

# Summary and Key Findings of Report No.39 of Director of Audit

## PRIMARY EDUCATION — THE ADMINISTRATION OF PRIMARY SCHOOLS

### Summary and key findings

A. **Introduction.** It is a government policy to provide nine-year free and universal basic education for every child aged between six and 15. Primary education covers the first six years of free and universal basic education for the young generation to build up knowledge, values and skills for further studies and personal development. As at the beginning of the 2001-02 school year, there were about 478,000 primary students studying in 690 aided schools, 41 government schools and 63 private schools. The average cost of providing free primary education to a primary student is about \$26,000 a year. In the financial year 2002-03, the recurrent financial provision for primary education amounts to \$11,700 million (paras. 1.2 and 1.3).

B. **Audit review.** Audit has recently conducted a value for money audit on primary education. The audit is divided into three broad topics, namely planning and provision of primary school places, the administration of primary schools and the delivery of effective primary education. This report deals with the administration of primary schools (para. 1.7).

C. The objective of the audit review is to ascertain whether the major areas of administration in aided and government primary schools function properly to support the provision of quality primary education. In conducting the review, Audit selected on a random basis 18 primary schools for examination, covering one school in each of the 18 districts in Hong Kong (paras. 1.10 to 1.12). The areas for improvement identified by Audit are summarised in paragraphs D to H below.

D. **Strategic planning and financial management.** Audit noted that there is room for improvement in the following areas:

- (a) **Strategic planning.** To ensure that schools are held accountable for ensuring value for money in the use of resources and the quality of education services, the Education Department (ED) requires schools to prepare annual school plans and produce longer-term strategic plans. Audit examined the school plans of the 18 schools visited and noted that 16 schools did not prepare longer-term strategic plans. Four schools had not made any assessment of demographic changes which could affect the schools' future development. Nine schools had not carried out any evaluation of the school programmes in accordance with the plans (paras. 2.2 to 2.8);
- (b) **Capacity Enhancement Grant.** In November 2000, the Finance Committee of the Legislative Council approved the Capacity Enhancement Grant (CEG) which aimed at enabling schools to hire additional personnel and/or services to reduce teachers' workload. For a school with less than 19 operational classes, the rate of CEG was fixed at \$450,000 per school per annum. Audit considers that it is not necessary for schools with a small number of classes (e.g. a school operating only two classes) to be given the full amount of

\$450,000. Audit estimates that, by introducing one more level of provision for the CEG, \$26 million could be saved annually (paras. 2.11 to 2.18);

- (c) **Surplus funds retained by schools.** To give schools greater flexibility in the use of resources to support the development of school-based management, the ED allows schools to retain the unspent balance up to 12 months' provision of the annual recurrent grants which cover virtually all recurrent expenses. Audit noted that many schools did not have specific plans on how to use the unspent surplus funds and some schools retained very high proportions of surplus funds. If schools were allowed to retain grants at a level up to three months' cover, some \$88 million could be clawed back by the ED (paras. 2.21 to 2.27);
- (d) **Provision of electricity charges.** The ED had substantially over-provided a school with funds for paying electricity charges. The school did not take the initiative to pay back the surplus funds to the ED. Instead, it transferred some of the surplus funds to meet the costs of other expenditure items (paras. 2.30 to 2.35); and
- (e) **External audit arrangements.** According to the Code of Aid for Primary Schools (CAPS), the accounts of aided schools are required to be audited by qualified external auditors. Audit examined the external audit arrangements of the 16 aided schools visited (the other two schools visited by Audit are government schools). Audit observed that most of the schools had appointed their existing external auditors for many years and their appointment had not been subject to a competitive selection process, and that they had not agreed with their external auditors on the terms of engagement. Furthermore, some external auditors had not fulfilled the ED's requirements on external audit arrangements (paras. 2.44 to 2.51).

**E. Human resource management.** Audit reviewed the practice and procedures of human resource management in the 18 schools visited, and noted that improvements could be made in the following areas:

- (a) **Recruitment of teaching staff.** The ED has set guidelines on the recruitment of teaching staff by schools. However, Audit noted that a school had appointed teachers without a proper recruitment system such as advertising vacancies in the press and forming a selection panel. In some schools, contrary to the ED's guidelines, members of the School Management Committee (SMC) were not involved in the interviews. Ten schools had offered appointment directly to applicants without the prior approval of the SMC, which was in contravention of the Education Regulations (Cap. 279A) (paras. 3.2 to 3.9);
- (b) **Scheduling of school holidays.** The ED allows schools to have 90 days of school holidays in a school year. It is a common practice for schools to reserve most of the school holidays during the summer months. Some school principals informed Audit that it would be desirable to shorten the summer holidays and lengthen the duration of other school term breaks, so that teachers could make use of the longer term breaks to evaluate and plan ahead their teaching. They would have shorter idle time in the summer. However, the school principals felt that the ED would normally not allow significant rescheduling of

school holidays. Audit considers that there are merits in rescheduling the school holidays to suit schools' teaching needs (paras. 3.12 to 3.15);

