Standards;
- (b) a half-yearly report on variances against the agreed levels of Output Standards and Outcome Standards; and
- (c) an annual self-assessment report on attainment in Output Standards and Outcome Standards, ESRs and SQSs.

With the exception of the report mentioned in (a) above, all other reports are to be submitted on an NGO basis covering all the NGO's ASUs.

3.3 In submitting the annual self-assessment report (see para. 3.2(c)), an NGO is also required to submit an action plan for addressing areas with underperformance (e.g. an Output/Outcome Standard not met). The NGO needs to report to the SWD

Self-assessment of service quality by non-governmental organisations

on the action taken and results achieved within a timeframe agreed with the SWD. According to the LSG Manual, if an NGO fails to achieve a reasonable standard of performance, the SWD may withhold or terminate its LSG subvention (Note 29).

3.4 As stipulated in the manual of the SWD's Service Performance Monitoring System (see Note 9 to para. 1.22(c)(iv)), the self-assessment mechanism respects and honours the corporate governance of the NGOs. It is the responsibility of the NGOs to ensure their ASUs' compliance with the requirements (i.e. Output Standards, Outcome Standards, ESRs and SQSs). Being an internal management process, an NGO may choose to conduct self-assessment at any point of time to evaluate its ASUs' compliance with the requirements and may adopt different approaches to evaluate its ASUs' performance. The NGO may also determine the frequency of self-assessment with regard to its operational needs.

3.5 Table 15 shows the number of incidents of underperformance in Output/Outcome Standards, ESRs and SQSs reported by NGOs in self-assessments in the period 2012-13 to 2016-17. The majority of incidents of underperformance (over 97%) were related to Output/Outcome Standards.

Note 29: *In the period January 2001 to September 2017, the SWD had exercised its power to terminate the LSG subvention for one NGO in November 2007. The SWD found that the NGO had irregularities such as re-employment of the dismissed Director without a recruitment process, serious delay in the submission of financial reports and self-reporting on service performance, allowing the Director to use his personal credit card to make NGO payments by instalments while making full reimbursement to him and failing to elect members of the NGO's Executive Committee after the resignation of five members.*

Self-assessment of service quality by non-governmental organisations

Table 15

**Underperformance in Output/Outcome Standards, ESRs and SQSs reported by
NGOs in self-assessment
(2012-13 to 2016-17)**

Area of service	2012-13		2013-14		2014-15		2015-16		2016-17	
	No. of underperformance	No. of NGOs involved	No. of underperformance	No. of NGOs involved	No. of underperformance	No. of NGOs involved	No. of underperformance	No. of NGOs involved	No. of underperformance	No. of NGOs involved
Elderly services	55 (13%)	22	49 (13%)	23	182 (34%)	37	133 (29%)	49	57 (16%)	29
Family and child welfare services	159 (39%)	35	153 (40%)	34	163 (30%)	35	113 (24%)	35	132 (37%)	38
Rehabilitation services	149 (36%)	32	140 (37%)	31	159 (30%)	32	180 (39%)	28	127 (36%)	28
Youth and corrections services	51 (12%)	17	38 (10%)	16	32 (6%)	15	39 (8%)	15	38 (11%)	13
Overall (Note)	414 (100%)	70	380 (100%)	70	536 (100%)	75	465 (100%)	88	354 (100%)	78

Source: *Audit analysis of SWD records*

Note: *An NGO might have underperformance in more than one area of service.*

Conduct and reporting of self-assessment

Need to enhance accuracy of performance reported

3.6 Audit examined the Output/Outcome Standards reported by NGOs to the SWD in the period 2014-15 to 2016-17. Audit found that in three NGOs (covering three ASUs) of the 11 NGOs (covering 23 ASUs) visited (see para. 1.31), there were cases where these Standards had not been accurately reported by NGOs, resulting in overstatement or understatement of performance reported (see Table 16). Case 3 shows an example of such cases.

Self-assessment of service quality by non-governmental organisations

Table 16

**Overstatement/understatement of
Output/Outcome Standards reported by NGOs
(2014-15 to 2016-17)**

NGO	Description of Standard	Standard agreed in FSA	Standard reported by NGO (a)	Audit recalculation of Standard (b)	Overstatement (in bold)/ (understatement) of Standard (Note 1) (c) = (a) – (b)
ASU B of NGO B	Total number of service sessions of rehabilitation training service to be provided by physiotherapists/ occupational therapists in a year	2015-16: 14,520 2016-17: 15,840	2015-16: 6,359 2016-17: 9,528	2015-16: 6,154 2016-17: 9,510	2015-16: 205 2016-17: 18
ASU C of NGO C	Rate of achieving individual training and support plan in second 6 months	2014-15: 95 %	2014-15: 90.3 %	2014-15: 90.7 %	2014-15: (0.4 %)
	Number of sessions providing staff training programmes/workshops/ seminars in a year	2014-15: 4 2015-16: 4	2014-15: 12 2015-16: 18	2014-15: 15 2015-16: 15	2014-15: (3) 2015-16: 3
	Number of sessions providing public education programmes on community rehabilitation in a year	2014-15: 7 2015-16: 7	2014-15: 8 2015-16: 7	2014-15: 12 2015-16: 8	2014-15: (4) 2015-16: (1)
	Number of sessions providing consultation services to support groups and rehabilitation units in the community in a year	2014-15: 55 2016-17: 55	2014-15: 64 2016-17: 80	2014-15: 61 2016-17: 81	2014-15: 3 2016-17: (1)
	Rate of service users being satisfied with the overall services/programmes delivered to them in a year	2014-15: 80 %	2014-15: 100 %	2014-15: 97.5 %	2014-15: 2.5%
	Rate of carers being satisfied with the overall services/programmes delivered to them in a year	2014-15: 80 %	2014-15: 97.5 %	2014-15: 100 %	2014-15: (2.5 %)
	Rate of service users having positive gain in the score of Barthel Index-100 (Note 2)	2016-17: 70 %	2016-17: 94.1 %	2016-17: 71.4 %	2016-17: 22.7%
	Rate of service users having positive gain in the score of Lawton (Note 2)	2016-17: 70 %	2016-17: 100 %	2016-17: 63.6 %	2016-17: 36.4%

Self-assessment of service quality by non-governmental organisations

Table 16 (Cont'd)

NGO	Description of Standard	Standard agreed in FSA	Standard reported by NGO (a)	Audit recalculation of Standard (b)	Overstatement (in bold)/ (understatement) of Standard (Note 1) (c) = (a) – (b)
ASU J of NGO F	Total number of core programme sessions	2014-15: 700 2015-16: 700 2016-17: 700	2014-15: 1,815.5 2015-16: 1,685.0 2016-17: 1,532.5	2014-15: 1,755 2015-16: 1,400 2016-17: 1,397	2014-15: 60.5 2015-16: 285 2016-17: 135.5
	Total attendance at the core programme sessions	2014-15: 9,660 2015-16: 9,660	2014-15: 26,304 2015-16: 15,809	2014-15: 20,761 2015-16: 15,079	2014-15: 5,543 2015-16: 730

Source: Audit analysis of NGO records

Note 1: The reasons for overstatement/understatement of Output/Outcome Standards reported by NGOs included double counting of the number of programme sessions, and the use of incorrect measurement method by the NGO (see Case 3 in para. 3.6).

Note 2: Barthel Index-100 and Lawton are clinical assessment tools used to assess a person's performance in activities of daily living. The related Outcome Standards are proposed by the NGO concerned and not applicable to other NGOs.

Case 3

**Reporting of Output/Outcome Standards by an NGO
(2014-15 to 2016-17)**

1. In March 2017, the SWD made arrangement for Audit’s visit to NGO C. In early May 2017, NGO C made revisions to its service statistics previously submitted for the period 2014-15 to 2016-17 after internal checking. Subsequently, when Audit went to visit the NGO in May 2017, the NGO had revised the reported Output/Outcome Standards for the period 2014-15 to 2016-17 as follows:

Year	Total number of reported Output Standards	Revised number of Output Standards	Total number of reported Outcome Standards	Revised number of Outcome Standards
2014-15	10	4	9	4
2015-16	10	4	9	4
2016-17	10	1	9	Nil

2. Audit noted that after the revision, the following Output/Outcome Standards, which were reported to have been met in the financial years 2014-15 and 2015-16, had become unmet:

Year	Description of Output/ Outcome Standard	Standard agreed in FSA	Reported by NGO	
			Before revision	After revision
2014-15	Rate of achieving individual training and support plan in second 6 months	95.0%	95.3%	90.3%
	Rate of service users having positive gain in the score of Lawton	70.0%	75.0%	60.0%
2015-16	Rate of achieving individual training and support plan in first 6 months	95.0%	95.6%	94.5%
	Rate of achieving individual training and support plan in second 6 months	95.0%	95.1%	93.7%

Case 3 (Cont'd)

3. Furthermore, for 2016-17, while the revised figures indicated that two of the Outcome Standards had been met, Audit's recalculation indicated that one of them had in fact not been met, as follows:

Description of Outcome Standard	Standard agreed in FSA	Standard reported by NGO after revision	Audit recalculation of Standard	Overstatement
Rate of service users having positive gain in the score of Barthel Index-100	70%	94.1%	71.4%	22.7%
Rate of service users having positive gain in the score of Lawton	70%	100%	63.6%	36.4%

4. In May 2017, the SWD explained to Audit that the mistake in calculating the rate of service users having positive gain in the scores of Barthel Index and Lawton might have been caused by a misunderstanding on the part of the NGO as the definition of the related Outcome Standards (see paras. 2 and 3) had been revised in the new FSA with the NGO in March 2017 for the period from 1 March 2017 to 29 February 2020. Given the increasing frailty level of the service users, achievement of the Outcome Standards have been revised to include not only service users having positive gain in physical abilities, but also service users who are only able to maintain such abilities. As the new FSA came into effect only from March 2017, the NGO was notified by the SWD in the same month that it should either adopt the old definition of Outcome Standards in preparing the full-year statistics of 2016-17 (i.e. from April 2016 to March 2017) or withhold the statistics of the last quarter of 2016-17 (i.e. from January to March 2017) in preparing the full-year statistics. The NGO reported a full-year statistics of 2016-17 but had mistakenly used the new definition of Outcome Standards in calculating the statistics, thereby leading to the error in reporting the Outcome Standards.

Case 3 (Cont'd)

Audit comments

5. According to the LSG Manual, it is the responsibility of NGOs' boards and management to maintain proper control of the LSG and ensure that the use of the LSG subvention meets the requirements and objectives set in the FSAs. According to the manual of the Service Performance Monitoring System (see Note 9 in para. 1.22(c)(iv)), NGOs are responsible for close monitoring of their Output/Outcome Standards so that they can make early detection and improvement in cases of unsatisfactory performance. The SWD needs to remind NGOs of the importance of accurate reporting of their Output/Outcome Standards. The SWD also needs to remind them of the need to exercise due care in computing the Standards.

Source: Audit analysis of NGO C records

Need to improve measurement of service effectiveness

3.7 According to the SWD, NGOs' assessments of the achievement of Outcome Standards are conducted through the use of methodologies such as user satisfaction surveys or evaluation between "pre-test" and "post-test" performance (e.g. the physical abilities of a service user before and after joining a service). It is important that NGOs properly conduct self-assessment to indicate the effectiveness of their services. Audit reviewed the self-assessment of service performance by two NGOs (Note 30) and found that there was room for improvement as shown in Case 4.

Note 30: *Only 7 NGOs (covering 7 ASUs) of the 11 NGOs (covering 23 ASUs) visited by Audit had Outcome Standards (see separate audit findings in paras. 4.26 to 4.28). Audit examined the Outcome Standards of 2 of the 7 NGOs.*

Case 4

**Measuring service effectiveness by two NGOs
(2014-15 to 2016-17)**

1. The two NGOs (NGOs C and D) evaluated the effectiveness of the rehabilitation training services provided by their day centres by measuring the rate of achieving the clinical outcomes defined in individual training plans of service users. Clinical outcomes included those measuring the service users' physical functioning, self-learnt skills and abilities in self-care activities and daily living. Clinical assessment of outcomes was conducted by physiotherapists or occupational therapists of the NGOs. According to the FSAs, the effectiveness of the services should be measured upon completion of training of service users.

2. For each of the two NGOs, Audit examined 30 cases of service users that had completed their rehabilitation training in the period 2014-15 to 2016-17 and found that:

- (a) for NGO C, all clinical assessments were performed on site by physiotherapists or occupational therapists. On the other hand, for NGO D, of the 30 cases examined, the clinical assessments of 14 cases were conducted via telephone only; and
- (b) for NGO C, service users that had attended all their planned training sessions were regarded as having training completed. NGO D, on the other hand, regarded training as having completed when service users had completed 10% or more of the planned training sessions.

Audit comments

3. Audit considers that the SWD needs to provide more guidelines to NGOs to facilitate and enhance their conduct of measurement of service effectiveness.

Source: Audit analysis of NGOs C and D records

Audit recommendations

- 3.8 **Audit has recommended that the Director of Social Welfare should:**
- (a) **remind NGOs of the importance of accurate reporting of their Output/Outcome Standards and of the need to exercise due care in computing the Standards;**
 - (b) **provide more guidelines to NGOs to facilitate and enhance their conduct of measurement of Outcome Standards; and**
 - (c) **in conducting review visits to NGOs (see para. 4.40(a)), identify and disseminate NGOs' good practices in the conduct of their self-assessment of the achievement of Outcome Standards.**

Response from the Government

3.9 The Director of Social Welfare agrees with the audit recommendations. She has said that:

- (a) it is the SWD's existing practice to advise NGO heads by way of management letters to critically examine their self-reporting mechanisms and take appropriate actions to ensure that due and accurate reporting is made when inaccurate self-assessment on Output/Outcome Standards is detected by the SWD during a review of their annual self-assessment reports;
- (b) it is also the existing practice that the SWD will advise NGOs to review their quality checking mechanisms whenever there are wrong calculations spotted in the statistics returns on Output/Outcome Standards during service performance visits;
- (c) the SWD will draw up guidelines for NGOs to enhance their conduct of measurement of Outcome Standards where necessary; and

Self-assessment of service quality by non-governmental organisations

- (d) the SWD will disseminate through appropriate means (such as meetings with service operators and uploading information onto the SWD's website) the NGOs' good practices in the conduct of their self-assessment of the achievement of Outcome Standards.

Implementation of Service Quality Standards

3.10 SQSs (see para. 1.18(c) and Appendix B) inform service users what can be expected of the ASUs in providing welfare services. According to the SWD, as SQSs provide a broad overview of what the ASUs should do in order to deliver quality services, NGOs are expected to tailor-make their own SQS manuals to facilitate the attainment of SQSs.

Need to enhance NGOs' compliance with SQSs as promulgated in their own manuals

3.11 Audit visited 18 ASUs of the 149 ASUs in 6 NGOs (see para. 1.31(b)) and found that there were cases of NGOs not complying with the SQSs as promulgated in their manuals. Details of the non-compliance are shown in Table 17. Table 18 also shows examples of such non-compliance.

Self-assessment of service quality by non-governmental organisations

Table 17

NGOs' non-compliance with SQSs promulgated in their manuals

SQS	NGO F			NGO G		NGO H	NGO I	NGO J	NGO K
	ASU F to I	ASU J (Note)	ASU K (Note)	ASU L to N	ASU O	ASU P to R	ASU S and T	ASU U and V	ASU W
SQS 1			×						×
SQS 2		×		×		××			
SQS 3		××	××		×		×		
SQS 4		×	×						
SQS 5	×	×	×						
SQS 7	×	×	×			××			×
SQS 9	××	×××		×××	×	×××	×	××	×
SQS 10				×			××		×
SQS 11				×					
SQS 13	××	×		×		×			
SQS 14	××	×××							
SQS 15								××	

Source: Audit visits to NGOs

Note: ASUs J and K are located in the same premises.

Remarks: Each "×" denotes one case of non-compliance.

Self-assessment of service quality by non-governmental organisations

Table 18

Examples of NGO's non-compliance with SQSs promulgated in their own manuals

SQS	Requirement laid down in NGO's SQS manual/non-compliance (in italic)
<p>SQS 1: Service information The service unit ensures that a clear description of its purpose, objectives and mode of service delivery is publicly available.</p>	<p>The ASU should provide and distribute updated service information to the public. The information includes service objective, application requirements and entry and exit procedures for the services.</p> <p><i>Information on service exit procedures was not available to the public.</i></p>
<p>SQS 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.</p>	<p>The ASU should review and update its policies and procedures on a regular basis, ranging from one to three years.</p> <p><i>7 of 16 requirements contained in the SQS manual had not been reviewed in years 2007 to 2015 (i.e. 9 years).</i></p>
<p>SQS 3 Records The service unit maintains accurate and current records of service operations and activities.</p>	<p>The ASU should keep accurate and updated record on service operation and activities.</p> <p><i>There was overstatement of Output Standards by an ASU for years 2014-15 to 2016-17.</i></p>
<p>SQS 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.</p>	<p>The ASU should display the organisation chart and areas of responsibilities of each division in the ASU's office.</p> <p><i>An organisation chart and areas of responsibilities of each division of an ASU were not displayed in the ASU's office as required.</i></p>
<p>SQS 5 Human resources The agency/service unit implements effective staff recruitment, contracting, development, training, assessment, deployment and disciplinary practices.</p>	<p>If the staff's application for reimbursement of course fee is approved, the amount of reimbursement would be decided by the Service Manager and the maximum amount is two-thirds of the course fee.</p> <p><i>Each staff was entitled to a maximum amount of reimbursement of \$500 a year. For a course fee not exceeding \$500, the staff could receive 100% reimbursement while the maximum amount of reimbursement allowed was two-thirds of the course fee.</i></p>
<p>SQS 7 Financial management The service unit implements policies and procedures to ensure effective financial management.</p>	<p>Assets over \$1,000 and all computer or computer-related products should be registered in the fixed asset register.</p> <p><i>Two fixed asset items, which cost less than \$1,000 (\$910 and \$998), were included in the fixed asset register. On the other hand, there were six computer/computer-related items not included in the fixed asset register.</i></p>

Self-assessment of service quality by non-governmental organisations

Table 18 (Cont'd)

SQS	Requirement laid down in NGO's SQS manual/non-compliance (in italic)
<p>SQS 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.</p>	<p>Fire drill should be conducted at least once a year.</p> <p><i>No fire drill was conducted in 2016.</i></p>
<p>SQS 10 Entry and exit The service unit ensures that service users have clear and accurate information about how to enter and leave the service.</p>	<p>Temporary leave of service users from a residential home for more than 7 days should be approved by the Superintendent.</p> <p><i>In the period December 2016 to May 2017, two service users left the residential home for more than 7 days (ranging from 9 to 30 days). The Superintendent's approval had not been sought for any of these cases.</i></p>
<p>SQS 11 Needs 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).</p>	<p>For admission of new entrants, the ASU is required to conduct home visits to assess service users' needs.</p> <p><i>The ASU had not done so.</i></p>
<p>SQS 13 Private property The service unit respects the service users' rights in relation to private property.</p>	<p>The ASU should inform the service users that any lost items found would be handled according to the procedure of found property.</p> <p><i>The notice relating to procedures for claiming lost property was displayed in an ASU of the NGO but was not displayed in another two ASUs of the same NGO.</i></p>
<p>SQS 14 Privacy and confidentiality The service unit respects the service users' rights for privacy and confidentiality.</p>	<p>The ASU should display a notice informing service users and visitors the arrangement of the CCTV surveillance, such as its purpose and the period of retaining the recorded CCTV video.</p> <p><i>The ASU only displayed a notice indicating that the CCTV was in operation. The details of the arrangement of the CCTV surveillance were not displayed at public areas.</i></p>
<p>SQS 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.</p>	<p>The ASU should respond to a complaint within 15 days from the date of receipt of a complaint.</p> <p><i>The ASU failed to do so.</i></p>

Source: Audit visits to NGOs

Need to make use of self-assessment checklist

3.12 As mentioned in paragraph 3.11, Audit found that there were cases of non-compliance with the NGOs' SQS manuals. To facilitate NGOs to conduct self-assessment on SQSs, the SWD has developed a self-assessment checklist for use by NGOs. This checklist helps NGOs ensure that in carrying out self-assessments, all the 16 SQSs are covered and properly handled with remedial action taken if warranted. Audit examined the use of the checklist by the 18 ASUs (see para. 3.11) in 2016-17 and found that:

- (a) 11 ASUs had not used the checklist to assist their conduct of self-assessment on SQSs; and
- (b) 7 ASUs had used the checklist. In one case, however, the ASU's completed checklist indicated that the ASU made available its annual reports and service pamphlets at the ASU's office in audio and Braille formats to facilitate the provision of NGO information to the service users. During Audit's visit to the ASU, audio and Braille formats of the documents could not be located in the ASU's office.

