

THE MENTAL HEALTH ASSOCIATION OF HONG KONG

Executive Summary

1. The Government attaches great importance to the mental well-being of the public. It adopts an integrated and multi-disciplinary approach towards mental health, and seeks to provide comprehensive and cross-sectoral services to the public through collaboration and cooperation among major stakeholders, including various government bureaux and departments, the Hospital Authority and non-governmental organisations (NGOs) in the social welfare sector. The Social Welfare Department (SWD) provides subventions (mainly under the Lump Sum Grant (LSG) subvention system) to NGOs in the social welfare sector, which in turn provide a wide range of mental health services in Hong Kong, including mental health promotion and rehabilitation services.

2. The Mental Health Association of Hong Kong (MHAHK) is an NGO providing mental health-related services to the public. Established in 1954 as a non-profit-making social service organisation, MHAHK has developed a comprehensive spectrum of rehabilitation services in the community, providing holistic care for persons with mental health needs, persons with intellectual disabilities and the disadvantaged. The Executive Committee is the governing body of MHAHK which determines policies, monitors and evaluates MHAHK's business, and promotes MHAHK's objectives. Under the direction of the Executive Committee, the Director of MHAHK oversees the day-to-day operation. As at 31 March 2021, MHAHK had 770 staff.

3. MHAHK's core services are classified into four categories, namely rehabilitation services for persons in mental recovery (e.g. Integrated Community Centres for Mental Wellness (ICCMWs)), rehabilitation services for persons with intellectual disabilities (e.g. hostels), vocational rehabilitation services for persons with disabilities (PWDs) (e.g. Sheltered Workshops), and mental health promotion and education services. The rehabilitation services are carried out by different service units and benefit about 6,500 to 7,000 service users each year.

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4. Government funding forms a major part of MHAHK's income. In 2020-21, subventions from SWD amounted to \$329 million (61% of MHAHK's total income of \$543 million), of which \$275 million was in the form of LSG. Under the LSG subvention system, Funding and Service Agreements (FSAs) are signed between SWD as a funder and NGOs as service providers. The service units under FSAs are referred to as Agreement Service Units (ASUs). As at 31 March 2021, there were 53 ASUs under MHAHK providing rehabilitation services. The Audit Commission (Audit) has recently conducted a review of MHAHK and found areas for improvement.

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5. *Need to draw up terms of reference for all sub-committees.* As a condition of receiving LSG subvention, NGOs are required to observe the advice on best management practices and processes in the "Social Welfare Services Lump Sum Grant Manual" (LSG Manual) promulgated by SWD, which provides advice and guidelines in respect of corporate governance and other management aspects. MHAHK's Executive Committee is supported by 3 panels. Underpinning the panels are 15 sub-committees that provide advice and monitor performance on service operation. For each panel or sub-committee, typically there should be a set of terms of reference defining its authority, roles and responsibilities, and also specifying the composition of membership and proceedings of meetings. However, Audit noted that there were no terms of reference for 2 sub-committees, namely the Quality and Risk Management Sub-committee, and the Journal Editorial Board (paras. 1.13 and 2.2 to 2.5).

6. *Need to review the terms of reference of panels and sub-committees without regular meetings.* The frequencies of meetings of the Executive Committee, panels and sub-committees are laid down in their respective terms of reference. For example, the Executive Committee should meet at least 4 times per year. For the 3 panels and the Fund-raising Sub-committee, meetings are held on a need basis. Audit noted that the number of meetings held by the panels during the term years (each term year is the 12-month period from December of a year to November next year) 2015-16 to 2020-21 (up to 30 June 2021) varied. While the Administration Panel held a total of 20 meetings, the Service Panel held a total of 4 meetings, and the Education Panel did not hold any meeting. For the Fund-raising Sub-committee and the 2 sub-committees without terms of reference (see para. 5), no meeting was held during the review period. According to MHAHK:

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- (a) the Service Panel and the Education Panel were not standing committees, but temporary and joint panels formed to reach consensus among the sub-committees underpinning the panels when common agenda had to be considered; and
- (b) as for the sub-committees, they had different means to discharge their designated functions in lieu of regular official meetings.

In Audit's view, MHAHK should review and revise as appropriate the terms of reference of panels and sub-committees without regular meetings to more accurately reflect their roles and means to discharge their functions in lieu of regular official meetings (paras. 2.7 to 2.10).

