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
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.
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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).
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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).
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...
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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).

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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
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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
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).
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
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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).
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
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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:

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

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(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);

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(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)));
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(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
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(a) 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.