Audit recommendations

3.13 **Audit has recommended that the Director of Social Welfare should:**

- (a) **urge NGOs to take measures to ensure that their ASUs observe the requirements laid down in their own SQS manuals in the implementation of SQSs;**
- (b) **encourage NGOs to make use of the self-assessment checklist, which is available on the SWD's website, in conducting self-assessment on SQSs; and**
- (c) **remind NGOs to exercise due care in completing the self-assessment checklist (see para. 3.12).**

Response from the Government

3.14 The Director of Social Welfare agrees with the audit recommendations. She has said that:

- (a) it has been stipulated in individual signed FSAs that they are obliged to meet the requirements of 16 SQSs;
- (b) it is the SWD's existing practice to issue management letters to all NGOs every year requiring them to submit self-assessment reports on their individual ASUs' compliance with ESRs, SQSs, Output/Outcome Standards; and
- (c) the SWD will remind NGOs to exercise due care in conducting annual self-assessment on compliance with SQSs and make use of the self-assessment checklist through the management letters annually.

Conduct of internal service inspections

3.15 Audit noted that of the 6 NGOs visited (see para. 1.31(b)), 4 had conducted internal service inspections on their own initiative to ensure the quality of services provided. The internal service inspections were carried out in the following manner:

- (a) the NGOs appointed designated staff or set up inspection teams to conduct the inspections; and
- (b) in conducting the inspections, the designated staff or inspection teams reviewed the NGOs' SQS manuals (see para. 3.10) and examined ASUs' compliance with the requirements of the SQSs as promulgated in their own manuals.

Room for improvement in internal service inspections

3.16 Audit appreciates the 4 NGOs' (i.e. NGOs F, G, J and K) initiative of conducting internal service inspections, but noted areas for further improvement in the conduct of such inspections, as follows:

Self-assessment of service quality by non-governmental organisations

- (a) ***Inspection programmes.*** Of the 4 NGOs, 2 had laid down programmes for inspections. For the other 2 NGOs, there were no programmes or timetables for inspecting the NGO's various ASUs. These other 2 NGO's inspection teams only conducted ad hoc inspections;
- (b) ***Surprise inspections.*** None of the 4 NGOs conducted inspections on a surprise basis. ASUs were informed of the inspections in advance; and
- (c) ***Following up non-compliance cases.*** None of the 4 NGOs had established procedures for following up cases of non-compliance identified during inspections. Furthermore, of the 4 NGOs, 2 had not taken any follow-up actions.

Audit recommendation

3.17 **Audit has recommended that the Director of Social Welfare should encourage NGOs to put in place an internal service inspection mechanism, having regard to the need for laying down inspection programmes, conducting surprise inspection, and following up non-compliance cases.**

Response from the Government

3.18 The Director of Social Welfare agrees with the audit recommendation. She has said that conduct of internal service inspections is not a requirement under the Service Performance Monitoring System. The SWD will, however, encourage NGOs, having regard to their own circumstances, to put in place an internal service inspection mechanism with a view to enhancing their internal controls and monitoring of service performance.

PART 4: MONITORING OF SERVICE DELIVERY BY SOCIAL WELFARE DEPARTMENT

4.1 This PART examines matters relating to the monitoring of service delivery by the SWD, focusing on the following issues:

- (a) underperformance of NGOs (paras. 4.2 to 4.5);
- (b) subventions to NGOs based on caseloads attained (paras. 4.6 to 4.25);
- (c) setting of NGOs' performance standards (paras. 4.26 to 4.29);
- (d) use of service resources by NGOs (paras. 4.30 to 4.33);
- (e) renewal of FSAs (paras. 4.34 to 4.38); and
- (f) performance visits and conduct of annual performance review (paras. 4.39 to 4.49).

Underperformance of non-governmental organisations

4.2 According to the LSG Manual, to continuously improve service quality, if an ASU of an NGO is found non-conforming with the required performance standards (e.g. Output/Outcome Standards), the NGO is required to submit to the SWD an action plan detailing how the service is to be improved. An action plan specifies:

- (a) the reasons for not achieving the performance standards;
- (b) the actions taken or to be taken to meet the agreed level of performance standards as stipulated in the FSA; and
- (c) the planned timeframe for completion of the actions proposed.

If the NGO fails to improve after repeated efforts, the ultimate sanction will be for the SWD to withdraw its LSG subvention for the ASU in question.

Persistent underperformance despite actions taken

4.3 Audit examined 20 ASUs that had underperformance in Output/Outcome Standards (Note 31) in three or more consecutive years in the five-year period 2012-13 to 2016-17. Audit found that although the NGOs concerned had submitted action plans to improve their services in each of the consecutive years, the underperformance persisted. Audit further noted that in the five-year period, excluding the 6 ASUs receiving subventions based on caseloads attained (see paras. 4.6 and 4.10), all the other 14 ASUs had received full LSG subventions. Case 5 shows an example of the persistent underperformance of an ASU which is not subject to caseloads attained or other specific conditions.

Note 31: *The 20 ASUs (of 14 NGOs) were selected from the self-assessment reports submitted by the 165 NGOs receiving LSG subventions in the period 2012-13 to 2016-17.*

Monitoring of service delivery by Social Welfare Department

Case 5

Persistent underperformance of an ASU (2012-13 to 2016-17)

1. Since 1986, ASU 12 of NGO 14 has provided inter-country adoption services to children who need adoption placement and a suitable local home cannot be found. These children are mostly wards of the Director of Social Welfare (Note 1) with special needs due to mental or physical disabilities, health problems, older age or complex family backgrounds.

2. In the five-year period 2012-13 to 2016-17, of the five Output Standards as stipulated in the FSA, underperformance was noted in four Output Standards in all the five years:

Output Standard	Agreed level of performance	Performance achieved				
		2012-13	2013-14	2014-15	2015-16	2016-17
Number of home studies completed in a year	20	12 -40%	10 -50%	5 -75%	3 -85%	3 -85%
Number of wards of the Director of Social Welfare (Note 1) placed overseas in a year	15	8 -47%	9 -40%	9 -40%	5 -67%	2 -87%
Number of children placed for overseas adoption by relatives in a year	2	0 -100%	0 -100%	0 -100%	0 -100%	0 -100%
Number of local adoption cases requiring assistance in seeking consent from parents staying outside Hong Kong or seeking overseas home approval completed in a year	18	15 -17%	14 -22%	12 -33%	13 -28%	14 -22%
Number of cases requiring assistance in tracing background information or re-establishing contacts completed in a year	10	22 220%	11 110%	21 210%	15 150%	22 220%

Monitoring of service delivery by Social Welfare Department

Case 5 (Cont'd)

3. Over the five-year period, the NGO had taken actions to improve the ASU's performance. These actions included, for example, advocating the adoption needs of children and soliciting overseas partner NGOs' help in seeking adoption by circulating updated lists of children on the adoption waiting list. Despite the actions taken, underperformance persisted.

4. Audit further noted that the ASU's persistent underperformance had in fact existed before 2012-13, and that the SWD had taken the following actions to address the underperformance in the years 2012 to 2017:

- (a) in mid-2012, the SWD considered deploying the existing subvention to the ASU for the NGO's other operating services, for example, the cross-boundary and inter-country casework service (Note 2). However, the idea was later dropped as the SWD had no further plans to expand such service in the near future;
- (b) in September 2012, the SWD discussed with the ASU the need to review the FSA and the possibility of reduction of the ASU's resources as an option. In response, the NGO counter-proposed to specialise the ASU's service in placing older and "hard to place" children. Since there was no new idea in the NGO's counter-proposal, it was not taken on board. Discussion on the matter was subsequently postponed;
- (c) in June 2014, the SWD resumed the review of the FSA with the ASU and proposed deletion of two Output Standards. In July 2014, the ASU counter-proposed to keep the two Output Standards with downward adjustment to their output levels (see the first two Output Standards in the Table above and para. (d) shown below). Revamping or adjusting the remaining Output Standards was also suggested. The SWD further reviewed the counter-proposal of the ASU. According to the SWD, having regard to the expressed interest of relevant bodies from overseas countries in the inter-country adoption programme in Hong Kong, the SWD saw the need to continue to use ASU 12 to establish overseas adoption partners to strengthen the inter-country adoption programme and enhance the adoption prospect of children in need of adoption placements. In the period 2012-13 to 2016-17, the following full LSG subventions had been provided to the ASU; and

Monitoring of service delivery by Social Welfare Department

Case 5 (Cont'd)

	2012-13	2013-14	2014-15	2015-16	2016-17
LSG subvention (\$ million)	1.98	2.10	2.16	2.26	2.39

(d) in April 2017, after further discussion between the SWD and the ASU, a revised FSA was drawn up and was implemented from 1 July 2017 onwards. Under the revised FSA, the level of achievement had been adjusted for some Output Standards. For example:

- (i) the “number of home studies completed in a year” has been adjusted from 20 to 10; and
- (ii) the “number of wards of the Director of Social Welfare placed overseas in a year” of 15 and the “number of children placed for overseas adoption by relatives in a year” of 2 have been combined and adjusted to 7.

Furthermore, four new Output Standards had been added to the revised FSA. For example:

- (i) the “number of overseas adoption agencies or central authorities with which direct partnership for inter-country adoption established in a year”; and
- (ii) the “number of visits/briefings arranged for overseas officials and non-officials to share the inter-country adoption programme of the Hong Kong Special Administrative Region in a year”.

According to the SWD, these new Output Standards are targeted to expand the network of the adoption partners overseas with a view to increasing the prospect of identifying more suitable adoptive homes overseas and hence the adoption chances of children in need. As the newly added outputs may compensate for the adjustments made to other Output Standards, the amount of subvention to the ASU had remained unchanged.

Monitoring of service delivery by Social Welfare Department

Case 5 (Cont'd)

5. In September 2017, the SWD also informed Audit that:
- (a) NGO 14 has been providing subvented inter-country adoption service in Hong Kong for a long time. According to the SWD, with the Adoption Ordinance (Cap. 290) as amended in 2004 having been implemented since 2006, an accreditation system has been put in place to allow NGOs duly accredited by the Director of Social Welfare to provide inter-country adoption service in Hong Kong. Under the accreditation system, NGO 14, together with two other NGOs (operated on a self-financing basis), have been accredited to make arrangements for the adoption of infants and proceed with their placement for inter-country adoption. In recent years, the total number of children available for adoption and the number of inter-country adoption applications involving relatives have been fluctuating. All these have contributed to the ASU not meeting some Output Standards of the FSA in the past years; and
 - (b) the revised FSA with new Output Standards and adjustments made to some existing Output Standards will better reflect the requirements expected of the ASU in inter-country adoption service taking into account the changing environment. It is necessary to maintain the subvented inter-country adoption programme to ensure stability and continuity of the service, with continuous review and close monitoring of the ASU's performance vis-à-vis the revised FSA.

Source: Audit analysis of SWD records

Note 1: Wards of the Director of Social Welfare are children/juveniles in respect of whom the Director of Social Welfare has been appointed as their legal guardian under section 34(1)(a) of the Protection of Children and Juveniles Ordinance (Cap. 213).

Note 2: The cross-boundary and inter-country casework service helped families handle and solve problems arising from geographical separations.

Audit recommendations

- 4.4 **Audit has recommended that the Director of Social Welfare should:**
- (a) **closely monitor those ASUs of NGOs which have had persistent underperformance (say, underperformance in a number of consecutive years) in the provision of services;**
 - (b) **in cases where full subventions are paid to the ASUs with persistent underperformance, critically review whether the payments are fully justified; and**
 - (c) **instigate timely action, where warranted, to tackle cases of persistent underperformance of ASUs in accordance with provisions in the LSG Manual.**

Response from the Government

4.5 The Director of Social Welfare agrees with the audit recommendations. She has said that the SWD has recently set up the Service Performance Monitoring Committee to monitor services with persistent underperformance and deliberate appropriate follow-up measures.

Subventions to non-governmental organisations based on caseloads attained

4.6 Under the four areas of welfare services, there are some 140 types of services (e.g. the elderly services consist of services such as day care centres for the elderly, integrated home care services, etc.) (see para. 1.3). Of these 140 types of services, for the following 2 services, LSG subventions are provided to NGOs based on caseloads attained (see para. 4.7) (Note 32):

Note 32: *For the other types of services, full year subventions (payable on a monthly basis) are provided to NGOs without subjecting to caseloads attained or other specific conditions.*

Monitoring of service delivery by Social Welfare Department

- (a) ***Home care service for persons with severe disabilities*** (hereinafter referred to as HCS). The HCS aims at strengthening support for persons with severe disabilities and relieving the stress of family members/carers through the provision of a package of home-based support services meeting the personal care, training and nursing care needs of persons with severe disabilities to facilitate their integration into the community. The target service users are persons with severe intellectual/physical disabilities who are on the waiting list for subvented residential care services (e.g. Hostel for Severely Physically Handicapped Persons, Hostel for Severely Mentally Handicapped Persons and Care and Attention Home for Severely Disabled Persons), persons with severe intellectual and/or physical disabilities assessed to be eligible for the HCS in accordance with the assessment tool of the SWD, students attending special schools for children with severe intellectual and/or physical disabilities and family members/carers of the service users; and
- (b) ***Integrated support service for persons with severe physical disabilities*** (hereinafter referred to as ISS). The ISS aims at strengthening support for persons with severe physical disabilities and relieving the stress of family members/carers through formulation of well-coordinated care plans at both stages of pre-discharge and post-discharge from hospitals and the provision of a package of home-based support services meeting their personal care, training and nursing care needs to facilitate their integration into the community. The target service users are persons with severe physical disabilities requiring respiratory support medical equipment and constant attendance, or persons with tetraplegia (paralysis of all four limbs).

4.7 Since the introduction of the HCS and the ISS, there have been six ASUs (of six NGOs) providing the HCS and two ASUs (of two NGOs that also provide the HCS) providing the ISS. The HCS and the ISS were introduced in March 2014 (Note 33) and November 2014 respectively. For the HCS, full year subventions (payable on a monthly basis) were provided to the NGOs at the start of the service in March 2014. For the ISS, having regard to the experience of the HCS which showed a gradual process of intake of service users upon service roll-out, only two-thirds of full year subventions (payable on a monthly basis) were provided to the NGOs during the first nine-month period from November 2014 to July 2015. In view of the

Note 33: *The HCS operated on a pilot scheme in the period March 2011 to February 2014.*

Monitoring of service delivery by Social Welfare Department

unexpected low utilisation rates of the HCS and the ISS and in order to optimise the use of public money, the subvention arrangements for the HCS and the ISS have been reviewed and revised by the SWD since April 2015 and August 2015 respectively. Under the revised arrangements, annual subventions (payable on a monthly basis) to the NGOs are pegged to the number of users served, as follows:

- (a) for the HCS, an ASU is required to attain an agreed level of caseload which is defined as the “total number of cases provided with social work intervention including counselling and support service to the service users and their family members/carers”. The ASU will receive:
 - (i) 100% of the subvention when it attained 75% or above of the agreed number of cases;
 - (ii) 75% of the subvention when it attained 50% or above but less than 75% of the agreed number of cases; and
 - (iii) 50% of the subvention when it attained less than 50% of the agreed number of cases; and

- (b) for the ISS, an ASU is required to attain an agreed level of caseload which is defined as the “total number of cases provided with case management service including counselling and support service to the family members/carers”. The ASU will receive:
 - (i) 100% of the subvention when it attained two-thirds of the agreed number of cases; and
 - (ii) two-thirds of the subvention when it attained less than two-thirds of the agreed number of cases.

Monitoring of service delivery by Social Welfare Department

4.8 According to the SWD:

- (a) calculation of subvention for an ASU in a new financial year is based on the number of active users being handled by the ASU as at 31 March of the last financial year. The number of active users comprises existing and new users served minus the number of users discharged in the last financial year (Note 34). Furthermore, within the new financial year, when an ASU attains a higher number of users served (through admission of new users) and that number entitles the ASU to a higher amount of subvention (see para. 4.7(a) and (b)), the ASU needs to inform the SWD so that the latter will adjust upwards the amount of subvention with effect from the respective date that the ASU reaches the higher number of users served; and
- (b) within the new financial year, while the SWD will adjust upwards the amount the subvention when an ASU attains a higher number of users served, the SWD will not make downward adjustment of subvention by taking into account the number of users discharged by the ASU during the year. This is because:
 - (i) actual services have been delivered by the ASU within the year for users who were subsequently discharged and therefore the subvention provided should reflect the ASU's inputs for these discharged users; and
 - (ii) the subvention principle mentioned in (i) above is based on the assumption that as users of the HCS and the ISS normally have long-term care needs, the discharge rates of these two services would be relatively low.

In September 2017, the SWD further informed Audit that downward adjustment of subvention during the year may trigger staff cutting which may in turn affect the service provision of an ASU, and that adjusting subventions frequently may increase administrative burden. The SWD will

Note 34: *The ASUs providing the HCS or the ISS are required to report to the SWD on a quarterly basis (broken down into individual months), among other information, the number of users served and the number of users discharged in the quarterly statistical reports (see para. 3.2(a)).*

Monitoring of service delivery by Social Welfare Department

therefore only take into account the number of users discharged when it calculates the subvention to the ASU in a new financial year based on the number of active users as at 31 March of the last financial year (see (a) above).

4.9 Tables 19 and 20 show the number of users (i.e. existing and new users) served as reported by the six HCS ASUs and the two ISS ASUs respectively to the SWD in the period 2015-16 to 2016-17. In this period, after the eight ASUs had served more than 75% or two-thirds of users, they all received 100% subventions (see para. 4.7(a) and (b)) from the SWD. In 2016-17, the total subventions received by them amounted to some \$275 million (ranging from each receiving some \$23 million to some \$44 million).