7. ***Room for improvement in attendance and proceedings of meetings.*** Audit analysed members' attendance at meetings for term years 2015-16 to 2020-21 (up to 30 June 2021) and identified the following areas for improvement:

- (a) ***Need to comply with quorum requirement.*** Audit noted that 2 sub-committees each had held one meeting (out of 16 meetings during the review period) without complying with the quorum requirement; and
- (b) ***Need to document the granting of leave of absence by the Executive Committee.*** As stipulated in MHAHK's Articles of Association, if a member of the Executive Committee, without leave of absence granted, was absent from the meetings on three consecutive occasions, the Committee may declare his office vacant, and he shall cease to be a member of the Committee. Audit analysis revealed that for the term years 2015-16 to 2020-21 (up to 30 June 2021), 4 (27%) out of the 15 members of the Executive Committee had been absent from meetings on three or more consecutive occasions. The number of consecutive absences at meetings ranged from 5 to 11 meetings. However, there was no documentation showing that leave of absence had been granted by the Executive Committee (paras. 2.15 to 2.18).

8. ***Room for improvement in managing potential conflicts of interest at meetings.*** Audit examined the Executive Committee's minutes of meetings since the term year 2015-16 and up to 30 June 2021 and noted that although financial matters were discussed at the meetings from time to time, no declaration of interests by

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members nor confirmations of having no interests requiring declaration were recorded in the minutes of meetings. Also, while panels and sub-committees may also involve decision making on financial or personnel matters, the two-tier reporting system of declaration of interests is currently only applicable to the Executive Committee. MHAHK needs to consider the merit of extending the two-tier reporting system to panels and sub-committees, in particular those involved in financial or personnel matters (paras. 2.21 and 2.22).

9. *Need to promote membership.* According to the Articles of Association, membership of MHAHK is open to adult residents of Hong Kong or elsewhere who are in sympathy with the objects of MHAHK. As at 31 March 2021, MHAHK had 217 members. Audit noted that, for the period 2016 to 2020:

- (a) only 21 new members were recruited. The net increase in number of members was 6; and
- (b) the attendance rates at the annual general meetings were on the low side (ranging from 9% to 14%).

In Audit's view, MHAHK needs to formulate measures to further encourage and facilitate members in attending the annual general meetings, and step up efforts in recruiting individuals who are in sympathy with the objects of MHAHK as its members, including sub-committee members (paras. 2.29 to 2.33).

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10. *Need to closely monitor the impact of coronavirus disease (COVID-19) epidemic on subvented services.* Under the LSG subvention system, an NGO's attainment of the service requirements and service standards (e.g. Output Standards (OSs) and Outcome Standards (OCs)) stipulated in FSAs serves as a performance measurement of the NGO's service delivery. For MHAHK, for each of the years in 2016-17 to 2018-19, there were only 3 to 7 OSs/OCs (i.e. 2% to 3% of the OSs/OCs) not achieved. For 2019-20 and 2020-21, some of the services were suspended or provided on a limited scale due to the COVID-19 epidemic, resulting in more OSs/OCs not achieved. In Audit's view, while noting that the impact brought about by the COVID-19 epidemic is inevitable, with gradual resumption of normal operation of subsidised welfare services, MHAHK should closely monitor the impact of the

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COVID-19 epidemic on its subvented services and, in consultation with SWD, strive to attain all OSs/OCs as far as practicable (paras. 3.4 and 3.6).

11. ***Need to improve the utilisation of a subvented service.*** Audit noted that an ASU (i.e. Day care service for persons with severe disabilities attached to Care and Attention Home for Severely Disabled Persons (day care service)) had failed to achieve an OS on the occupancy rate persistently from 2016-17 to 2020-21 (actual occupancy rates ranging from 22% to 87% versus the OS of 90%). According to MHAHK, the actual occupancy rate (85%) in 2018-19 was lower than the OS set because some service users took leave, which was uncontrollable. MHAHK formulated and implemented an improvement measure that, with effect from 1 October 2018, service users should not take leave for more than 30 days in any 6-month period. With a view to boosting utilisation of the service, MHAHK adopted an over-enrolment practice (i.e. to allow enrolment of 6 users against a capacity of 5 users). In Audit's view, MHAHK needs to, in consultation with SWD, consider further measures to improve the utilisation of day care service (paras. 3.7 to 3.9).

12. ***Need to review the OS of a vocational rehabilitation service.*** Supported Employment is one of the vocational rehabilitation services provided by MHAHK. Under Supported Employment, vocational rehabilitation support (e.g. job trial and post-placement services) is provided to enhance the employment of the service users through proactive training. Audit found that the user turnover rate had been on a decreasing trend from 2016-17 to 2020-21 (dropping from 102% to 46%), indicating that users generally took a longer time to be discharged. During the same period, the average number of applicants on the waiting list for the service decreased from 31 in 2016-17 to 17 in 2018-19, but then gradually increased to 40 in 2020-21. According to MHAHK, the drop in the user turnover rate since 2019-20 was attributable to the extension of post-placement services from 6 to 12 months with additional resources provided by SWD to enhance the service. Audit considers that SWD needs to review the OS on post-placement services of Supported Employment by examining its impact on user turnover at an opportune time, so as to better address the demand for the service (paras. 3.10 to 3.12).