- (c) **Arrangements for stepping down of senior teachers.** According to the CAPS, if a school reduces its number of classes, senior teachers in excess of the school's entitlement have to step down to the junior post of class teacher and perform the duties of a class teacher. However, subject to the ED's approval, a stepped-down senior teacher could retain the senior teacher salary. In a school visited by Audit, despite the fact that a senior teacher had performed only a class teacher's duties after stepping down to a junior post, he was still given salary increments of the senior teacher salary scale. Audit considers that this arrangement is unsatisfactory as the senior teacher did not perform the duties commensurate with his salary (paras. 3.17 to 3.20); and
- (d) **Management of janitor staff.** The establishment of schools' janitor staff is determined according to the number of classes/classrooms and special-purpose rooms that are in operation at the school premises. Schools have the option of outsourcing the janitor services. Of the 18 schools visited, Audit noted that only one school had outsourced the janitor services. In this school, a major portion of the original workload of ten janitors was handled by only five contract workers. If all schools outsource part of their janitor services, Audit estimates that annual savings of some \$100 million could be achieved in the longer term (paras. 3.23 to 3.30).

F. **Procurement procedures and asset management.** Aided and government primary schools incurred a non-recurrent expenditure of around \$252 million a year on procurement of goods and services. Audit noted that there is scope for improvement in the following areas:

- (a) **Procurement of goods and services.** Schools have to observe the ED's guidelines on the procurement of goods and services. Audit reviewed the procurement arrangements of the 18 schools visited and observed that several schools often procured goods and services without obtaining quotations. Some schools had set their own financial limits for obtaining quotations, instead of complying with the limits set by the ED. Some schools had failed to document the details of quotations obtained and the recommendations made for the procurement (paras. 4.2 to 4.8);
- (b) **Procurement services for students and parents.** During school visits, Audit noted that schools provided procurement services for students and parents (such as supply of school bus service). However, 15 schools did not adopt the process of competitive tendering to safeguard the interests of students/parents. For the delivery of some goods and services, the schools only identified one supplier and recommended it to students/parents (paras. 4.11 to 4.13); and
- (c) **Letting out of school premises.** The ED allows schools to let out their school premises as a community service to foster better cooperation between schools and the community. The income generated could be used for educational activities of students of the schools. Audit noted that many schools had not let out their school premises. Two schools, without proper

justifications, did not let out their premises upon receipt of applications from charitable and community service organisations. On the other hand, a school had let out, without charge, its premises to a private organisation whose activities were considered to be hindering the students' normal activities (paras. 4.16 to 4.21).

G. **Management of student matters.** Audit noted that improvement could be made in the following areas:

- (a) ***Sale of school items by schools' sponsoring and associated bodies.*** To safeguard the interests of students, the ED requires schools, in selling school items to students, to observe that the profit from the sale should be limited to 15% of the cost price, and that no profit should normally be generated from the sale of textbooks. However, Audit noted that a school's associated body made considerable profits from the sale of school items (paras. 5.2 to 5.8);
- (b) ***Donations received by schools.*** To avoid schools placing themselves in an obligatory position to suppliers, the ED imposes controls on acceptance of donations by schools from suppliers. During the visits to the 18 schools, Audit noted cases where some schools had accepted donations from their suppliers of goods or services. These schools did not invite tenders or obtain quotations from other suppliers. Audit observed that the reason of "sponsoring students' activities" had often been quoted by schools in accepting donations from suppliers and textbook publishers (paras. 5.11 to 5.17);
- (c) ***Tuckshop operations.*** The ED encourages schools to run tuckshops to provide a service to students, and requires that schools should ensure that tuckshops are operated in the interests of the students. Audit noted that a school had charged its tuckshop operator a high tuckshop rental. As a result, students had to pay more for the items sold by the tuckshop operator. The tuckshop operator has been operating in the school for more than ten years. However, the school has not attempted to re-tender the tuckshop operations (paras. 5.20 to 5.29); and
- (d) ***Weight of school bags.*** According to the ED's guidelines, overweight school bags may have adverse effects on the health of students. Audit noted that the health organisations of some advanced countries and some local experts of the medical profession had recommended that children should not be allowed to carry school bags of over 10% of their body weights. During visits to the 18 schools, Audit checked the weights of school bags of 490 students and observed that about one third of the students carried school bags exceeding 15% of their body weights. There were four students whose school bags weighed between 31% to 35% of their body weights. Audit considers that schools should do more to reduce the weight of school bags (paras. 5.32 to 5.40).