Table 19

**Number of users served by HCS ASUs
(2015-16 and 2016-17)**

	ASU	2015-16		2016-17	
		No. of users served		No. of users served	
		Agreed	Actual	Agreed	Actual
Total number of cases provided with social work intervention including counselling and support service to the service users and their family members/carers (see para. 4.7(a))	ASU A	499	571	630	742
	ASU B	458	504	500	668
	ASU 13	500	478	500	595
	ASU 14	406	415	500	549
	ASU 15	469	544	625	788
	ASU 16	406	430	500	587

Source: SWD records

Monitoring of service delivery by Social Welfare Department

Table 20

**Number of users served by ISS ASUs
(2015-16 and 2016-17)**

	ASU	2015-16		2016-17	
		No. of users served		No. of users served	
		Agreed	Actual	Agreed	Actual
Total number of cases provided with case management service including counselling and support service to the family members/carers (see para. 4.7(b))	ASU E	422	376	449	482
	ASU 17	425	345	450	500

Source: SWD records

Need to review underperformance in provision of HCS and ISS

4.10 As mentioned in paragraph 4.9, all the eight ASUs providing the HCS or the ISS, after meeting the caseload requirements, received full subventions from the SWD in 2015-16 and 2016-17. Audit, however, noted that other than attaining the required caseloads, the ASUs had significant underperformance in the provision of the HCS and the ISS (see Tables 21 and 22).

Monitoring of service delivery by Social Welfare Department

Table 21

**Performance in provision of HCS
(2015-16 and 2016-17)**

Output Standard	ASU	2015-16		2016-17	
		Agreed level of performance (No.)	Performance achieved (No.)	Agreed level of performance (No.)	Performance achieved (No.)
Total number of service hours to meet the care needs of service users in a year	ASU A	125,400	25,407	158,400	34,201
	ASU B	116,160	6,972	126,720	12,350
	ASU 13	126,720	43,358	126,720	51,265
	ASU 14	102,960	24,000	126,720	28,896
	ASU 15	118,800	34,336	158,400	49,937
	ASU 16	108,108	19,053	133,056	38,856
Total number of service sessions of rehabilitation training service provided by physiotherapists/occupational therapists in a year	ASU A	15,675	5,200	19,800	6,667
	ASU B	14,520	6,359	15,840	9,528
	ASU 13	15,840	2,543	15,840	6,615
	ASU 14	12,870	4,471	15,840	6,760
	ASU 15	14,850	8,040	19,800	12,586
	ASU 16	13,514	3,074	16,632	6,370
Total number of service sessions of nursing care service provided by nurse/health care staff in a year	ASU A	10,450	1,163	13,200	1,190
	ASU B	9,680	2,033	10,560	4,553
	ASU 13	10,560	4,158	10,560	4,016
	ASU 14	8,580	2,885	10,560	4,004
	ASU 15	9,900	3,124	13,200	3,781
	ASU 16	9,009	1,053	11,088	6,552

Source: SWD records

Monitoring of service delivery by Social Welfare Department

Table 22

**Performance in provision of ISS
(2015-16 and 2016-17)**

Output Standard	ASU	2015-16		2016-17	
		Agreed level of performance (No.)	Performance achieved (No.)	Agreed level of performance (No.)	Performance achieved (No.)
Total number of service hours of personal care and support, home making, home respite and escort service in a year	ASU E	38,173	4,379	40,559	15,668
	ASU 17	38,628	13,462	40,900	23,728
Total number of sessions of rehabilitation training service to be provided by physiotherapists/occupational therapists in a year	ASU E	11,760	2,768	12,495	6,088
	ASU 17	11,900	4,923	12,600	9,221
Total number of sessions for training therapy assistants/care workers to be provided by physiotherapists/occupational therapists in a year	ASU E	2,809	1,287	2,985	2,292
	ASU 17	2,985	860	3,160	1,856
Total number of service sessions to be provided by nurse/health care staff in a year	ASU E	9,240	1,410	9,818	8,969
	ASU 17	9,350	4,348	9,900	8,634

Source: SWD records

Monitoring of service delivery by Social Welfare Department

4.11 Audit considers that the SWD needs to ascertain the reasons for the significant underperformance in the provision of the HCS and the ISS and determine the way forward for the two services.

Other room for improvement in provision of subventions based on caseloads attained

4.12 Audit visited two HCS ASUs (ASU A and ASU B) and one ISS ASU (ASU E) during March to May 2017. For each of the ASUs visited, Audit examined 50 cases of users (150 in total), covering the period from April 2015 to December 2016 (Note 35), to ascertain the adequacy of using caseloads attained by the ASUs as the determinant in calculating the provision of subventions. Audit's examination revealed room for improvement as shown in paragraphs 4.13 to 4.24.

4.13 ***Different determining factors used in computing caseloads.*** As mentioned in paragraph 4.7, subventions to the NGOs are pegged to the number of users served (i.e. caseloads). In visiting the three ASUs (see para. 4.12), Audit noted that different factors were used in computing caseloads by the ASUs. ASU B would include a case in the caseload reportable to the SWD when a person was admitted as a service user after assessing his/her eligibility for the service. On the other hand, ASU A and ASU E would include a case when a care plan had been formulated for the service user after admission. Audit considers that the SWD needs to provide guidelines to the ASUs offering the HCS and the ISS to help them count cases into the caseloads so as to ensure that the caseloads reported to the SWD are proper. In September 2017, the SWD informed Audit that ASUs had different understanding on the points of time for counting the cases into their caseloads and that it would follow up with the ASUs to align their understanding and practices.

4.14 ***Cases with no support services provided.*** Audit's examination of the case files of service users of the three ASUs revealed that there were cases where no support services had been provided to the users. Support services refer to

Note 35: *The HCS and the ISS have been subjected to revised subvention arrangements since April 2015 and August 2015 respectively (see para. 4.7). Under the revised arrangements, in calculating the amounts of subventions for the ASUs providing the ISS, the SWD also took into account the number of users served for the period from April to July 2015 (instead of from August 2015). Accordingly, Audit's examination of cases of users started from April 2015.*

Monitoring of service delivery by Social Welfare Department

rehabilitation, nursing and/or personal care services. For example, it was stated in a service user's care plan that support services such as nursing care, personal care, rehabilitation training and home respite service would be provided to the user. There was, however, no indication in the service user's case file that such services had been provided. Audit examined 50 cases in each of three ASUs and found that of the 50 cases (see para. 4.12) of:

- (a) ASU A, 13 (26%) had no support services provided; and
- (b) ASU B, 11 (22%) had no support services provided.

4.15 Audit's further examination of the case files of service users of ASU A also revealed that in the period 2014-15 to 2016-17, the proportion of service users who had not been provided with support services had been on the increase (see Table 23).

Table 23

**Service users of ASU A not provided with support services
(2014-15 to 2016-17)**

Year	Caseload (Note 1)	No. of service users not provided with support services
2014-15 (Note 2)	190	11 (6%)
2015-16 (Note 2)	571	59 (10%)
2016-17 (up to December 2016)	660	91 (14%)

Source: Audit analysis of NGO A records

Note 1: The caseload is the cumulative caseload after excluding service users discharged on or before 31 March 2015 (i.e. before the introduction of the revised subvention arrangements — see para. 4.7).

Note 2: In 2014-15, ASU A received full year subvention. It has been subjected to the revised subvention arrangement since April 2015 (see para. 4.7).

Monitoring of service delivery by Social Welfare Department

4.16 In September 2017, the SWD informed Audit that in addition to support services, case management and counselling are also key components of the HCS and the ISS. Case managers of the HCS and the ISS are responsible for conducting needs assessment and on-going case reviews, formulating individual care plans, collaborating with different stakeholders and rendering appropriate services to service users and their carers (e.g. family members). For the benefits of service users, Audit considers that the SWD needs to remind case managers to ensure that necessary support services are provided to service users as far as possible.

4.17 *Delay in discharging service users.* According to the SWD, service users of the HCS may be discharged if any one of the following conditions is met:

- (a) the service user has been admitted to long-term placement of subvented residential care service;
- (b) the service user has been hospitalised for a period of more than three months without a discharge plan;
- (c) the service user has decided to terminate the service;
- (d) the service user has died; or
- (e) the impairment level, health condition, supportive network and environmental conditions of the service user have improved or strengthened to a level that he/she is able to live independently or with little assistance.

4.18 Regarding the ISS, according to the SWD, service users may be discharged in the following general circumstances:

- (a) the service user has decided to terminate the service; or
- (b) the service user has died; or
- (c) the impairment level, health condition, supportive network and environmental conditions of the service user have improved or strengthened to a level such that the ISS is no longer required.

Monitoring of service delivery by Social Welfare Department

4.19 Audit's examination of the 150 cases indicated that there was delay in discharging service users. In some cases, service users could have been discharged in the last financial year but were instead discharged in the new financial year. As the SWD only takes into account the number of users discharged as at 31 March of the last financial year (see para. 4.8(a)), discharging users in the new financial year means that subventions would continue to be paid to the ASUs for the discharged users. Details are as follows:

- (a) of the 50 cases of ASU A examined by Audit, in 11 (22%) cases, there was delay in discharging the service users;
- (b) of the 50 cases of ASU B examined by Audit, in 17 (34%) cases, there was delay in discharging the service users. An example of delay is shown in Case 6; and
- (c) of the 28 (11 + 17, (see (a) and (b) above)) cases, in 22 cases, the users were discharged in the new financial year.

Case 6

Delay in discharging a service user by ASU B

- March 2015: A service user was admitted by ASU B for the provision of the HCS (see para. 4.6(a)).
- August 2015: The spouse of the service user informed ASU B that the service user wanted to terminate the HCS as the service user did not need the service anymore.
- September 2015 to March 2016: ASU B attempted to contact the service user and her spouse but in vain.
- April 2016: The service user was discharged from the HCS. She could, however, have been discharged in the period August 2015 to March 2016. In fact, in this period, no support service under the HCS had been provided to her.
- This case was included as a caseload reported to the SWD in 2016-17.

Source: NGO B records

Monitoring of service delivery by Social Welfare Department

Audit considers that the SWD needs to provide to the ASUs more guidelines on discharging service users.

4.20 *Service users receiving both HCS and ISS.* According to the SWD, to avoid duplication of resources, a service user requiring integrated home-based support service can be admitted into either the HCS or the ISS, but not both. Audit, however, noted that in the period April 2015 to December 2016:

- (a) 12 service users of ASUs A, B and E had registered for both the HCS and the ISS; and
- (b) of these 12 service users, according to the case files of the service users, 4 users received both the support services under the ISS provided by ASU E of NGO E and the support services under the HCS provided by ASU A of NGO A.

Audit considers that the SWD needs to take measures to address the issue of service users receiving both the HCS and the ISS.

4.21 *Need to review existing arrangements for calculating subventions to ASUs.* As mentioned in paragraph 4.8(b), based on the assumption that users of the HCS and the ISS normally have long-term needs, and the discharge rates of these services would be relatively low, the SWD therefore will not make downward adjustment of subventions to the ASUs providing the HCS or the ISS during a financial year. However, Audit's examination of the 150 cases (i.e. 50 cases for each of the ASUs — see para. 4.12) revealed that in 19 cases (13%), i.e. 5 for ASU A, 7 for ASU B and 7 for ASU E, the users were discharged within 90 days after admission (Note 36). Audit further analysed the discharge rates of the three ASUs from April 2015 to December 2016 and found that the discharge rates in fact ranged from 27% to 38% (see Table 24). In September 2017, the SWD informed Audit that the higher-than-expected discharge rates might be attributed to the high level of frailty and unstable medical conditions of the target users who were all persons with severe disabilities.

Note 36: *The users had been discharged for reasons such as death or transferred to other rehabilitation services.*

Monitoring of service delivery by Social Welfare Department

Table 24

**Profile of users of ASUs
(1 April 2015 to 31 December 2016)**

ASU	No. of active users as at 31.3.2015 (Note) (a)	No. of users admitted between 1.4.2015 and 31.12.2016 (b)	Total no. of users (c) = (a) + (b)	No. of users discharged between 1.4.2015 and 31.12.2016 (d)	Discharge rate (e) = (d) ÷ (c) × 100%
ASU A	190	584	774	281	36%
ASU B	211	493	704	266	38%
ASU E	136	374	510	139	27%

Source: NGO A, B and E records

Note: The figures excluded users discharged on or before 31 March 2015 (i.e. before the introduction of the revised subvention arrangements — see para. 4.7).

4.22 In view of the higher-than-expected discharge rates, Audit recalculated the subventions provided to the three ASUs in years 2015-16 and 2016-17 (up to 31 December 2016) based on the number of daily active users (i.e. the number of existing and new users minus the number of users discharged on a daily basis — see para. 4.8(a)) instead of the number of active users as at 31 March of the last financial years (see para. 4.8(a) and (b)). Audit found that, based on Audit's recalculation, potential savings in subventions could be achieved (\$12.9 million in 2015-16 and \$4.1 million in 2016-17) as shown in Table 25.

Table 25

**Potential savings in subventions to ASUs
(2015-16 and 2016-17)**

ASU	2015-16 (Note 1)		2016-17 (up to December 2016)	
	Amount of potential savings (\$ million)	Percentage of annual subvention	Amount of potential savings (\$ million)	Percentage of annual subvention
ASU A	5.5	17%	1.7	5%
ASU B	4.6	15%	Nil (Note 2)	
ASU E	2.8	16%	2.4	14%
Total	12.9		4.1	

Source: Audit analysis of NGO A, B and E records

Note 1: For HCS (provided by ASU A and ASU B), Audit's recalculation began from April 2015 (see para. 4.7). For ISS (provided by ASU E), Audit's recalculation began from August 2015 (see para. 4.7).

Note 2: The ASU still met the "75%" caseload requirement (see para. 4.7(a)) after Audit's recalculation and therefore there was no potential saving in subvention.

4.23 In Audit's view, with a view to optimising the use of public money (see para. 4.7), the SWD needs to explore the feasibility of fine-tuning the existing arrangements for calculating subventions to the ASUs providing the HCS and the ISS (see para. 4.8(a) and (b)) so as to identify potential savings in subventions. For example, instead of calculating the subventions in a new financial year based on the number of active users as at 31 March of the last financial year, the SWD could consider calculating the subventions in a new financial year based on other ways of counting active users in the last financial year. Savings in subventions realised could be used for the provision of other welfare services.

Audit recommendations

- 4.24 **Audit has recommended that the Director of Social Welfare should:**
- (a) **ascertain the reasons for the significant underperformance in the provision of the HCS and the ISS and determine the way forward for the two services;**
 - (b) **follow up with the ASUs to align their understanding and practices regarding the counting of HCS and ISS cases into the caseloads reportable to the SWD;**
 - (c) **remind case managers of the HCS and the ISS to ensure that necessary support services are provided to service users as far as possible;**
 - (d) **provide to the ASUs more guidelines on discharging service users;**
 - (e) **take measures to address the issue of service users receiving both the HCS and the ISS; and**
 - (f) **with a view to optimising the use of public money, explore the feasibility of fine-tuning the existing arrangements for calculating subventions to the ASUs providing the HCS and the ISS.**

Response from the Government

4.25 The Director of Social Welfare agrees with the audit recommendations. She has said that the SWD has kick-started a review of the HCS and the ISS since July 2016. Some supportive activities conducted by physiotherapists, occupational therapists, nurses and care staff, such as coaching/training sessions provided for carers, case consultations/assessments/reviews, design and monitoring of home modification works, etc., which were not recognised as service output in the past, have already been included as reportable output to truly reflect the performance of both services. As far as the HCS and the ISS are concerned, the SWD will:

- (a) ascertain the reasons for underperformance;

Monitoring of service delivery by Social Welfare Department

- (b) provide more guidelines on the counting of cases into the caseloads, provision of support services in accordance with the agreed care plans, and discharge of service users, etc.;
- (c) set up a case cross-checking mechanism among the service operators of the HCS and the ISS to avoid service users receiving support services from both the HCS and the ISS; and
- (d) explore the feasibility of fine-tuning the existing arrangements for calculating subventions for the ASUs providing the services.

Setting of non-governmental organisations' performance standards

4.26 According to the SWD, Output Standards and Outcome Standards, which are service-specific and are stipulated in FSAs drawn up with ASUs (see para. 1.18), spell out concretely the service performance standards expected of NGOs. Though not all ASUs have Outcome Standards, Output Standards have been agreed with and set for every ASU. Nevertheless, the SWD stated in the LSG Steering Committee meeting in 2009 that the SWD would advise NGOs to incorporate Outcome Standards relating to users' satisfaction in the FSAs of new ASUs and when reviewing the existing FSAs as far as possible.

Need to incorporate Outcome Standards into more FSAs

4.27 Audit noted that of the 2,691 FSAs drawn up with ASUs as at 31 March 2017 (see para. 1.21), 2,209 (82%) did not contain Outcome Standards. Case 7 shows an example where for the same service, some ASUs were required to attain Outcome Standards while some were not so required.

Case 7

ASUs providing the same service had different requirements for attaining Outcome Standards

1. Five ASUs (of three NGOs) were providing refuge centre service for temporarily accommodating women who were victims of family violence or in immediate danger of family violence. Of the five ASUs, two ASUs (operated by two NGOs) joined the LSG subvention system in 2001, whereas the other three ASUs (operated by one NGO) joined the LSG subvention system after 2001 and were receiving LSG subventions.

2. Audit noted that of the five ASUs, the two ASUs that joined the LSG subvention system in 2001 were not required to attain Outcome Standards. The other three ASUs, however, were required to attain Outcome Standards (5 standards for each of the three ASUs), which were stipulated in their FSAs. These Outcome Standards included, for example, user satisfaction rate and percentage of clients who had acquired basic skills in protecting and planning for themselves and their children.

3. In December 2016, the SWD revised the FSAs of the ASUs as a result of the allocation of additional resources for the provision of child care service delivered by the ASUs. However, Outcome Standards were only included in the revised FSAs of the three ASUs that joined the LSG subvention system after 2001. Outcome Standards had still not been set and incorporated into the revised FSAs of the other two ASUs (Note).

4. In September 2017, the SWD informed Audit that with a view to putting in place the Outcome Standards, a review on the non-time-defined FSAs of the two ASUs had started in September 2017.

Source: SWD records

Note: In September 2017, the SWD informed Audit that it had included two Outcome Standards in each of the two ASUs' quarterly statistical reports (see para. 3.2(a)). The ASUs were therefore required to provide information for performance monitoring purpose.

Audit recommendation

4.28 **Audit has *recommended* that the Director of Social Welfare should, to properly monitor the effectiveness of services provided by ASUs, step up efforts to set Outcome Standards with ASUs and incorporate such standards into the pertinent FSAs.**

Response from the Government

4.29 The Director of Social Welfare agrees with the audit recommendation. She has said that:

- (a) performance standards are clearly set for every ASU for the monitoring of the effectiveness of its service delivery; and
- (b) the SWD has started and will set Outcome Standards, as appropriate, for new ASUs and for existing ASUs when their FSAs are reviewed.