13. ***Need to flexibly deploy the manpower between two ICCMWs.*** ICCMWs offer one-stop and district-based community support services to persons in mental recovery, persons with mental health needs, their family members/carers and residents living in the serving districts concerned. As at 31 March 2021, MHAHK operated two ICCMWs, one in Kwun Tong and the other in Tai Po. Audit conducted

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an analysis of the workload of ICCMW staff in terms of the number of members (i.e. service users) served per ICCMW staff and found that the workload of Kwun Tong ICCMW had been persistently higher than that of Tai Po ICCMW (e.g. in 2020-21, the number of members served per staff was 58 for Kwun Tong and 41 for Tai Po). In Audit's view, MHAHK needs to consider flexibly deploying the manpower resources between the two ICCMWs with a view to balancing their workload (paras. 3.13 and 3.14).

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14. ***Room for improvement in management of reserves.*** Under the LSG subvention system, an NGO can retain unspent LSG subvention in a reserve, known as LSG Reserve, to meet future spending. As at 31 March 2021, the balance of MHAHK's LSG Reserve amounted to \$92.5 million. The balance of a "Holding Account", which was for honouring the contractual commitments to Snapshot staff (i.e. staff members who were on the recognised establishment of NGOs' subvented service units as at 1 April 2000), formed part of the LSG Reserve. According to a review report on the LSG subvention system published in July 2021 (i.e. LSG Enhancement Review Report), it was not uncommon for NGOs to record a substantial reduction in the number of Snapshot staff with no corresponding decrease in the accumulated balance of the Holding Account. Audit noted that the number of MHAHK's Snapshot staff decreased from 265 as at 1 September 2006 to 93 as at 1 September 2020, while the balance of the Holding Account remained at \$48.2 million (paras. 1.13, 4.2 to 4.4 and 4.6).

15. ***Need to improve internal controls in accounting and financial procedures.*** LSG Manual sets out advice on internal control procedures in respect of nine categories of important financial activities (e.g. revenue collection and receipt and payment). Audit noted the following issues:

- (a) ***Irregularities found in SWD inspections.*** SWD conducts accounting inspections in respect of NGOs' compliance with accounting and financial reporting requirements as laid down in LSG Manual. Audit examined the records of the most recent three SWD accounting inspections on MHAHK (for years 2013-14, 2015-16 and 2018-19) and found that some internal control weaknesses had been identified in more than one SWD inspection; and

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- (b) ***Irregularities found in Audit inspections.*** Audit examined records of 6 service centres of MHAHK and identified a number of irregularities on the internal control procedures. For instance, a common irregularity found in SWD accounting inspections (i.e. lack of proper authorisation over petty cash payments) was found in 2 of the 6 service centres. Audit also noted that, for most of the irregularities identified in the Audit inspections, the relevant internal control advice in LSG Manual had not been incorporated in MHAHK's guidelines on accounting and financial procedures (paras. 4.8 to 4.10).

16. ***Need to ensure no cross-subsidisation between FSA and non-FSA activities.*** Under the LSG subvention system, MHAHK receives a lump sum amount of grant for all its ASUs, and may redeploy resources across the ASUs as long as they are within those governed by FSAs. In accordance with the principles of the LSG subvention system, it is important to ensure that the subvention is spent for the intended purposes within the scope of FSAs, and to ensure no cross-subsidisation between FSA and non-FSA activities in money or in kind. Apart from FSA activities, MHAHK also conducted non-FSA activities (e.g. programmes on a self-financing basis). Audit noted that some expenses had not been apportioned between FSA and non-FSA activities (e.g. staff remuneration of the senior management team overseeing both FSA and non-FSA activities) (paras. 4.11 and 4.12).

17. ***Need to tackle challenges of staff shortage and review succession plan.*** Audit noted the following issues:

- (a) ***Staff shortage.*** Audit analysed MHAHK's establishment and strength of staff for the period 2016-17 to 2020-21 and noted that the overall staff vacancy rate increased from 2% in 2016-17 to 7% in 2020-21. Some job categories and service units were experiencing staff shortages (e.g. vacancy rate for specialised health and care professional and nursing staff increased from 7% to 15%). Staff vacancies and/or recruitment difficulties had affected service provision. For example, for the Agency-based Clinical Psychological Service for ICCMW, in 2020-21, the actual numbers of individual clinical sessions and group clinical sessions provided to service users in ICCMWs fell short of the respective targets by 18% and 64%; and

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- (b) **Succession planning.** According to LSG Manual, NGOs are advised to formulate and review regularly a succession plan. In March 2018, MHAHK performed a 10-year projection on number of staff, taking into account the number and posts of retiring staff. However, the succession plan had not been reviewed since 2018 (paras. 4.17, 4.18 and 4.20).