H. **Support from ED to schools.** The ED provides various types of support to schools to assist them to enhance the quality of teaching and learning. The school inspection teams of the ED

conduct financial audit inspections and provide advice on improvements of accounting and internal control procedures. Audit invited the attention of the ED to the following matters:

- (a) *Views of school principals on ED's support.* During visits to the 18 schools, some principals advised Audit that there were areas for improvement in providing support to schools by the ED. For example, the ED should render more support to help smaller-size schools implement the School Administration Guide, and should consolidate various circulars/guidelines in a more concise and comprehensive manner (paras. 6.2 and 6.3); and
- (b) *Work of ED's school inspection teams.* In view of the weaknesses in the control systems identified by Audit, the ED's school inspection teams need to focus their inspection more on the financial management and procurement of goods and services by schools (paras. 6.6 to 6.9).

I. **Audit recommendations.** Audit has made the following major recommendations that the Director of Education should:

***Strategic planning***

- (a) disseminate good practice guides to schools to help them draw up their strategic plans (para. 2.9(b));

***Capacity Enhancement Grant***

- (b) consider introducing more levels of provision for the CEG for different numbers of operating classes in schools (para. 2.19(b));

***Surplus funds retained by schools***

- (c) conduct a review to ascertain whether the level of surplus funds that schools are allowed to retain is excessive, having regard to their operating needs (para. 2.28(a));

***Provision of electricity charges***

- (d) identify schools that have been substantially over-provided with funds for paying electricity charges, and take action to claw back such funds (para. 2.36(b));

***External audit arrangements***

- (e) require aided schools to invite periodically audit firms to submit tenders or quotations for appointment as external auditors (para. 2.52(a));

- (f) request aided schools to agree the terms of audit engagement with their external auditors in an audit engagement letter (para. 2.52(b));

***Recruitment of teaching staff***

- (g) ensure that schools set up a proper recruitment system which includes open selection procedures, the establishment of a selection panel, and the documentation of the recruitment criteria and assessment of candidates (para. 3.10(a));

***Scheduling of school holidays***

- (h) urge schools to review the need for distributing the school holidays more evenly throughout the year to suit the schools' teaching needs (para. 3.15);

***Arrangements for stepping down of senior teachers***

- (i) take action to facilitate the transfer of senior teachers who are required to step down to other schools that have suitable vacancies (para. 3.21(a));
- (j) consider allowing a teacher who is required to step down to retain the senior teacher salary on the condition that his salary increments are suspended until he fully performs the duties of a senior teacher (para. 3.21(b));

***Management of janitor staff***

- (k) ask schools to assess the costs and benefits of outsourcing their janitor services (para. 3.31(a));

***Procurement of goods and services***

- (l) remind schools to obtain the best available price when making procurement, document properly the quotations obtained, and comply with the financial limits set by the ED (para. 4.9);

***Procurement services for students and parents***

- (m) require all schools to follow the practice of obtaining competitive tenders and quotations, so as to safeguard the interests of students and parents (para. 4.14);

***Letting out of school premises***

- (n) remind schools that profit-making organisations are not entitled to using school premises free of charge (para. 4.22(c));

***Sale of school items by schools' sponsoring and associated bodies***

- (o) take action to ensure that no excessive profits are made from the sale of school items by schools' sponsoring and associated bodies (para. 5.9(b));

***Donations received by schools***

- (p) require schools which accept donations from textbook publishers to document clearly the compelling reasons for doing so (para. 5.18(b));
- (q) extend the ED's requirement, that schools should not accept donations from textbook publishers unless there are compelling reasons to do so, to all other suppliers (para. 5.18(c));

***Tuckshop operations***

- (r) require schools to invite open tenders for tuckshop operations (para. 5.30(b));

***Weight of school bags***

- (s) in consultation with the Director of Health, consider including in the ED's guidelines a benchmark on the weight of school bags (para. 5.41(a));
- (t) urge schools and parents to take more actions (such as using more double periods) to reduce the weight of school bags (para. 5.41(c));

***Views of school principals on ED's support***

- (u) note the views of the school principals and take appropriate follow-up action (para. 6.4(a) and (b)); and

***School inspection teams of ED***

- (v) ensure that the ED's school inspection teams focus more on the financial management and procurement of goods and services by schools (para. 6.10).

J. **Response from the Administration.** The Administration generally agrees with Audit's recommendations.