Use of service resources by non-governmental organisations

4.30 As mentioned in paragraph 1.9, NGOs are allowed to use LSG subventions for carrying out FSA activities and FSA related activities. According to the LSG Manual, NGOs receiving LSG are accountable to the SWD and the public for the proper and prudent use of public funds. It is the responsibility of NGOs' boards and management to maintain proper control of LSG subventions and ensure that the use of LSG subventions meets the objectives and requirements set out in FSAs and complies with the conditions spelt out in the LSG Manual. To avoid misunderstanding, NGOs should consult the SWD in a timely manner as to what constitutes "FSA related" activities before conducting such activities (see para. 2.36). NGOs are expected to ensure that LSG subventions are spent in the most cost-effective manner and for the intended purposes.

Need to ensure service resources are properly used

4.31 During Audit's visits to the 11 NGOs (see para. 1.31), Audit found that there was room for improvement in the use of service resources by two ASUs (of two NGOs). Details are shown in Cases 8 and 9.

Case 8

Provision of activities by a children and youth centre

1. ASU J, which is a children and youth centre, provides service users with activities responding to their personal, social and developmental needs. According to the latest FSA, the target service users are children and young people between the ages of 6 and 24. The agreed level of Output Standards for the "total number of core programme sessions within one year" and the "total attendance at the core programme sessions in one year" are 700 and 9,660 respectively. While the emphasis of the centre must be on core-programmes (e.g. socialisation programmes to enhance interpersonal and family relationships), non-core programmes (i.e. those that enable children and young people to use their leisure time constructively) may also be run.
2. Audit found that in the period 2014-15 to 2016-17 (up to January 2017):
 - (a) the ASU organised activities for children below the age of 6 and retired men who were not target service users under the FSA;
 - (b) 316 core programme sessions (with 6,604 attendance) and 3,027 non-core programmes (with 14,081 attendance) were organised for them;
 - (c) the figures stated in 2(b) above were included in the reporting of the attainment of Output Standards (through self-assessment — see para. 3.2) to the SWD; and
 - (d) six staff (comprising two social workers, two welfare workers and two welfare assistants) of the ASU were responsible for organising activities for children under 6 and retired men. Their salaries were fully paid from the LSG.

Case 8 (Cont'd)

3. According to LSG Manual, NGOs are expected to ensure that the LSG is spent for the intended purposes, i.e. in this case, providing activities to children and young people between the ages of 6 and 24. Furthermore, NGOs should consult the SWD in a timely manner as to what constituted “FSA related” activities before conducting such activities (see para. 4.30). Audit, however, noted that the ASU had not sought clarification from the SWD on whether the provision of activities for children below 6 and retired men were “FSA related” activities and could be carried out. Up to the end of August 2017, there was no evidence indicating that the SWD had given its consent for the provision of such activities by the ASU.

4. In September and October 2017, the SWD informed Audit that a recent service review on Integrated Children and Youth Centres (ICYSCs) was underway. The review reaffirmed that the service provision of the ICYSCs was for children and youth between the ages of 6 and 24. Nevertheless, given that working with significant others (e.g. parents and siblings, etc.) was essential in social work intervention with the problems associated with the development of children and youth, the SWD had agreed with the NGOs operating ICYSCs that the immediate significant others of children and youth, even below age 6 and above age 24, could be regarded as affiliated members of the centres. Programmes and activities aiming at resolving the problems of the children and youth and building up family cohesion could be regarded as FSA related activities organised for the well-being of the children and youth. As the target service users of both ICYSCs and children and youth centres are the same, the agreement with the sector under the recent review will equally apply to the latter.

Audit comments

5. The SWD needs to determine whether the activities provided by ASU J to children under six and retired men (who may or may not be the significant others such as parents of the children/youth) are FSA related activities and instigate remedial action where necessary. The SWD also needs to remind NGOs that the SWD should be consulted prior to the conduct of activities which they regard as FSA related activities but not stipulated in FSAs.

Source: Audit analysis of NGO F records

Case 9

Provision of children residential home by an ASU

1. ASU S operates a residential home for children providing out-of-home care for children who cannot be adequately taken care of by their families due to family problems such as illness, death, desertion, imprisonment of the parents or carers. The service of residential home for children is a support service to the needy families for taking care of their children before the children can be restored home or a long-term welfare plan (e.g. adoption) is arranged. According to the FSA, the target children are those from birth to two years of age. The approved capacity of the residential home is 104 places.

2. Of the 104 places, the SWD required the ASU to provide 20 places as emergency placements to cater for children whose families have crisis and cannot provide proper care to the children. When the service was introduced in 2004, the duration of stay at the residential home was set at not more than 3 months. The residential period for emergency places was revised to 6 weeks in around 2011 but subject to an extension for another 3 weeks on a need basis. To cater for the service need of individual cases, extension of stay is allowed provided that there is a genuine need and the social worker concerned of the referring unit of an NGO has obtained parental consent and worked out a concrete long-term welfare plan for the child (e.g. the child has been waitlisted for long-term residential care services or there is concrete plan for home restoration). Furthermore, approval from the supervisor of the referring unit and the superintendent of ASU S are also required.

3. Applications for emergency places, which are offered on a first-come-first-served basis, must be made through referral of the SWD or NGOs' social workers. Social workers may contact the ASU for availability of emergency placement. Admission can be arranged subject to emergency placement being available and the necessary procedures (e.g. case intake, acquisition of parental consent and medical checkup for the child) being completed. According to the SWD, extension of stay at emergency places is allowed if there is a genuine need and the necessary procedures are completed. The ASU will conduct case reviews for cases involving stay of longer than 6 months to make alternative arrangements for the children as soon as practicable. The ASU will not put children on a waiting list once all the 20 places are reserved or occupied.

Case 9 (Cont'd)

4. Audit found that as at 20 June 2017 (date of audit visit), of the 20 emergency places:

- (a) 6 places had been occupied by children for more than 22 months to 31 months, as opposed to a residential period for emergency places of 6 weeks. These 6 places had been extended for 32 to 45 times (3 weeks each time). Of the 6 children, a child did not have any welfare plan at the time of approval for extension; and
- (b) 13 places were reserved by social workers over the phone. One of the 13 places had been reserved for 72 days. Audit further examined the reservation records for the period April 2016 to June 2017 and found that of the 39 cases of reservations that had subsequently been cancelled by the social workers, 9 had been reserved for 5 to 7 months and 15 for 3 to 4 months.

Audit comments

5. There is room for improvement in the management of emergency places (see para. 4.32(c) to (e)).

Source: Audit analysis of NGO I records

Audit recommendations

4.32 **Audit has recommended that the Director of Social Welfare should:**

- (a) **determine whether the activities provided by ASU J to children under six and retired men are FSA related activities and instigate remedial action where necessary;**
- (b) **remind NGOs that the SWD should be consulted prior to the conduct of activities which they regard as FSA related activities but not stipulated in FSAs;**

- (c) **communicate with the NGO of ASU S on how best to handle the cases of children occupying the emergency places longer than the stipulated periods, bearing in mind that there may be other children in need of the places;**
- (d) **remind the NGO of ASU S of the need to require social workers of referring units of NGOs to work out long-term welfare plans for all children occupying the emergency places in a timely manner; and**
- (e) **urge the NGO of ASU S to admit cases requiring urgent placement at the earliest possible time, and set a reasonable timeframe for social workers of referring units to complete the admission procedures.**

Response from the Government

4.33 The Director of Social Welfare agrees with the audit recommendations. She has said that:

- (a) for Case 8, the FSA states that the target group of children and youth centre refers to children and young persons aged between 6 and 24. Activities provided for participants beyond this age range are normally not regarded as FSA activities. The SWD will follow up on the case. In the event of any subvented resources being deployed for non-FSA related activities, the NGO would be requested to apportion the costs in respect of rent, rates, utility charges and personal emoluments funded by social welfare subventions, etc.;
- (b) it is stipulated in the LSG Manual that to avoid misunderstanding, NGOs should consult the SWD in a timely manner as to what constitutes “FSA related” activities before conducting such activities (see para.2.36). The SWD will issue reminders to NGOs annually reminding them to consult the SWD prior to the conduct of activities which they regard as FSA related activities but not stipulated in FSAs;
- (c) the purpose of emergency placement is to cater to the urgent residential care need of children due to family crisis. While emergency placement is on a first-come-first-served basis, referring workers in actual operation will need time to complete necessary procedures (e.g. obtaining parental

Monitoring of service delivery by Social Welfare Department

consent and arranging medical check-up for children prior to their admission to emergency placement);

- (d) the SWD has required the ASU to admit children in need of urgent out-of-home care as soon as possible as long as the information required for admission has been furnished;
- (e) the SWD has required the ASU to set a reasonable timeframe for referring workers to complete the admission procedures and to review the utilisation rate of the service closely;
- (f) the SWD has requested the ASU to follow up closely with referring workers on cases requiring extension of stay and to ensure that necessary approval and long-term care plan are in place to justify the need for extension; and
- (g) the SWD will step up the review and monitoring of the utilisation of the service and duration of stay of the admitted cases with the ASU to ensure that the service is meeting the urgent residential care needs of needy children.

Renewal of Funding and Service Agreements

4.34 As at 31 March 2017, the SWD had drawn up FSAs with 2,691 ASUs of the 165 NGOs. Of the 2,691 FSAs, 985 (37%) were time-defined (i.e. they normally had an agreement period of three or five years) and 1,706 (63%) were non-time-defined (i.e. without a specified agreement period). According to the SWD's records, in the years before 2001, subventions for subvented services were allocated on a non-time-defined basis. Since 2001, subventions for new services have been allocated on a time-defined basis.

Need to conduct comprehensive reviews of performance of ASUs with non-time-defined FSAs

4.35 All ASUs, both under time-defined FSAs and non-time-defined FSAs, are subject to the same monitoring system, i.e. all of them are required to submit quarterly statistical reports on the actual performance on Output/Outcome Standards, half-yearly report on variance against the agreed levels of Output/Outcome Standards,

Monitoring of service delivery by Social Welfare Department

annual self-assessments on attainment in Output/Outcome Standards (see para. 3.2(a) to (c)) and are subjected to performance visits (see para. 4.39). Besides, their performance of Output/Outcome Standards is reviewed annually by the SWD (see para. 4.46). In addition, upon the end of agreement period of a time-defined FSA, the SWD's Subventions Branch will conduct a comprehensive review of the performance of the ASU concerned for the purpose of renewing the FSA. The review will take into account the ASU's attainment on Output Standards, Outcome Standards, ESRs and SQSs (reported through self-assessment — see para. 3.2), results of the Branch's performance visits (see para. 4.39) and complaints against the ASU. After the review, the Branch will provide a review report to the relevant Service Branch (see para. 1.22(b)) for information and consideration in respect of the ASU's service. Finally, approval will be sought from the Director of Social Welfare for the renewal of the FSA.

4.36 Comprehensive reviews provide a more complete picture of the performance of ASUs as they evaluate in one go the results of the ASUs' self-assessment, the outcomes of the Subventions Branch's performance visits and potential maladministration reported through public complaints. Audit, however, noted that while ASUs with time-defined FSAs are subjected to comprehensive reviews, there are no such reviews for ASUs with non-time-defined FSAs.

Audit recommendation

4.37 **Audit has recommended that the Director of Social Welfare should consider conducting, on a periodic basis, comprehensive reviews of the performance of ASUs with non-time-defined FSAs (particularly those ASUs with persistent underperformance).**

Response from the Government

4.38 The Director of Social Welfare agrees with the audit recommendation. She has said that:

- (a) the ASUs with non-time-defined FSAs are subject to the same level of monitoring as the ASUs with time-defined FSAs. In fact, all ASUs' performance of Output/Outcome Standards is reviewed by the SWD annually regardless of whether their FSAs are time-defined or not; and

Monitoring of service delivery by Social Welfare Department

- (b) the SWD will consider conducting comprehensive reviews of the ASUs with non-time-defined FSAs on a periodic basis.

Performance visits and conduct of annual performance review

Performance visits

4.39 As mentioned in paragraph 1.22(c)(iii), the SWD carries out visits to ASUs of NGOs to assess the performance of ASUs. The purpose of the visits is to ensure that NGOs comply with the terms and requirements stipulated in FSAs. These performance visits are conducted by a Service Performance Monitoring Team (the Team) of the SWD's Subventions Branch. The Team is headed by one Senior Social Work Officer and supported by five Social Work Officers and one Assistant Social Work Officer.

4.40 Performance visits comprise:

- (a) ***Review visits (i.e. pre-arranged visits) and surprise visits.*** The Team aims to conduct review visits or surprise visits to selected ASUs of each of the 165 NGOs at least once in a three-year cycle (the current cycle is 2015-16 to 2017-18) (Note 37). The ASUs are selected on the following basis:
 - (i) for an NGO with 10 ASUs or less, one ASU to be selected on a random basis; and
 - (ii) for an NGO with more than 10 ASUs, for each type of services shown in paragraph 1.3, one ASU to be selected from every 10 ASUs on a random basis.

In each review/surprise visit to an ASU, all ESRs and 4 of the 16 SQSs will be examined. The performance of ASUs in respect of Output/Outcome Standards will be examined when SQS 3 (i.e. the service unit maintains

Note 37: *According to the SWD's records, surprise visits accounted for about 20% of its review visits and surprise visits in a three-year visit cycle.*

Monitoring of service delivery by Social Welfare Department

accurate and current records of service operations and activities) is selected for examination (Note 38);

- (b) ***On-site assessments.*** On-site assessments are conducted at ASUs with new services launched, for services of which the operating NGOs have no previous experience in running, and at ASUs with suspected performance problems (e.g. ASUs with continuous non-compliance of performance standards and with problems in drawing up or implementing action plans for improving performance). The purpose of on-site assessments is to collect on-site information or evidence to facilitate assessment and monitoring of performance of ASUs as well as to initiate early intervention in problems identified and formulation of action plans as appropriate; and
- (c) ***Special visitation programme (SVP) visits.*** In December 2015, in order to meet the rising expectations on greater public accountability and service monitoring, the SWD initiated and the LSG Steering Committee approved an SVP for implementing over a five-year period from 2016-17 to 2020-21. The SVP aims to conduct review visits at ASUs which have never been visited before. Under the SVP, with the exception that 2 instead of 4 SQSs are examined, review visits are to be conducted in the same way as described above (see para. 4.40(a)).

In carrying out the above four types of performance visits (i.e. review visits, surprise visits, on-site assessments and SVP visits), the staff of the Team solicit feedback from service users on ASUs' services through questionnaires and face-to-face interviews.

4.41 Audit examined the Team's records of the performance visits conducted in the period 2012-13 to 2016-17 and accompanied the Team's staff in carrying out eight performance visits (comprising the four types of performance visits) during May to July 2017. Audit found room for improvement in areas shown in paragraphs 4.42 to 4.45.

Note 38: *According to the SWD, in the current monitoring cycle of 2015-16 to 2017-18, SQS 3 is a mandatory SQS selected for assessment for all community services.*

Need to closely monitor conduct of performance visits at ASUs that have never been visited

4.42 As at 31 March 2017, of the 2,691 ASUs, 542 (20%) had never been visited by the Team. While the SVP aims to cover those ASUs which have never been visited, Audit noted that there is a risk that the SVP could not be accomplished within the timeframe due to the following reasons:

- (a) according to the SWD's SVP plan, the Team would visit 556 ASUs in the period 2016-17 to 2020-21. Given that the Team only visited 55 ASUs (10%) in 2016-17 and planned to visit another 53 ASUs (10%) in 2017-18, the progress so far appeared to be on the slow side; and
- (b) in addition to the SVP visits, the Team would still need to conduct review/surprise visits as well as on-site assessments (see para. 4.40(a) and (b)). In the previous three-year visit cycle from 2012-13 to 2014-15, the Team conducted review/surprise visits to 315 ASUs, while in the period from 1 April 2012 to 31 March 2017, the Team conducted 104 on-site assessments.

4.43 In September 2017, the SWD informed Audit that it was in accordance with the implementation plan that fewer visits would be conducted in 2016-17 and 2017-18 while more visits would be conducted between 2018-19 and 2020-21. This was because the Team needed to accord priority to complete those selected review/surprise visits under the current monitoring cycle from 2015-16 to 2017-18. As measures had been put in place (including streamlining the arrangement for visits under the SVP and applying a special one-off arrangement for fewer visits in the monitoring cycle from 2018-19 to 2020-21), the SWD considered that the existing manpower could cope with the visits under the SVP. While the number of on-site assessments needed to be conducted every year was dependent on the number of new ASUs falling into the requirement under on-site assessments, the head of the Team had closely monitored the implementation of all types of visits by requesting Team members to report progress quarterly so as to ensure all visits were on schedule.

4.44 Audit considers that the SWD needs to closely monitor the progress of SVP visits in order to accomplish the SVP within the timeframe as appropriate. The SWD also needs to review its approach in conducting SVP visits and the normal review/surprise visits (e.g. reviewing the need to change from the random-based

Monitoring of service delivery by Social Welfare Department

(see para. 4.40(a)) to a risk-based visit approach by focusing on ASUs with a larger number of non-compliance with SQSs) to ensure that they are conducted efficiently and effectively. Moreover, given that the Team only has six staff (excluding the head of the Team) responsible for the performance visits of about 2,700 ASUs, the SWD needs to assess the Team's manpower need.

Need to improve conduct of performance visits

4.45 Audit noted that there were inadequacies in the conduct of performance visits as follows:

- (a) ***Service users pre-selected by ASUs.*** During performance visits (i.e. review visits, surprise visits, on-site assessments and SVP visits), the Team will solicit feedback from service users on ASUs' services by requesting them to complete questionnaires or carrying out interviews with them. In accompanying the Team's staff in the conduct of 8 performance visits (see para. 4.41), Audit found that:
 - (i) in 8 visits, the 25 service users interviewed by the Team were pre-selected by the ASUs; and
 - (ii) in 4 visits, of the 9 service users requested to complete questionnaires, 5 were selected by the ASUs.

In September 2017, the SWD informed Audit it was the usual practice for the Team to interview service users pre-arranged by ASUs for collecting their views and comments on the SQSs under examination and on the service delivery of the ASUs. On top of the pre-arranged service users, there were some other service users randomly selected by the Team for completing the questionnaires. Sometimes, no suitable service users were available on site for random selection (e.g. in ASUs providing non-centre-based service without walk-in service for service users). To maintain impartiality in obtaining feedback from service users, Audit considers that the SWD needs to take enhanced measures to ensure that, as far as possible, service users to be requested to complete questionnaires or interviewed are not pre-selected by ASUs (e.g. for ASUs having walk-in service users, such users are always selected by the Team's staff);

Monitoring of service delivery by Social Welfare Department

- (b) *Samples for examination selected by ASUs.* During performance visits, the Team's staff will examine ASUs' records pertinent to service operation on a sample basis. Audit, however, noted that the samples for examination were not always selected by the Team's staff themselves. For example, in an accompanied visit in late May 2017, when examining the procurement procedures under SQS 7 (i.e. the service unit implements policies and procedures to ensure effective financial management) at an ASU, the Team's staff did not select the samples for examination by themselves. They requested the staff of the ASU to provide them with two quotations obtained from suppliers for review. In September 2017, the SWD informed Audit that requesting the two samples of quotations from the ASU was to ascertain whether there were records to support that the ASU had considered opportunities for introducing efficiencies/containing costs in the supply of services or products. To maintain independence and objectivity of the examinations, Audit considers that the Team's staff should always select samples for examination at ASUs themselves; and
- (c) *Need to follow up inaccurate self-assessment reports.* In the performance visits conducted by the Team in the period 2012-13 to 2016-17, the Team identified 14 underperformance cases which had not been shown in the self-assessment reports of 13 NGOs. Of these 14 underperformance cases, 11 related to ESRs (e.g. on the opening hours of the institutions and employment of essential staff) and 3 related to SQSs (e.g. on safety matters). There were, however, no records indicating that the Team had taken any follow up actions relating to the inaccurate self-assessment reports. In September 2017, the SWD informed Audit that it would issue a "Record on Area for Improvement" on-site and request the NGO to submit an action plan within four weeks for rectification if non-compliance on ESRs or SQSs was identified during a performance visit. Regarding the inaccurate self-assessment on Output Standards and Outcome Standards, it was the SWD's practice to issue a management letter to advise the NGO's Head to critically examine the NGO's self-reporting mechanism and take appropriate actions to ensure that due and accurate reporting will be made in future. The SWD said that it might cover the inaccurate self-assessment on ESRs and SQSs in the management letter in future.