18. **Room for improvement in the procurement of goods and services.** MHAHK has laid down guidelines for procurement of goods and services. Regarding consumables for daily operations at service units (e.g. food), staff are required to obtain written/verbal quotations from suppliers. ASUs are also required to conduct a review on price and quality of goods at least once every two years. Audit found areas for improvement in conducting quotations and price and quality reviews on food items. For example, for one ASU, there was no documentary evidence showing that a quotation exercise had been conducted. For another ASU, Audit could not find any record showing that price and quality reviews had been conducted (paras. 4.29 and 4.30).

19. **Room for improvement in financial reporting and disclosure.** An Annual Financial Report (AFR) is a financial report prepared by an NGO for submission to SWD annually in respect of all FSA activities, FSA-related activities and related support services funded by LSG, other social welfare subventions and other income. Audit noted the following issues:

- (a) **Need to include all FSA activities.** MHAHK's headquarters building was located in Kwun Tong which served as an administration office. Also operating in the building was a cafeteria, which according to MHAHK was a simulated business aimed at providing job skills training to PWDs under Supported Employment. Audit noted that while the cafeteria was regarded by MHAHK as a subvented activity governed by an FSA (i.e. Supported Employment), its income and expenditure had been excluded from AFR; and
- (b) **Need to improve transparency.** Audit examined MHAHK's Annual Reports for the years 2016-17 to 2019-20 and found that MHAHK had not shown its AFR as an integral part of the Annual Report, nor uploaded the full set of the latest AFR onto its website, contrary to the requirement stated in LSG Manual. With a view to facilitating public access to NGOs' AFRs, SWD has been maintaining on its website a website link to or a copy of

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each NGO's latest AFR. In Audit's view, to further facilitate public access to its AFR and ensure compliance with LSG Manual, MHAHK needs to specify the SWD website address linking to its latest AFR in its Annual Report (paras. 4.4 and 4.34 to 4.37).

Audit recommendations

20. **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 MHAHK should:**

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- (a) **formulate terms of reference for the Quality and Risk Management Sub-committee and the Journal Editorial Board and have them endorsed by the Executive Committee, and ensure that the convenors and members of the sub-committees are well-acquainted with the terms of reference (para. 2.13(a));**
- (b) **review and revise as appropriate the terms of reference of panels and other sub-committees without regular meetings to more accurately reflect their roles and means to discharge their functions in lieu of regular official meetings (para. 2.13(b));**
- (c) **ensure that the quorum requirement of meetings of committees is always met, and properly record in the minutes of meetings the granting of leave of absence to members by the Executive Committee (para. 2.27(a) and (b));**
- (d) **consider strengthening the management of declaration of interests at meetings, particularly when the discussion items involve financial or personnel matters, and consider the merit of extending the two-tier reporting system of declaration of interests to panels and sub-committees (para. 2.27(c) and (d));**

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- (e) **formulate measures to further encourage and facilitate members in attending the annual general meetings, and step up efforts in recruiting individuals who are in sympathy with the objects of MHAHK as its members (para. 2.34(a) and (b));**

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- (f) **closely monitor the impact of the COVID-19 epidemic on its subvented services and, in consultation with SWD, strive to attain all OSs/OCs as far as practicable (para. 3.15(a));**
- (g) **in consultation with SWD, consider further measures to improve the utilisation of day care service (para. 3.15(b));**
- (h) **consider flexibly deploying the manpower resources between the two ICCMWs with a view to balancing their workload (para. 3.15(c));**

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- (i) **take into account the recommendations in the LSG Enhancement Review Report and Audit's comments in improving the management of reserves (para. 4.14(a));**
- (j) **enhance controls on accounting and financial management (para. 4.14(b));**
- (k) **ensure that there is no cross-subsidisation between FSA and non-FSA activities (para. 4.14(c));**
- (l) **enhance human resources management to tackle the challenge of staff shortage, and regularly review the succession plan (para. 4.25(a) and (b));**
- (m) **ensure that the laid-down procurement guidelines are complied with by all ASUs (para. 4.38(b));**

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- (n) ensure that the income and expenditure of all FSA activities and FSA-related activities are included in AFR (para. 4.38(d)); and
 - (o) specify in its Annual Report the SWD website address linking to its latest AFR (para. 4.38(e)).
21. Audit has *recommended* that the Director of Social Welfare should review the OS on post-placement services of Supported Employment by examining its impact on user turnover at an opportune time (para. 3.16).

Response from The Mental Health Association of Hong Kong

22. MHAHK agrees with the audit recommendations.

Response from the Government

23. The Director of Social Welfare agrees with the audit recommendations.