Conduct of annual performance review

4.46 The SWD's Subventions Branch conducts annually a performance review on the attainment of Output Standards and Outcome Standards by all ASUs. The following information is produced by the Branch in an annual performance review:

- (a) a list of ASUs with underperformance in Output Standards and Outcome Standards in the year;
- (b) a list of ASUs with complete attainment of Output Standards and Outcome Standards in the year; and
- (c) an analysis of the performance and action plans of ASUs with underperformance.

According to the SWD, the above results of annual performance review are provided to the Chief Social Work Officer of individual Service Branches for information and comments.

4.47 Audit found room for improvement in the conduct of annual performance review as follows:

- (a) the annual performance review covered only the attainment of Output Standards and Outcome Standards. There was no information, for example, on the attainment of other performance standards (i.e. the ESRs and the SQSs) and the results of performance visits conducted by the Subventions Branch; and
- (b) there was no evidence indicating that the results of annual performance review had been submitted to the SWD's directorate staff (including the Director of Social Welfare) for their reference and deliberations. It would be particularly desirable to submit review results relating to ASUs with non-time-defined FSAs, as these FSAs, though subject to annual performance review of Output/Outcome Standards, they are not subjected to comprehensive reviews as in the case of time-defined FSAs (see paras. 4.35 and 4.36).

Audit recommendations

- 4.48 **Audit has recommended that the Director of Social Welfare should:**
- (a) **closely monitor the progress of SVP visits in order to accomplish the SVP within the stipulated timeframe;**
 - (b) **review the approach to conducting SVP visits and review/surprise visits (e.g. reviewing the need to change from the random-based to a risk-based visit approach) to ensure that they are conducted efficiently and effectively;**
 - (c) **assess the manpower need of the Team of the SWD's Subventions Branch responsible for the conduct of performance visits;**
 - (d) **take enhanced measures to ensure that, as far as possible, service users to be requested to complete questionnaires or interviewed are not pre-selected by ASUs;**
 - (e) **take enhanced measures to ensure that the staff of the Subventions Branch responsible for conducting performance visits select samples for examination at ASUs themselves;**
 - (f) **remind NGOs to rectify the irregularities noted during performance visits;**
 - (g) **consider including inaccurate self-assessment on ESRs and SQSs in management letters issued to ASUs;**
 - (h) **consider extending the coverage of annual performance review (e.g. to include attainment of ESRs and SQSs); and**
 - (i) **take measures to ensure that the results of NGOs' compliance with the ESRs, SQSs, Output Standards and Outcome Standards are brought to the attention of the SWD's directorate periodically.**

Response from the Government

4.49 The Director of Social Welfare agrees with the audit recommendations. She has said that:

- (a) all types of service performance visits are being monitored closely with the progress reported on a quarterly basis. The SWD will closely monitor the progress of the SVP implementation which is on schedule as planned;
- (b) the SWD will review regularly the approach to conducting review/surprise visits and to assess the manpower need with a view to ensuring efficient and effective conduct of performance visits;
- (c) the SWD will, as appropriate, ensure that service users involved in the assessment are not pre-selected by ASUs, and the staff conducting performance visits select samples for examination at ASUs;
- (d) it is the SWD's existing practice that if non-compliance on ESRs or SQSs is identified during a service performance visit, a "Record on Area for Improvement" will be issued on-site and the NGO be asked to submit within four weeks an action plan for rectification. The SWD will remind NGOs to rectify the irregularities;
- (e) the SWD will consider including inaccurate self-assessment on ESRs and SQSs in the management letters issued to ASUs;
- (f) the SWD will consider including ASUs' attainment of ESRs and SQSs in annual performance review; and
- (g) the assessment results for the monitoring cycle from 2012-13 to 2014-15 covering NGOs' compliance with ESRs, SQSs and Output/Outcome Standards had been brought to the attention of the SWD's directorate in January 2016. The SWD will keep the directorate posted of the service performance in every monitoring cycle.

PART 5: GOVERNANCE AND MANAGEMENT MATTERS

5.1 This PART examines matters relating to the governance and management of NGOs, focusing on the following issues:

- (a) implementation of BPM guidelines (paras. 5.2 to 5.12);
- (b) adoption of other good governance practices (paras. 5.13 to 5.23); and
- (c) addressing the problem of high staff turnovers of NGOs (paras. 5.24 to 5.32).

Implementation of Best Practice Manual guidelines

5.2 Under the auspices of the LSG Steering Committee (see para. 1.24), a BPM (see para. 1.19) for NGOs receiving LSG subventions has been developed with the welfare sector including NGOs' management, staff side, service users and professional bodies. The BPM, which came into effect in July 2014, encourages the NGOs to enhance their governance in financial management, human resource management as well as corporate governance and accountability.

5.3 The BPM provides guidelines for 14 strategic items (see Appendix C), such as “use of reserve” and “NGOs' policies and procedures on complaints handling”. For 7 of the 14 items, the guidelines are “Level One guidelines” i.e. those that NGOs are expected to follow unless they have strong justifications not to do so. For the other 7 items, the guidelines are “Level Two guidelines” i.e. those that NGOs are encouraged to adopt.

5.4 NGOs have been given a transition period of three years (i.e. by 30 June 2017) to review their existing policies and procedures, and make necessary amendments and proper arrangements for implementing the guidelines. For each financial year from 2014-15 to 2016-17, each NGO is required to report to the SWD its progress of implementing Level One guidelines by submitting a self-assessment

report, showing the position as at 31 March of the year, to the SWD by end of October of the year. For Level Two guidelines, submission of the self-assessment reports is on a voluntary basis (Note 39). According to the NGOs' latest self-assessment reports submitted to the SWD, as at 31 March 2016, of the 165 NGOs receiving LSG subventions:

- (a) 98 (59.4%) NGOs had fully implemented Level One guidelines for all the 7 items (see Table 26); and

Note 39: *The voluntary submission of self-assessment reports has been agreed by the LSG Steering Committee.*

Governance and management matters

Table 26

**Implementation of Level One guidelines by 165 NGOs
(31 March 2016)**

Individual items	No. of NGOs		
	Implemented	In progress	Not yet implemented
Financial management			
1. Maximised use of LSG reserve	124 (75.2%)	41 (24.8%)	0 (0%)
2. Status of LSG reserve	132 (80.0%)	33 (20.0%)	0 (0%)
3. Use of PF reserve	106 (64.2%)	58 (35.2%)	1 (0.6%)
4. Status of PF reserve	131 (79.4%)	33 (20.0%)	1 (0.6%)
Human resource management			
5. Salary adjustment	157 (95.2%)	8 (4.8%)	0 (0%)
Corporate governance and accountability			
6. Composition, duties and responsibilities on handling complaints at different levels	146 (88.5%)	19 (11.5%)	0 (0%)
7. NGOs' policies and procedures on complaints handling	148 (89.7%)	17 (10.3%)	0 (0%)
	No. of NGOs		
All items implemented	98 (59.4%)		
Some items implemented	67 (40.6%)		
Total	165 (100%)		

Source: SWD records

- (b) 154 (93%) NGOs voluntarily submitted self-assessment reports on the implementation of Level Two guidelines for 2015-16. Of these 154 NGOs, 38 (24.7%) had fully implemented Level Two guidelines for all the 7 items (see Table 27).

Table 27

**Implementation of Level Two guidelines by 154 NGOs
(31 March 2016)**

Individual items	No. of NGOs		
	Implemented	In progress	Not yet implemented
Financial management			
1. Optimal level of LSG reserve	62 (40.3%)	67 (43.5%)	25 (16.2%)
Corporate governance and accountability			
2. Communication	100 (65.0%)	41 (26.6%)	13 (8.4%)
3. Terms of office of the governing board	95 (61.7%)	35 (22.7%)	24 (15.6%)
4. Roles of governing board	99 (64.3%)	43 (27.9%)	12 (7.8%)
5. Delineation of roles and responsibilities of the governing board	108 (70.1%)	36 (23.4%)	10 (6.5%)
6. NGOs' decision making on important management issues of SWD-subvented services	70 (45.5%)	62 (40.2%)	22 (14.3%)
7. NGOs' decisions made on important management issues of SWD-subvented services	67 (43.5%)	67 (43.5%)	20 (13.0%)
	No. of NGOs		
All items implemented	38 (24.7%)		
Some items implemented	104 (67.5%)		
No items implemented	12 (7.8%)		
Total	154 (100%)		

Source: SWD records

Need to ensure accuracy of self-assessment reports

5.5 According to the SWD, it makes use of NGOs' self-assessment reports (see para. 5.4) to know about the progress of implementation of the BPM guidelines. In examining the self-assessment reports of the six NGOs visited (see para. 1.31(b)), Audit noted inadequacies relating to the reporting and implementation of the guidelines, as follows:

- (a) ***Self-assessment reports not entirely accurate.*** Audit found incidents where the NGOs did not accurately report their implementation of the BPM guidelines. For example, in their 2015-16 self-assessment reports, NGO I reported that it had fully implemented the Level One guidelines for “maximised use of LSG reserve” while NGO K reported that it had fully implemented the Level Two guidelines for “optimal level of LSG reserve”. Audit noted that, to fulfil the requirement of the BPM, NGOs' governing boards/management committees are required to discuss the matters in their meeting(s) at least once a year, and the discussion has to be put on record. However, the relevant minutes of the NGOs for 2014-15 and 2015-16 did not show that the matters concerned had been discussed;
- (b) ***Declining to comply with Level One guidelines by an NGO.*** NGO 6 was one of the 67 NGOs (see Table 26 in para. 5.4(a)) which had not fully implemented Level One guidelines. NGO 6 informed the SWD that it would not implement the Level One guidelines for two items (i.e. “use of PF reserve” and “status of PF reserve”), as its LSG subvention represented only about 11% of its operating income and its staff emoluments were not entirely subvented by the SWD. Level One guidelines are those that NGOs are expected to follow unless they have strong justifications not to do so. Audit, however, noted that the SWD had not followed up with the NGO which declined to implement Level One guidelines for the two items. In September 2017, the SWD informed Audit that it had followed up with NGO 6 earlier in the month. NGO 6 had agreed to take action to comply with the requirement. The compliance would be reflected in the self-assessment report to be submitted by NGO 6 by 31 October 2017; and
- (c) ***Self-assessment reports not submitted in a timely manner.*** Of the 165 NGOs which submitted 2015-16 self-assessment reports for Level One guidelines (see para. 5.4(a)), 107 (65%) submitted their reports on time while 58 (35%) were late in submitting their reports. In one case, the delay was over 30 days (see Table 28).

The SWD needs to take measures to address the above inadequacies.

Table 28

**Submission of progress reports by NGOs
(2015-16)**

Delay (No. of days)	No. of NGOs
Nil	107 (65%)
1 to 10	38 (23%)
11 to 20	14 (8%)
21 to 30	5 (3%)
31 to 40	1 (1%)
Total	165 (100%)

} 58 (35%)

Source: Audit analysis of SWD records

Need to better promote Level Two guidelines

5.6 As pointed out in paragraph 5.4, for Level Two guidelines, self-assessment reports are submitted on a voluntary basis. Nevertheless, it is encouraging to see that of the 165 NGOs receiving LSG subventions as at 31 March 2016, 154 (93%) had reported the progress of implementing the Level Two guidelines. However, as shown in Table 27, there were only 38 NGOs that had fully implemented the 7 items of the Level Two guidelines. For items such as “optimal level of LSG Reserve” and “NGOs’ decisions made on important management issues of SWD-subsented services”, the progress of implementation was relatively on the slow side. Furthermore, Audit noted that of the 154 NGOs that had reported progress of implementing Level Two guidelines, 12 had indicated in their self-assessment reports that they had not implemented any of such guidelines (see Table 27 in para. 5.4).

Governance and management matters

5.7 Audit considers that the SWD needs to enhance the promotion of Level Two guidelines among NGOs, so as to solicit their greater support for implementing Level Two guidelines.

Need to expedite formulation of best practices for human resource management

5.8 During the development of the BPM, it was proposed that best practices were to be formulated for 18 items. In April 2014, subsequent to consultations with the welfare sector, best practices for 14 of the 18 items were formulated and incorporated as guidelines into the BPM. The four items for which best practices had not been formulated and incorporated into the BPM were related to human resource management, covering the following matters:

- (a) staff remuneration policy with due recognition of work experience and good performance, including a policy that allows staff salaries to go beyond the equivalent ranks' mid-points of the Government's pay scales if applicable;
- (b) pay policy with a clear salary structure and/or starting points, with communication channels for collecting views from staff;
- (c) policy on the transfer of posts, renewal and termination of employment contracts and recognition of work experience when drawing up employment contracts; and
- (d) transparent and accountable decision making with regard to staff contracts (i.e. the rules and procedures to be made known to existing and prospective staff of the NGO concerned).

5.9 During April 2014 to March 2017, the SWD had made attempts to forge an agreement on the best practices to be formulated for the four outstanding items and to incorporate them into the BPM, but to no avail. Key developments were as follows:

- (a) ***December 2015.*** At a meeting of the LSG Steering Committee, it was noted that the SWD planned to complete the discussion with the welfare sector about the incorporation of the four items into the BPM in 2016;

- (b) *November 2016.* At a meeting of the Working Group on the Implementation Details of BPM (BPM Working Group — Note 40), it was noted that more time was needed for both NGOs' management and the staff side to consider and agree on the matter; and
- (c) *March 2017.* The SWD reported to the LegCo Panel on Welfare Services that the BPM Working Group would continue to discuss the four outstanding items with the welfare sector, and that members of the Working Group considered that more time would be needed for NGOs' management and the staff side to consider possible options of the criteria and procedures for agreement and implementation by the welfare sector.

5.10 To enhance the governance on human resource management, Audit considers that the SWD needs to step up efforts to forge agreement between the NGOs' management and the staff side on the best practices for the four items relating to human resource management, and to incorporate them into the BPM.

Audit recommendations

- 5.11 **Audit has recommended that the Director of Social Welfare should:**
- (a) **remind NGOs to provide accurate information on the progress of implementation of BPM guidelines and submit self-assessment reports in a timely manner;**
 - (b) **consider conducting checking of the implementation of Level One guidelines by NGOs;**
 - (c) **enhance the promotion of Level Two guidelines among NGOs, so as to solicit their greater support for implementing Level Two guidelines; and**

Note 40: *In November 2013, the LSG Steering Committee endorsed the formation of a BPM Working Group. The Working Group is chaired by an Assistant Director of the SWD with representatives from the LSG Steering Committee and the welfare sector.*

Governance and management matters

- (d) **step up efforts to forge agreement between the NGOs’ management and the staff side on the four items of the BPM relating to human resource management.**

Response from the Government

5.12 The Director of Social Welfare agrees with the audit recommendations. She has said that:

- (a) the SWD will remind NGOs to provide accurate information when they submit the self-assessment reports on the progress of implementation of the BPM;
- (b) the SWD has taken various measures to facilitate NGOs’ implementation of the BPM in order to provide opportunities for NGOs to share experiences and good practices identified in the implementation of the BPM;
- (c) the SWD will launch a pilot exercise for on-site checking of NGOs’ implementation of Level One items of the BPM;
- (d) the SWD will enhance the promotion of Level Two guidelines among NGOs; and
- (e) the SWD has prepared a preliminary draft of the contents of the four outstanding items of the BPM for deliberation by the BPM Working Group in their previous meetings. The SWD will forge agreement among the NGO management, the staff side and service users on the outstanding items.

Adoption of other good governance practices

5.13 The Efficiency Unit has published a corporate governance guide entitled “Guide to Corporate Governance for Subvented Organisations” (the Guide) issued in 2015. The aim of the Guide is to provide advice on good practices in corporate governance for all those responsible for management and oversight of subvented agencies. To help NGOs develop and maintain good practices in corporate governance, the Guide has been included as one of the references in the annex of the LSG Manual.

5.14 Audit's visits to the six NGOs (see para. 1.31(b)) revealed that there is room for these NGOs to adopt the good governance practices set out in the Guide, for example, the practices for engaging members' participation, managing conflicts of interest and strategic planning (see paras. 5.15 to 5.22).

Need to better engage members' participation

5.15 The Guide sets out that NGOs need to:

- (a) record and monitor the attendance of board members and take action to improve the attendance of those with low attendance; and
- (b) pay particular attention to attendance records of board members being considered for re-appointment.

5.16 Audit's visits to the six NGOs revealed that:

- (a) only 2 NGOs (NGOs H and K) had compiled attendance rates of board/committee members;
- (b) in the period 2013-14 to 2015-16, according to the minutes of the six NGOs' board and committee meetings, the proportion of board/committee members who did not attend any board/committee meetings was as high as 21.2% (see Table 29); and

Table 29

**Board/committee members of six NGOs with no attendance
(2013-14 to 2015-16)**

NGO	No. of members who did not attend any board/committee meetings		
	2013-14	2014-15	2015-16
F	1 (2.9%)	2 (5.9%)	3 (9.7%)
G	11 (17.5%)	10 (14.7%)	10 (14.7%)
H (Note)	0 (0%)	0 (0%)	2 (8.0%)
I	7 (21.2%)	5 (14.7%)	6 (19.4%)
J	3 (10.7%)	3 (4.0%)	6 (8.0%)
K	0 (0%)	2 (4.4%)	2 (5.1%)

Source: Audit analysis of NGO records

Note: Some minutes of meetings could not be located by the NGO for audit examination. The Table was compiled based on the available minutes.

Remarks: Figures in brackets are the percentages of members with no attendance in the year.

- (c) in the period 2013-14 to 2015-16, there were cases where board/committee members with low attendance rates had been re-appointed to the board/committees. For example, NGO I had re-appointed a board member and a committee member, despite the fact that they did not attend any meetings in three years prior to the appointment.

Need to improve management of conflicts of interest

5.17 According to the Guide, conflicts of interest may arise when a board member or an employee has the opportunity to influence the organisation's business

or other decisions in ways that could lead to personal gain or advantage of any kind. As such:

- (a) organisations should set out requirements to avoid conflicts of interest, and the course of action to be taken when a member faces a real or apparent conflict of interest situation;
- (b) organisations should consider adopting a “two-tier reporting system”, whereby in addition to reporting conflicts of interest at board meetings as and when they arise, board members should disclose their general interest on appointment to the board and annually thereafter; and
- (c) the declaration shall be made on a registration form, which should be made available for public inspection.

5.18 Audit examination of the declaration of conflicts of interest by board members of the six NGOs revealed that:

- (a) only 3 NGOs (NGOs F, J and K) had documented their procedures on requiring board members to declare interests;
- (b) only 2 NGOs (NGOs F and K) had adopted a two-tier reporting system;
- (c) for 4 NGOs (NGOs G, H, I and J), registration forms were not used to record members’ declaration of interests; and
- (d) for NGO F, not all members’ declaration forms were available for Audit inspection. For NGO K, only the directorships of board members were required to be declared. Other interests (e.g. pecuniary interest) were not required to be declared.

Room for improvement in strategic planning

5.19 According to the Guide, without established plans to guide an organisation’s actions, staff’s efforts would be unfocused and resources could be misused. The Guide sets out that:

Governance and management matters

- (a) strategic planning determines where an organisation is going over the next year or more;
- (b) strategic planning broadly covers the formulation of action/strategic plans to achieve the organisation's goals and objectives; and
- (c) the focus of a strategic plan is usually on the entire organisation, while the focus of a business plan is usually on a particular service or programme.

5.20 Audit's visits to the six NGOs revealed that as at 31 August 2017:

- (a) for 4 NGOs (NGOs F, G, J and K), strategic plans had been prepared for the entire organisation. For the other 2 NGOs (NGOs H and I), no such strategic plans had been prepared; and
- (b) for 5 NGOs (NGOs F, G, I, J and K), action plans had been prepared for individual ASUs. For the remaining NGO (NGO H), no such action plans had been prepared.

For one NGO (NGO H), both the strategic plan and action plan had not been prepared.

5.21 A summary of audit findings on governance practices for the six NGOs visited are given in Table 30.

Governance and management matters

Table 30

Summary of audit findings on governance practices of six NGOs

Audit finding	NGO F	NGO G	NGO H	NGO I	NGO J	NGO K
<i>Members' attendance</i>						
Attendance rates of board/committee members compiled (see para. 5.16(a))	No	No	Yes	No	No	Yes
Board/committee members with no attendance at meetings (see para. 5.16(b))	Yes	Yes	Yes	Yes	Yes	Yes
Members re-elected despite low attendance (see para. 5.16(c))	Yes	Yes	No	Yes	Yes	No
<i>Conflicts of interest</i>						
Procedures on requiring board members to declare interests documented (see para. 5.18(a))	Yes	No	No	No	Yes	Yes
Two-tier reporting system for declaring interests adopted (see para. 5.18(b))	Yes	No	No	No	No	Yes
Declaration forms used for declaring interests (see para. 5.18(c))	Yes	No	No	No	No	Yes
Where declaration forms were adopted, the forms were available for inspection and properly used (see para. 5.18(d))	No	N.A.	N.A.	N.A.	N.A.	No
<i>Strategic planning</i>						
Strategic plans for the entire organisation prepared (see para. 5.20(a))	Yes	Yes	No	No	Yes	Yes
Action plans for individual ASUs prepared (see para. 5.20(b))	Yes	Yes	No	Yes	Yes	Yes

Source: NGO records

Audit recommendation

5.22 Audit has *recommended* that the Director of Social Welfare should make greater efforts to encourage NGOs to adopt the good practices outlined in the Efficiency Unit’s “Guide to Corporate Governance for Subvented Organisations”.

Response from the Government

5.23 The Director of Social Welfare agrees with the audit recommendation. She has said that the “Guide to Corporate Governance for Subvented Organisations” of the Efficiency Unit is already one of the references included in Annex 12 of the LSG Manual for NGOs to develop and maintain good practices in corporate governance. The SWD will make further efforts to promote it.

Addressing the problem of high staff turnovers of non-governmental organisations

5.24 Manpower is an important concern in the development of social welfare services in Hong Kong. In July 1987, the SWD and the Hong Kong Council of Social Service (see Note 1 to Appendix A) jointly set up the Joint Committee on Social Work Manpower Requirements (formerly known as the Joint Committee on Social Welfare Manpower Planning System). The Joint Committee undertakes the collection and analysis of information on the demand and supply of social work personnel in Hong Kong with a view to keeping track of the manpower situation and facilitating manpower planning in the social work field.

5.25 In the Joint Committee’s annual reports of 2014 to 2016, increasing turnover of social work posts in Hong Kong was noted (see Table 31).

Table 31

**Turnover of social work posts in Hong Kong
(2013-14 to 2015-16)**

Year	No. of social work posts	Turnover
2013-14	13,269	12.20%
2014-15	13,907	13.40%
2015-16	14,453	15.20%

Source: Annual reports published by the Joint Committee on Social Work Manpower Requirements

Remarks: 1. According to the 2016 report of the Joint Committee, turnover refers to the number of occurrences of social work personnel (including but not limiting to Registered Social Workers) leaving any organisations for whatever reasons in a specified period, regardless of whether they have joined or would join the field again. If a social work person has resigned from more than one job or more than one organisation during the period, he/she would be counted more than once depending on the total number of jobs that he/she has left.

2. According to the Social Workers Registration Board, as at 9 October 2017, there were 22,146 Registered Social Workers.

5.26 The Joint Committee's statistics on turnover (see Table 31 above) covered social work personnel working for LSG-subvented NGOs (in respect of both FSA activities and non-FSA activities) and those working for other organisations (Note 41). The SWD did not separately compile turnover statistics for LSG-subvented NGOs.

Note 41: Other organisations included government departments (e.g. the SWD), government-subvented special schools, local training institutions offering social work training programmes (e.g. universities), and NGOs which were self-financing or receiving government funding other than the LSG.

Governance and management matters

High staff turnovers at NGOs visited by Audit

5.27 Audit collected information on staff turnovers from the six NGOs visited (see para. 1.31(b)). Table 32 shows that, during 2013-14 to 2015-16, staff turnovers of the six NGOs were on the high side, ranging from some 14% to 35% (Note 42). Furthermore, for some NGOs, staff turnovers had increased over the period.

Table 32

**Turnovers of staff at six NGOs visited by Audit
(2013-14 to 2015-16)**

NGO	No. of staff as at 31.3.2016	2013-14	2014-15	2015-16
F	222	18.44%	19.50%	20.93%
G	462	29.41%	28.92%	35.23%
H (Note)	143	31.25%	22.53%	15.22%
I	131	18.71%	28.57%	23.66%
J	896	13.73%	14.01%	16.57%
K	876	16.47%	15.52%	14.63%

Source: NGO records

Note: NGO H's figures covered the period from November of the year to October of the ensuing year.

Causes of staff turnovers

5.28 Of the six NGO visited, one NGO (NGO H) did not have the practice of conducting exit interviews with staff leaving the organisation. For the other 5 NGOs,

Note 42: *According to the Manpower Statistics Survey conducted by the Hong Kong Institute of Human Resource Management in February 2017, the staff turnover rate in Hong Kong (based on information gathered from 76 companies representing a total of 102,425 employees) for the second half of 2016 was 10.5%.*

Governance and management matters

Audit analysed the results of exit interviews (Note 43) conducted by the NGOs in 2015-16. Table 33 shows that, of the 274 staff leaving the NGOs, many (133 staff or 48.6%) left for job-related reasons.

Table 33

**Reasons for staff leaving NGOs visited by Audit
(2015-16)**

Reason	No. of staff	Percentage
Family reasons	46	16.8%
No specific reasons	22	8.0%
Personal reasons (e.g. taking working holidays)	25	9.1%
Contract expired/termination by NGOs	19	6.9%
Retirement	12	4.4%
Other reasons	16	5.8%
Work in other industries	1	0.4%
Job hunting	58	21.2%
Job conditions (e.g. salaries)	47	17.2%
Job nature	28	10.2%
Total	274	100%

Source: Audit analysis of NGO records

5.29 The NGOs' records further indicated that, for the 28 staff who left the NGOs due to "job nature" (see Table 33 above), their concerns included heavy workloads, long working hours, work pressure and the need for working shifts.

Note 43: *Exit interviews were conducted only for staff who were willing to participate in the interviews.*

Governance and management matters

5.30 Audit further noted that, at the six NGOs visited, there were pay-related issues which might have impacted staff morale and stability. These issues are as follows:

- (a) ***Salary setting not transparent.*** In 4 NGOs (NGOs F, G, J and K), pay scales had been established for each rank of staff. In the remaining 2 NGOs (NGOs H and I), pay scales had only been established for some ranks. For example, while NGO H had established pay scales for two ranks (i.e. Personal Care Worker and Workman), there were no pay scales for all other ranks (e.g. Health Worker and Social Worker). Salary setting for these other ranks had not been transparent (Note 44); and
- (b) ***NGO staff paid below mid-point salaries of government pay scales.*** As mentioned in paragraph 1.12(a)(i), in calculating the LSG subvention to an NGO for “non-Snapshot Staff”, mid-point salaries of the Government’s pay scales were used. In practice, the determination of actual pay could be based on a number of factors including different skillsets, grades, seniority, and experience of individual staff. Some NGO staff were paid above the mid-point salaries or even above the maximum-point salaries of the Government’s pay scales (see Table 34). In contrast, there were NGO staff who were paid below the mid-point salaries (see Table 35).

Note 44: *According to NGO H, the salaries of staff other than Personal Care Worker and Workman were discussed and reviewed at the NGO’s management committee meetings.*

Table 34

**Examples of NGO staff paid above
mid-point salaries of Government's pay scales
(2016-17)**

NGO	Rank	Maximum salary at NGO (\$)	Mid-point salary of Government's pay scale (\$)	Difference (\$)
F	Workshop Instructor II	37,570	34,085	3,485 (10.2%)
F	Social Work Assistant	32,470	29,455	3,015 (10.2%)
G	Artisan	20,050 (Note)	17,685	2,365 (13.4%)

Source: Audit analysis of NGO records

Note: The amount was higher than the Government's maximum-point salary by \$1,210 (6.4%).

Table 35

**Examples of NGO staff paid below
mid-point salaries of Government's pay scales
(2016-17)**

NGO	Rank	Maximum salary at NGO (\$)	Mid-point salary of Government's pay scale (\$)	Difference (\$)
G	Welfare Worker	22,565	23,970	1,405 (5.9%)
G	Health Worker	17,810	22,560	4,750 (21%)
G	Clerical Assistant	13,640	16,590	2,950 (17.8%)
H	Personal Care Worker	14,470	16,590	2,120 (12.8%)
H	Workman II	12,620	13,190	570 (4.3%)
I	Cook	15,805	17,685	1,880 (10.6%)
J	Child Care Worker	16,000	23,970	7,970 (33.3%)
J	Motor Driver	17,080	17,685	605 (3.4%)

Source: Audit analysis of NGO records

Audit recommendations

5.31 Audit has recommended that the Director of Social Welfare should:

- (a) **remind NGOs receiving LSG subventions to monitor their staff turnovers and take measures to address the problem of high staff turnovers;**
- (b) **remind NGOs receiving LSG subventions to review their pay scales and structures as well as to enhance transparency and communication with staff on salary matters;**

- (c) **promulgate among NGOs the good practice of conducting exit interviews with staff leaving their organisations so as to enable NGOs to gain better insight into staff's concerns; and**
- (d) **step up efforts to forge agreement between the NGOs' management and the staff side on the four items of the BPM relating to human resource management (see also para. 5.11(d)).**

Response from the Government

5.32 The Director of Social Welfare agrees with the audit recommendations. She has said that the SWD will:

- (a) remind NGOs to monitor and review their human resource management issues, including staff turnovers and proper remuneration of staff;
- (b) remind NGOs to review their pay scales and structures as well as to enhance transparency and communication with staff with a view to maintaining a stable and effective workforce for provision of quality subvented services;
- (c) promulgate among NGOs the good practice of conducting exit interviews with staff leaving their employment; and
- (d) forge agreement among the NGO management, the staff side and service users on the outstanding items of the BPM.

PART 6: REVIEW OF LUMP SUM GRANT SUBVENTION SYSTEM

6.1 This PART examines issues relating to the review of the LSG subvention system and explores the way forward.

2008 review of lump sum grant subvention system

6.2 In 2008, the LSG Independent Review Committee conducted a review of the LSG subvention system (see para. 1.25). The review report contained 36 recommendations (see Appendix E) on ways to improve the system, which covered areas such as staff arrangements and financial issues (Note 45).

6.3 In February 2009, the LWB and the SWD accepted in principle all the 36 recommendations and agreed that the LSG subvention system could be improved. The SWD subsequently implemented the 36 recommendations (including the compilation of a BPM — see para. 1.19). Audit noted that there is room for improvement in the implementation of the recommendations (see paras. 6.4 to 6.14).

Need to collect feedback on actuarial or related studies conducted

6.4 In the 2008 review, the LSG Independent Review Committee recommended that the Government should make available an actuarial service for NGOs to apply for on a voluntary basis (see para. 2 in Appendix E). The service aimed to enable NGOs to assess, through conducting actuarial studies, their ability to meet “Snapshot Staff” commitments and projected payroll costs.

Note 45: *Other areas covered were flexibility, efficiency and cost-effectiveness in the use of public funds and in service delivery by subvented NGOs; accountability and corporate governance of subvented NGOs; quality of welfare service; and handling of complaints related to implementation of the LSG.*

Review of lump sum grant subvention system

6.5 Prior to November 2014, the SWD used its departmental expenditure to conduct two pilot actuarial studies for two NGOs at a total cost of \$1.98 million (one at \$1.1 million and the other at \$880,000). The actuarial studies were carried out by an external consultant. According to the SWD, in the course of the studies, the two NGOs had meetings with the SWD to share views on the actuarial studies. An NGO also shared its feedback on the studies in a briefing session held for other NGOs. The NGO concluded that:

- (a) it was always good to have an additional service;
- (b) whether the consultant's recommendations would work depended on the management's mentality and how supportive the staff were; and
- (c) it would be a waste of resources and time if an NGO used the actuarial service involuntarily and provided insufficient or incomplete information to the consultant in a reserved manner.

6.6 In a November 2014 meeting of the LSG Steering Committee, it was stated that based on the experiences of the pilot actuarial studies that had shed light on the financial situation of NGOs and provided them with a clearer picture on how to fulfil their contractual commitments to staff, the SWD recommended and the Committee approved the making use of funding of the Social Welfare Development Fund (Note 46) to commission actuarial studies or related studies (e.g. a finance and human resource system review and actuarial study commissioned by one of the 11 NGOs — see para. 6.7). According to the SWD, such studies would facilitate NGOs to acquire objective analysis and projections on their LSG and PF Reserves, and dovetail with the implementation of BPM.

6.7 As at 31 July 2017, 11 NGOs (excluding the two NGOs that were covered in the pilot actuarial studies) had applied for funding from the Fund and their studies were being conducted by external consultants. The amount for the studies ranged

Note 46: *The Social Welfare Development Fund, set up with \$1 billion injection from the Lotteries Fund, provides funding for NGOs to conduct different welfare projects (e.g. training and professional development for their board members, management and other staff, as well as for upgrading their business systems and conducting studies to enhance their service delivery). The Fund is managed by the SWD.*

Review of lump sum grant subvention system

from \$25,500 to \$841,500. The 11 NGOs are required to submit annual reports on the progress (i.e. whether the project is on or behind schedule) and evaluation of the output/outcome (e.g. the NGO's financial viability to meet the contractual commitment to staff in respect of payroll requirement) of the studies.

6.8 In September 2017, the SWD informed Audit that it is not mandatory for NGOs to adopt the consultants' recommendations as the consultants only provide recommendations for the board of directors and NGO management to decide on the options to be adopted. Furthermore, NGOs are not required to inform the SWD of whether and what follow-up actions (e.g. implementation of recommendations) have been taken on the consultants' recommendations as conducting actuarial studies or related studies is a voluntary facilitating measure.

6.9 To ensure the proper use of the Social Welfare Development Fund and the usefulness of the actuarial studies or related studies, Audit considers that the SWD needs to obtain feedback from all NGOs that have conducted the studies (including the 11 NGOs after their studies have been completed) and promulgate the feedback to NGOs. This would help the conduct of studies in future.

Need to better manage potential conflicts of interest

6.10 Another recommendation of the LSG Independent Review Committee in the 2008 review was that a complaints handling committee should be set up to determine on LSG-related complaints (see para. 33 in Appendix E). In April 2009, the LSG Independent Complaints Handling Committee (see para. 1.27) was established to review complaints (see paras. 1.28 and 1.29 for complaints received).

6.11 The LSG Independent Complaints Handling Committee adopted the following guidelines in the management of conflicts of interest in the handling of LSG-related complaints:

- (a) a "one-tier reporting system" is to be used, whereby when a member (including the Chairman) of the Committee has a potential conflict of interest in a matter placed before the Committee, he/she should make full disclosure of his/her interest;

Review of lump sum grant subvention system

- (b) potential conflict of interest situations include employment with an organisation which is connected with a matter under consideration by the Committee (Note 47);
- (c) the Chairman shall decide whether the member disclosing an interest may speak or vote on the matter, may remain in the meeting as an observer, or should withdraw from the meeting; and
- (d) all cases of declaration of interests shall be recorded in the minutes of the meeting.

6.12 Having regard to the above guidelines, Audit examined the minutes of the 31 Committee meetings of the LSG Independent Complaints Handling Committee held in the period April 2009 to March 2017 and found that:

- (a) ***Potential conflicts of interest not declared.*** A member of the Committee was the head of a school run by the NGO being complained. During July 2011 to November 2012, 7 complaints relating to the NGO were deliberated at four Committee meetings. Prior to the holding of each of the four meetings, although the member was connected to the NGO, the member declared no potential conflicts of interest in declaration forms (contrary to the SWD's requirement — see para. 6.11(a)). In two of the four meetings, the member had participated in discussions. In one of the meetings, the member had endorsed the results that the complaint was not substantiated. In September 2017, the SWD informed Audit that the member might not have perceived that there was a potential conflict of interest, as education and welfare services under the same NGO were operating separately and independently. Audit considers that the Committee should regularly remind the members to observe the requirement of full disclosure of his/her interests; and

Note 47: *Potential conflict of interest situations include “a directorship, partnership, advisory or client relationship, employment or other significant connection with a company, firm, club, association, union or other organisation which is connected with, or the subject of, a matter under consideration by the committee”.*

Review of lump sum grant subvention system

- (b) *Decisions not made.* In 21 of the 31 meetings, Committee members had declared potential conflicts of interest. However, none of the minutes of meetings indicated that the Chairman had made decisions on the declarations as required (see para. 6.11(c)).

6.13 Audit considers that the SWD needs to take measures to improve the management of potential conflicts of interest in the handling of complaints by the LSG Independent Complaints Handling Committee. These measures may include reminding members to observe the Committee's guidelines and documentation of the Chairman's decisions on the declarations (see para. 6.11).

Audit recommendations

6.14 **Audit has recommended that the Director of Social Welfare should:**

- (a) **in order to help the conduct of actuarial studies or related studies in future, obtain feedback from all NGOs that have conducted the studies and promulgate the feedback to NGOs; and**
- (b) **take measures to improve the management of potential conflicts of interest in the handling of complaints by the LSG Independent Complaints Handling Committee.**

Response from the Government

6.15 The Director of Social Welfare agrees with the audit recommendations. She has said that the SWD will:

- (a) encourage NGOs to conduct actuarial or related studies and share good practices; and
- (b) facilitate the LSG Independent Complaints Handling Committee to strengthen the reporting of potential conflicts of interest and record the Chairman's decisions in the minutes.

Way forward

6.16 In January 2001, the LSG subvention system was introduced as a major revamp of the provision of funding for NGOs. In 2016-17, some 97% of NGOs had joined the system.

6.17 This Audit Review has identified room for improvement in the administration of LSG subventions by the SWD and in the use of LSG subventions by NGOs, which include:

- (a) ***Financial monitoring.*** While some NGOs had accumulated a large reserve balance, some had incurred LSG operating deficits in consecutive years and depleted their reserves. Individual NGOs are yet to maximise the use of reserves for enhancing the provision of welfare services to the public. NGOs need to properly apportion overheads between FSA activities and non-FSA activities and to improve their internal controls and minimise occurrences of irregularities (see PART 2 of this Audit Report);
- (b) ***Self-assessment of service quality by NGOs.*** There were cases where Output Standards had not been accurately reported by NGOs. There is a need for NGOs to enhance the conducting and reporting of self-assessment of service performance and to ensure compliance with SQSs (see PART 3 of this Audit Report);
- (c) ***Monitoring of service delivery by the SWD.*** There is scope for the SWD to improve the management of the provision of subventions to NGOs based on caseloads attained by them, to ensure that the provision of full subvention to NGOs with persistent underperformance is justified and that the resources of NGOs are properly used, and to enhance the conduct of performance visits and provision of management information to the SWD's directorate (see PART 4 of this Audit Report); and
- (d) ***Governance and management matters.*** NGOs could do better in implementing the BPM guidelines and adopt more good governance practices. Enhanced governance on human resource management would help address the high staff turnovers at individual NGOs (see PART 5 of this Audit Report).

Review of lump sum grant subvention system

6.18 More than eight years have elapsed since the LSG subvention system was last reviewed in 2008 (see para. 6.2). Meanwhile, Audit noted that individual members of the LSG Steering Committee, Members of the LegCo and the welfare sector had from time to time called for another review of the LSG subvention system. Audit considers that it is now an opportune time to conduct a further review to optimise the LSG subvention arrangements. In this regard, in October 2017, the Director of Social Welfare informed Audit that the Government has planned to set up a Task Force to work with stakeholders of the welfare sector to conduct a review on the enhancement of the LSG subvention system.

Audit recommendation

6.19 **Audit has *recommended* that the Director of Social Welfare should, in carrying out the review on the enhancement of the LSG subvention system, take into account the audit findings and recommendations in this Audit Report.**

Response from the Government

6.20 The Director of Social Welfare agrees with the audit recommendation. The Secretary for Labour and Welfare and the Director of Social Welfare have said that the Secretary has tasked the SWD to set up a Task Force to work with stakeholders to conduct a review on the enhancement of the LSG subvention system. The Task Force, comprising members from the LWB, the SWD, NGO management, staff side, service users and independent persons, will oversee and chart the review, including discussion of specific areas in the LSG environment to be covered in the review, the audit findings and recommendations in this Audit Report, examination of specific areas where data collection from the sector is required, and consideration of the findings and recommendations of the review.

Appendix A
(paras. 1.4, 1.21, 2.22
and 5.24 refer)

**Subventions to 165 non-governmental organisations
under lump sum grant subvention system
(2016-17)**

	NGO	Services provided				No. of ASU (see para. 1.21)	LSG subvention (2016-17) (\$)
		Elderly Services	Family and Child Welfare Services	Rehabilitation Services	Youth and Corrections Services		
1	Tung Wah Group of Hospitals	✓	✓	✓	✓	230	1,120,711,594
*2	Caritas - Hong Kong	✓	✓	✓	✓	157	907,676,811
*3	Po Leung Kuk	✓	✓	✓	✓	146	659,517,041
*4	Hong Kong Sheng Kung Hui Welfare Council Limited	✓	✓	✓	✓	83	621,351,550
*5	The Neighbourhood Advice- Action Council	✓	✓	✓	✓	79	406,986,291
*6	SAHK			✓		62	392,392,094
*7	The Salvation Army	✓	✓	✓	✓	105	370,409,967
*8	Yan Chai Hospital	✓	✓	✓	✓	80	353,289,516
*9	Fu Hong Society			✓		79	324,040,850
*10	Hong Kong Christian Service	✓	✓	✓	✓	75	286,489,446
*11	The Hong Kong Society for the Aged	✓				42	285,931,703
*12	New Life Psychiatric Rehabilitation Association			✓		54	284,526,204
*13	Hong Chi Association			✓		60	256,010,437
*14	Christian Family Service Centre	✓	✓	✓	✓	50	252,804,770
*15	The Boys' and Girls' Clubs Association of Hong Kong		✓	✓	✓	44	249,923,742
*16	Hong Kong Family Welfare Society	✓	✓		✓	27	234,149,032
*17	Hong Kong Lutheran Social Service, the Lutheran Church - Hong Kong Synod Limited	✓	✓	✓	✓	64	232,677,975
*18	Heep Hong Society		✓	✓		58	228,336,608
19	Hong Kong Young Women's Christian Association	✓	✓	✓	✓	49	223,202,091
20	The Hong Kong Federation of Youth Groups		✓	✓	✓	31	211,715,412
*21	The Mental Health Association of Hong Kong			✓		51	207,609,024
*22	Yang Memorial Methodist Social Service	✓	✓	✓	✓	30	204,318,501

Appendix A
(Cont'd)
(paras. 1.4, 1.21, 2.22
and 5.24 refer)

	NGO	Services provided				No. of ASU (see para. 1.21)	LSG subvention (2016-17) (\$)
		Elderly Services	Family and Child Welfare Services	Rehabilitation Services	Youth and Corrections Services		
*23	ELCHK, Social Service Head Office	✓	✓	✓	✓	38	195,129,558
24	Haven of Hope Christian Service	✓	✓	✓		32	192,427,248
25	St. James' Settlement	✓	✓	✓	✓	41	191,719,010
26	Pok Oi Hospital	✓	✓	✓	✓	32	173,554,036
27	Chinese Young Men's Christian Association of Hong Kong	✓		✓	✓	30	166,839,331
*28	Heung Hoi Ching Kok Lin Association	✓				14	165,572,774
*29	Wai Ji Christian Service			✓		39	158,497,507
*30	Hong Kong Children and Youth Services	✓	✓	✓	✓	28	157,753,218
31	Sik Sik Yuen	✓	✓	✓		33	140,100,563
*32	The Hong Kong Society for the Blind			✓		21	124,412,903
*33	The Society of Rehabilitation and Crime Prevention, Hong Kong			✓	✓	15	112,942,256
34	Yan Oi Tong	✓	✓	✓	✓	22	92,060,489
*35	Hong Kong Playground Association				✓	11	91,124,728
*36	Baptist Oi Kwan Social Service	✓	✓	✓	✓	23	80,878,962
*37	International Social Service Hong Kong Branch		✓	✓	✓	28	73,526,384
38	Stewards Limited			✓	✓	17	71,401,343
*39	Aberdeen Kai-fong Welfare Association Social Service Centre	✓			✓	8	66,771,996
*40	The Chinese Rhenish Church Hong Kong Synod	✓	✓	✓	✓	25	63,886,028
41	Alice Ho Miu Ling Nethersole Charity Foundation	✓				2	63,235,468
*42	Helping Hand	✓				10	60,175,488
*43	Richmond Fellowship of Hong Kong			✓		14	54,669,022
*44	Society of Boys' Centres		✓		✓	5	53,413,219
*45	Chi Lin Nunnery	✓				4	50,781,151
46	Hong Kong Society for the Protection of Children		✓	✓		48	49,741,467
47	The Lok Sin Tong Benevolent Society, Kowloon	✓				9	49,621,415

Appendix A
(Cont'd)
(paras. 1.4, 1.21, 2.22
and 5.24 refer)

	NGO	Services provided				No. of ASU (see para. 1.21)	LSG subvention (2016-17) (\$)
		Elderly Services	Family and Child Welfare Services	Rehabilitation Services	Youth and Corrections Services		
*48	Hong Kong Student Aid Society Limited		✓	✓	✓	19	48,302,653
*49	Asia Women's League Limited	✓				9	46,727,161
*50	The Hong Kong Buddhist Association	✓	✓	✓	✓	10	44,545,377
*51	Methodist Epworth Village Community Centre, Social Welfare	✓			✓	6	44,360,566
*52	Sheng Kung Hui St. Christopher's Home Limited		✓			30	42,747,192
*53	The Hong Kong Society for the Deaf			✓		13	38,639,075
*54	Hong Kong PHAB Association	✓		✓	✓	13	37,638,511
55	The Hong Kong Council of Social Service (Note 1)					1	37,406,038
*56	Hong Kong Chinese Women's Club	✓	✓	✓		7	36,243,632
57	The Hong Kong Society for Rehabilitation			✓		4	34,222,100
*58	Scout Association of Hong Kong				✓	3	33,991,730
59	The Yuen Yuen Institute	✓				8	33,971,614
60	The Tsung Tsin Mission of Hong Kong Social Service	✓	✓	✓	✓	18	33,729,557
*61	Chung Shak Hei (Cheung Chau) Home for the Aged Limited	✓				8	33,253,434
*62	The Mongkok Kai-Fong Association Limited	✓			✓	5	33,126,756
*63	Ching Chung Taoist Association of Hong Kong Limited	✓				8	31,884,014
*64	Chung Sing Benevolent Society	✓				8	31,652,142
*65	The Women's Welfare Club (Eastern District) Hong Kong	✓	✓	✓		9	30,824,986
*66	Pentecostal Church of Hong Kong	✓	✓	✓		15	28,667,991
*67	Kiangsu Chekiang and Shanghai Residents (Hong Kong) Association	✓				6	28,195,343
*68	Chuk Lam Ming Tong Limited	✓				4	28,168,116
69	Methodist Centre	✓	✓		✓	4	27,510,400
*70	The Hong Kong Tuberculosis, Chest and Heart Diseases Association	✓				3	27,088,996

Appendix A
(Cont'd)
(paras. 1.4, 1.21, 2.22
and 5.24 refer)

	NGO	Services provided				No. of ASU (see para. 1.21)	LSG subvention (2016-17) (\$)
		Elderly Services	Family and Child Welfare Services	Rehabilitation Services	Youth and Corrections Services		
*71	Yuen Long Town Hall Management Committee Limited	✓	✓		✓	5	26,624,943
72	Fung Kai Public School	✓				5	22,210,110
*73	The Mother Superior of the Congregation of Our Lady of Charity of the Good Shepherd of Angers at Hong Kong		✓		✓	4	20,959,442
74	Association of Baptists for World Evangelism (Hong Kong) Limited	✓	✓		✓	8	20,437,893
*75	The Hong Kong Bodhi Siksa Society Limited	✓				3	19,647,363
76	Christian and Missionary Alliance Church Union Hong Kong Limited	✓	✓	✓		17	17,937,121
*77	Hong Kong Juvenile Care Centre		✓		✓	2	17,854,395
*78	Asbury Methodist Social Service	✓			✓	3	16,154,275
79	The Church of United Brethren in Christ Hong Kong Limited				✓	2	15,735,261
80	Ebenezer School and Home for the Visually Impaired			✓		4	14,835,934
81	The Free Methodist Church of Hong Kong	✓		✓	✓	4	14,662,880
*82	The Hong Kong Catholic Marriage Advisory Council		✓			1	14,438,326
*83	The Kowloon Women's Welfare Club	✓	✓			3	14,155,739
*84	Kwun Tong Methodist Social Service	✓	✓		✓	3	14,135,213
85	Association for Engineering and Medical Volunteer Services	✓		✓		5	14,048,412
*86	Hong Kong and Macau Lutheran Church Social Service Limited	✓				4	14,023,085
*87	The Hong Kong Down Syndrome Association			✓		7	13,757,075
*88	The Superioress of the Sisters of the Precious Blood		✓			2	13,747,200
*89	Hong Kong-Macao Conference of Seventh - Day Adventists	✓			✓	3	13,128,526
90	The Association of Evangelical Free Churches of Hong Kong	✓	✓	✓		12	12,433,142
91	Youth Outreach		✓		✓	3	12,428,495

Appendix A
(Cont'd)
(paras. 1.4, 1.21, 2.22
and 5.24 refer)

	NGO	Services provided				No. of ASU (see para. 1.21)	LSG subvention (2016-17) (\$)
		Elderly Services	Family and Child Welfare Services	Rehabilitation Services	Youth and Corrections Services		
92	The Christian New Being Fellowship Limited				✓	1	11,546,836
93	Hong Kong Evangelical Church Social Service Limited	✓				2	11,452,609
94	Evangelical Free Church of China - Evangel Children's Home		✓			2	11,056,853
*95	The ABM Hong Kong Swatow Baptist Church Community Service Association				✓	2	10,699,900
*96	Tung Lum Nien Fah Tong Limited	✓				3	10,397,938
97	United Christian Nethersole Community Health Service	✓				2	9,366,230
98	The Samaritan Befrienders Hong Kong		✓			2	9,355,427
99	Project Care		✓			7	8,885,988
100	Women's Welfare Club Western District, Hong Kong	✓	✓	✓		9	8,515,009
101	Mother's Choice		✓	✓		3	8,340,997
102	The New Territories Women and Juveniles Welfare Association Limited	✓	✓	✓		11	8,088,120
103	Harmony House Limited		✓			1	7,966,150
104	Zion Social Service Limited				✓	1	7,886,424
105	The Operation Dawn Limited				✓	1	7,731,770
106	Tung Sin Tan Home for the Aged	✓				2	7,673,712
107	Chinese Evangelical Zion Church Limited				✓	1	7,547,322
108	Hong Kong and Kowloon Kaifong Women's Association	✓	✓	✓		12	7,510,160
109	Sai Kung District Community Centre Limited				✓	1	7,364,482
110	International Church of the Foursquare Gospel Hong Kong District Limited	✓				2	7,279,161
111	Hong Kong Christian Mutual Improvement Society	✓				2	6,974,405
112	Hong Kong Mutual Encouragement Association Limited	✓				2	6,933,359
113	The Child Development Centre			✓		1	6,784,281

Appendix A
(Cont'd)
(paras. 1.4, 1.21, 2.22
and 5.24 refer)

	NGO	Services provided				No. of ASU (see para. 1.21)	LSG subvention (2016-17) (\$)
		Elderly Services	Family and Child Welfare Services	Rehabilitation Services	Youth and Corrections Services		
114	New Life Church of Christ Hong Kong Limited	✓				2	6,705,802
115	Fung Ying Seen Koon	✓				2	6,655,423
116	The Barnabas Charitable Service Association Limited				✓	1	6,582,373
117	Hong Kong Red Cross			✓		3	5,653,319
118	Watchdog Limited			✓		1	5,283,459
119	Baptist Mid-Missions	✓	✓	✓		7	5,152,770
120	Lutheran Philip House Limited		✓	✓		9	4,922,216
121	Christian Concern for the Homeless Association		✓			1	4,483,872
122	The Mission Covenant Church Limited	✓		✓		2	4,370,403
123	Suen Mei Speech and Hearing Centre			✓		1	4,106,360
124	Hong Kong Federation of Handicapped Youth			✓		3	4,067,101
125	The Boys' Brigade, Hong Kong				✓	1	3,843,747
126	Hong Kong Blind Union			✓		3	3,749,850
127	Hong Kong Rehabilitation Power			✓		3	3,697,783
128	Kowloon City Baptist Church	✓				1	3,680,129
129	Yuk Chi Resource Centre Limited			✓		1	3,596,082
130	The Lam Tin Estate Kai Fong Welfare Association Limited	✓				1	3,577,278
131	Hong Kong West Point Baptist Church	✓				1	3,559,925
132	Jordan Valley Kaifong Welfare Association	✓				1	3,545,638
133	International Women's League Limited	✓				1	3,541,473
134	China Peniel Missionary Society Incorporation	✓				1	3,519,794
135	Christian Nationals' Evangelism Commission Grace Light Neighbourhood Elderly Centre	✓				1	3,514,777
136	Asian Outreach Hong Kong Limited	✓				1	3,513,391
137	The Endeavourers Hong Kong	✓				1	3,503,375
138	Hop Yat Church, the Church of Christ in China	✓				1	3,490,036

Appendix A
(Cont'd)
(paras. 1.4, 1.21, 2.22
and 5.24 refer)

	NGO	Services provided				No. of ASU (see para. 1.21)	LSG subvention (2016-17) (\$)
		Elderly Services	Family and Child Welfare Services	Rehabilitation Services	Youth and Corrections Services		
139	Hong Kong Women Foundation Limited	✓				1	3,488,140
140	International Buddhist Progress Society (Hong Kong) Limited	✓				1	3,487,649
141	Tsim Sha Tsui District Kaifong Welfare Association	✓				1	3,486,990
142	Light and Love Home Limited	✓				1	3,473,556
143	Agency for Volunteer Service	✓				1	3,452,397
144	Shamshuipo Kai Fong Welfare Advancement Association	✓				1	3,233,498
145	Cheung Chau Rural Committee Integrated Youth Centre				✓	1	3,064,260
146	Tai Hang Residents' Welfare Association				✓	1	2,978,488
147	Hans Andersen Club				✓	1	2,972,352
148	Hong Kong and Macau Regional Centre of the World Fellowship of Buddhists Limited		✓	✓		7	2,793,305
149	Hong Kong Paralympic Committee and Sports Association for the Physically Disabled			✓		1	2,430,092
150	Lok Chi Association Limited			✓		1	2,345,791
151	Hong Kong Federation of the Blind			✓		1	2,320,979
152	The Nesbitt Centre Limited			✓		1	2,298,865
153	Sisters of the Immaculate Heart of Mary		✓	✓		5	2,279,330
154	Sheng Kung Hui St. Simon's Social Services		✓	✓		6	2,256,528
155	Against Child Abuse Limited		✓			1	2,229,487
156	Society for Community Organization				✓	1	2,194,866
157	Hong Kong Sports Association for Persons with Intellectual Disability			✓		1	2,176,193
158	Alice Lan and Vera Shen Education Fund Limited		✓	✓		5	1,877,534
159	Association for the Rights of Industrial Accident Victims Limited			✓		1	1,400,548
160	Five Districts Business Welfare Association		✓	✓		4	1,221,591

Appendix A
(Cont'd)
(paras. 1.4, 1.21, 2.22
and 5.24 refer)

	NGO	Services provided				No. of ASU (see para. 1.21)	LSG subvention (2016-17) (\$)
		Elderly Services	Family and Child Welfare Services	Rehabilitation Services	Youth and Corrections Services		
161	Sheng Kung Hui St. Matthias' Church Nursery School Limited		✓	✓		3	1,213,510
162	Society of St. Vincent de Paul		✓	✓		3	1,021,675
163	Cheung Sha Wan Kai Fong Welfare Association Lam Tam Yin Wah Day Nursery		✓	✓		3	921,831
164	Emmanuel Church			✓		1	671,165
165	First Assembly of God Church		✓			1	79,476
Total						2,691	12,529,602,042 (Note 2)

Source: SWD records

Note 1: Instead of providing welfare services directly to the public, the Hong Kong Council of Social Service plays a coordinating role between the Government and NGOs. It is a representative of NGOs committed to sustaining and developing welfare services in Hong Kong. In July 2017, the Council has 461 NGO members. Of these 461 NGOs, 127 NGOs received LSG subvention in 2016-17.

Note 2: The subvention was granted to a nursery for providing extended hours of child care service.

*Remarks: * denotes the NGOs which were required to submit to the SWD the review reports on remuneration packages for staff in top three tiers in 2015-16 (see para. 2.21).*

Service Quality Standards (31 March 2017)

Principle 1: Provision of information

The purpose and objectives of the service should be clearly defined and its mode of operations transparent for the benefit of staff, existing and potential service users, and the general community.

SQS 1. ***Service information.*** The service unit ensures that a clear description of its purpose, objectives and mode of service delivery is publicly available.

SQS 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.

SQS 3. ***Records.*** The service unit maintains accurate and current records of service operations and activities.

Principle 2: Service management

The service unit should manage its resources effectively and in a manner consistent with flexibility, innovation and continuous improvement in the quality of service delivered to service users.

SQS 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.

SQS 5. ***Human resources.*** The agency/service unit implements effective staff recruitment, contracting, development, training, assessment, deployment and disciplinary practices.

SQS 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.

SQS 7. ***Financial management.*** The service unit implements policies and procedures to ensure effective financial management.

SQS 8. ***Legal obligations.*** The service unit complies with all relevant legal obligations.

SQS 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.

Principle 3: Service to users

The service unit should identify and respond to specific service users' needs.

SQS 10. *Entry and exit.* The service unit ensures that service users have clear and accurate information about how to enter and leave the service.

SQS 11. *Needs 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).

Principle 4: Respect for service users' right

The service unit should respect the rights of the service users in all aspects of service operations and delivery.

SQS 12. *Informed choices.* The service unit respects the service users' rights to make informed choices of the service they receive as far as practicable.

SQS 13. *Private property.* The service unit respects the service users' rights in relation to private property.

SQS 14. *Privacy and confidentiality.* The service unit respects the service users' rights for privacy and confidentiality.

SQS 15. *Complaints.* Each service user and 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.

SQS 16. *Freedom from abuse.* The service unit takes all reasonable steps to ensure that service users are free from abuse.

Source: SWD records

Remarks: For each of the 16 SQSs, there is elaboration on how the SQS should be implemented.

Best Practice Manual **(31 March 2017)**

Level One guidelines

Financial management

Management of LSG reserve

1. Maximised use of reserve
 - NGOs are required to ensure that the reserve is fairly, reasonably, properly and effectively used for the intended purposes as stipulated by the SWD.
 - NGOs should maximise the use of the reserve in order to maintain or strengthen service delivery and implement strategic development plans, including building up a staff team with high quality.
2. Status of reserve
 - NGOs are required to, through convenient, effective and timely channels, disseminate information about the LSG reserve in a reader-friendly format to staff members and the public. Such information should include briefly a plan on how the reserve will be used in the future.

Use of PF reserve for non-Snapshot staff

3. Use of reserve
 - NGOs are required to maximise the use of PF reserve for non-Snapshot staff for the designated purpose so as to enhance staff morale and their sense of belonging to the organisations.
4. Status of reserve
 - NGOs are required to use convenient, effective and timely channels to disseminate information about the PF reserve to staff members, including a brief plan on how the PF reserve will be used in the future.

Human resource management

Salary package policy and administration

5. Salary adjustment
 - NGOs are required to spend the subvention for salary adjustment for the designated purpose by making timely adjustment to the salary for all staff members subvented by the LSG.

Corporate governance and accountability

Roles and duties of NGOs in complaints handling

6. Composition, duties and responsibilities on handling complaints at different levels
 - For LSG-related complaints, NGOs are required to develop a sound mechanism and policy to clearly spell out the personnel in handling complaints at different levels and their respective responsibilities and duties at each level.
 - NGOs are required to ensure that all levels of staff involved in complaints handling are free from any conflict of interest.
 - NGOs are required to ensure that both the complainant and the parties being complained against are aware that the complaint concerned is being handled in accordance with the procedures set out by the NGOs/the LSG Independent Complaints Handling Committee.

7. NGOs' policies and procedures on complaints handling
 - For LSG-related complaints, NGOs are required to strictly follow established policies and procedures, as well as the personnel composition to handle the complaints in a fair manner, with appropriate monitoring and appeal/review mechanisms.
 - NGOs are required to comply with the LSG Independent Complaints Handling Committee's complaints handling procedures and requirements in handling the complaints concerned.

Level Two guidelines

Financial management

Management of LSG reserve

1. Optimal level of reserve
 - NGOs should, having regard to their sizes and actual needs, develop planning and evaluation mechanisms on their own to determine the appropriate level of reserve, and monitor it effectively through appropriate years of projection.
 - NGOs should be cautious but not be too conservative or aggressive when estimating the required amount of accumulated LSG reserve.

Corporate governance and accountability

Management Strategies

2. Communication
 - NGOs should establish effective channels of communication between the governing board, the management, staff and service users, to ensure that feedback from staff and service users on LSG-related matters can be received.
3. Term of office of the governing board
 - NGOs should establish a succession mechanism for their governing board members, where there are no such restrictions in relevant legislation or constitution, to ensure the sustainable development of the board.
4. Roles of governing board
 - Regarding LSG-related matters, NGOs should enhance the knowledge of their board members on the NGOs and their SWD-subvented services through various effective and appropriate arrangements so as to strengthen their leading roles.

Responsibilities of the governing board and NGOs' decision making on important management issues of SWD-subvented services under LSG subvention system

5. Delineation of roles and responsibilities of the governing board
 - The roles, responsibilities and membership of the governing board and the relevant committees should be clearly defined and put on record.
 - NGOs should properly delineate the terms of reference between governing board members and senior management.
6. NGOs' decision making on important management issues of SWD-subvented services
 - NGOs should consult their staff and service users on important issues that affect them.
 - According to paragraph 5.6 of the LSG Manual, generally speaking, the NGO's governing board should consult the staff first before there are any changes that may affect them, including:
 - (a) changing the existing establishment structure;
 - (b) changing the remuneration package or the working conditions; and
 - (c) re-engineering and rationalising the service delivery modes, and the corresponding manpower redeployment that may become necessary.
 - According to paragraph 5.8 of the LSG Manual, NGOs should consider involving service users as far as practicable in service re-engineering, changing the existing service delivery mode, and monitoring compliance with service performance standards. Service users' feedback may be obtained through a variety of means such as service user liaison groups, discussions or opinion surveys.

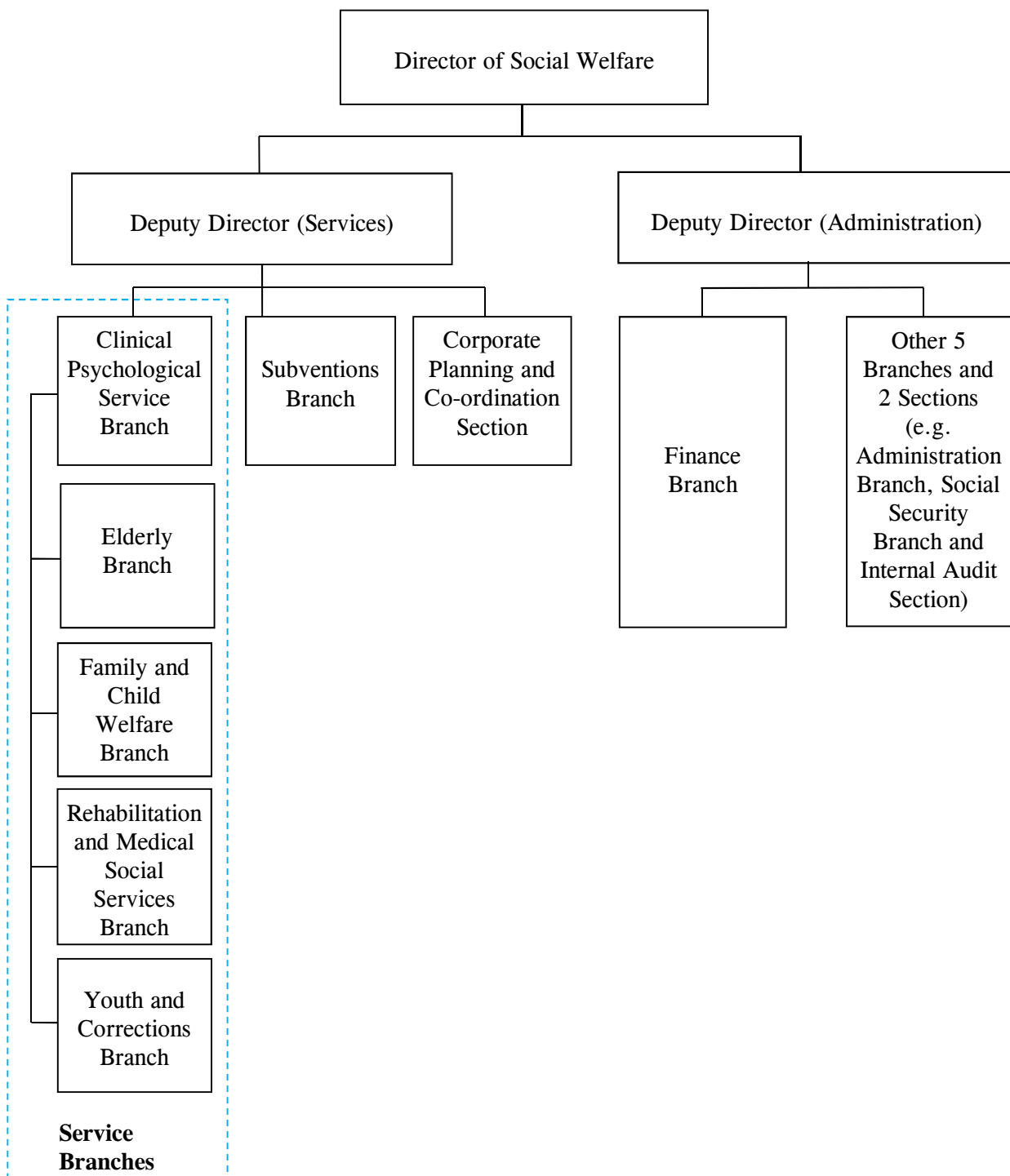
Appendix C
(Cont'd)
(paras. 1.19, 2.6, 2.7
and 5.3 refer)

7. NGO's decisions made on important management issues of SWD-subsented services
 - NGOs should disseminate to their staff and services users in a timely manner the decisions made on important management issues related to the LSG subvention system.

Source: SWD records

Remarks: In the BPM, there is further elaboration on how each of the 14 guidelines should be implemented.

**Social Welfare Department
Organisation chart (extract)
(30 June 2017)**



Source: SWD records

**Recommendations of the
Lump Sum Grant Independent Review Committee
(2008)**

Recommendations relating to Staffing Arrangements

1. A Best Practice Manual for NGOs on various management issues such as human resource policies, the level of reserves and their gainful deployment, corporate governance and accountability, etc., should be developed by the welfare sector, with professional input from management experts if necessary. LSG Steering Committee should work with the sector in drawing up this Manual.
2. The Government should make available an actuarial service for NGOs to assess their ability to meet Snapshot Staff commitments. Application for this service should be on a voluntary basis.
3. As a good management practice for NGOs, the additional funding provided in line with civil service salary adjustments should be spent solely on staff in subvented services.
4. In budgeting for non-subvented services, NGOs need to factor in pay adjustments, so that they may be in a better position to meet staff expectations when subvented services receive additional funds for pay adjustments.
5. The SWD should collect data on staff turnover and wastage rates for the purpose of monitoring the sector's overall manpower position. The Government should invite the Advisory Committee on Social Work Training and Manpower Planning to monitor closely the manpower supply in the welfare sector, so as to ensure a stable supply of professional staff.
6. The Government should set up a \$1 billion Social Work Development Fund to support training, capacity enhancement initiatives and service delivery enhancement studies. Grants should be allocated to NGOs on LSG based on the merit of their applications.

Recommendations relating to Financial Issues and Interactions between the Government and NGOs

7. In view of the changing service needs, the Government should institute a review mechanism whereby appropriate advisory bodies such as Social Work Advisory Committee, the Elderly Commission, the Rehabilitation Advisory Committee, etc. may oversee the systematic review of welfare services and ensure that stakeholders' views are taken into account in the review process.
8. In exceptional and justifiable cases, the SWD should allow NGOs to advance the subventions for other charges.
9. In managing their reserves, NGOs should take into account their Snapshot Staff commitments, as well as the need for service enhancement and staff development.
10. The SWD should establish a mechanism whereby NGOs which anticipate financial difficulties can alert SWD in advance, so that remedial measures can be taken as appropriate before the NGOs concerned exhaust their reserves.
11. NGOs should fully deploy the PF provisions and reserves for non-Snapshot Staff on PF contributions, including possibly special contributions to award non-Snapshot Staff for their good performance.
12. Recognising NGOs' achievements in enhancing efficiency and productivity under the Enhanced Productivity Programme / Efficiency Savings, it is recommended that the need for additional funding should only be justified by a systematic review of service needs.
13. The LSG Steering Committee should be reconstituted to strengthen its role and composition, so that it can lead the sector in the continuous development of LSG subvention system.
14. For the sake of transparency, the SWD should be prepared to explain, at the request of individual NGOs, the basis of their LSG calculations.

Appendix E
(Cont'd)
(paras. 6.2, 6.4
and 6.10 refer)

15. The SWD should revise the LSG Manual in consultation with stakeholders, update it regularly, and announce changes on SWD's website in the first instance. NGOs should also be notified instantaneously by email.
16. The SWD should rationalise the Agency Officer system (with an NGO recognised as one agency) with a team of officers who are familiar with the rules and operations of the Subventions, Finance and Service Branches and can provide prompt advice to NGOs on all LSG-related issues. The resources thus released may be redeployed to step up existing work such as quality inspections or implement new initiatives.

Recommendations relating to Flexibility, Efficiency and Cost-effectiveness

17. The SWD should conduct a thorough review of its audit procedures to ensure that they are effective in monitoring the use of public funds and do not compromise NGOs' flexibility under the LSG subvention system.
18. To avoid misunderstanding, NGOs should consult the SWD in a timely manner as to what constitute "Funding and Service Agreement (FSA)-related" activities before conducting such activities.
19. The SWD should streamline its financial reporting requirements, including dropping the requirement for NGOs to provide analyses of incomes and expenditures by programme area and by FSA.
20. The SWD should review the deadline for NGOs to submit their AFRs, taking into account the practicability of the requirement.
21. The SWD should set up a help desk to provide management advice to small NGOs and to facilitate their collaborative efforts. To help small NGOs develop, the SWD should also make available additional resources for them to strengthen their administrative and professional support. Small NGOs may apply for grants up to \$300,000 (or 10% of its LSG, whichever is lower) each year for a total of four years.

Appendix E
(Cont'd)
(paras. 6.2, 6.4
and 6.10 refer)

22. The definition of “small NGOs” should be standardised so that the assistance to them can be more targetted and effective. For this purpose, small NGOs should more appropriately be defined as NGOs with an annual LSG of less than \$5 million and an annual expenditure below \$10 million.
23. Small NGOs may consider submitting joint proposals to enhance their competitiveness in the bidding of new services. While NGOs participating in such joint ventures have to identify a representative to sign the FSA and liaise with SWD, the NGOs should also enter into an agreement among themselves to set out clearly their individual contributions and shared responsibilities.
24. In inviting bids for new services, the SWD should make known to prospective bidders the relative weighting of the various aspects of a proposal in the marking scheme.
25. NGOs should carefully consider their resource implications before preparing service proposals. NGOs should also take into account the views of their staff and share with them the considerations in submitting service proposals.
26. The SWD should look into the possibility of simplifying the process for the allocation of new services, such as introducing a two-stage tendering process, so that resources can be saved both in the preparation of service proposals and in the vetting of the proposals.
27. As per Recommendation 6, a new Social Work Development Fund should be established and should take over the function of the Business Improvement Project Scheme. It is for SWD to consider whether NGOs should still be required to contribute at the present or at a lower level to the projects supported by the new fund.

Recommendations relating to Accountability and Corporate Governance of Subvented NGOs

28. A formal public accountability framework should be in place for NGOs to disclose their AFRs as submitted to the SWD, so that they will also be accountable to the public for the proper and prudent use of public funds.
29. The SWD should fully consult the NGOs with a view to implementing the Government guidelines on the monitoring of remunerations of senior executives in subvented bodies.

Recommendations relating to the Quality of Welfare Services

30. The SWD should conduct more frequent service performance inspections and surprise visits, and systematically collect service users' feedback.
31. The Government, having regard to Social Work Advisory Committee's recommendations, should work more closely in partnership with the sector to establish a practicable and sustainable mechanism for implementing a visionary welfare plan for Hong Kong.

Recommendations relating to the Handling of Complaints

32. Complaints made by service users and staff against subvented NGOs or their service units should be handled, in the first instance, by the NGOs concerned according to their established policy. How their management and governing boards should better perform their respective roles in this regard should be addressed in the sector's Best Practice Manual.
33. An Independent Complaints Handling Committee should be set up to determine on LSG-related complaints that cannot be satisfactorily addressed at the NGO level and recommend improvements to LSG subvention system. The Director of Social Welfare should be informed of Independent Complaints Handling Committee's decisions and recommendations, and should take follow-up actions as appropriate.

Recommendations on Other Related Issues

34. For anonymous complaints, where SWD does not require any feedback from, or investigation by, the NGO, it should make that clear to the NGO to avoid unnecessary work.
35. The SWD should review the Lotteries Fund vetting procedures and funding rules, and consider, inter alia, the following improvements, so as to make better use of Lotteries Fund:
 - (a) increase the agency cap of the Block Grant to 1.5%;
 - (b) for furniture and equipment items, lower the threshold for major grant applications to \$50,000;
 - (c) where a project is carried out under the supervision of Authorised Persons or consultants, the Government should consider placing more reliance on their professional certification to expedite the vetting process; and
 - (d) where a project is proposed to be named after a donor, the SWD may maintain the requirement that the donor makes a contribution of at least 20% of the project cost, but of which only an amount equal to 10% of the project cost will be used to offset the Lotteries Fund grant, while the NGO concerned may use the remainder to upgrade the project.
36. The SWD should, in response to the labour market situation, provide additional resources for three years to welfare NGOs which need to employ paramedical staff or hire their services, so that they may offer more competitive salaries to recruit and retain these staff.

Source: Review report on the LSG subvention system of the LSG Independent Review Committee

Acronyms and abbreviations

AFRs	Annual Financial Reports
ASUs	Agreement service units
Audit	Audit Commission
BPM	Best Practice Manual
ESRs	Essential Service Requirements
FSAs	Funding and Service Agreements
FSTB	Financial Services and the Treasury Bureau
HCS	Home care service for persons with severe disabilities
ICYSCs	Integrated Children and Youth Services Centres
ISS	Integrated support service for persons with severe physical disabilities
LegCo	Legislative Council
LSG	Lump sum grant
LWB	Labour and Welfare Bureau
NGOs	Non-governmental organisations
PF Reserve	Provident Funds Reserve
SQs	Service Quality Standards
SVP	Special visitation programme
SWD	Social Welfare Department