

**Minutes of the 49th Meeting of the
Lump Sum Grant Steering Committee**

Date : 20 July 2022 (Wednesday)
Time : 3:00 p.m.
Format : Online video conference

Present

Chairman

Mr Gordon LEUNG Chung-tai, JP Director of Social Welfare,
Social Welfare Department (SWD)

Ex-officio Members

Mr Tony YIP Ka-sing Principal Assistant Secretary (Welfare)1,
Labour and Welfare Bureau
Ms Maggie LEUNG Yee-lee Assistant Director of Social Welfare
(Subventions), SWD

Non-official Members

Miss Vena CHENG Wei-yan
Ms CHEUNG Kwok-chun
Mr Cliff CHOI Kim-wah
Ms CHUNG Wai-ling
Ms Cynthia LAM Ming-wai
Ms Alice LAU Oi-sze, MH
Mr Armstrong LEE Hon-cheung
Miss Irene LEUNG Pui-yiu, JP
Dr Pamela LEUNG Pui-yu
Ms Rachel LEUNG Wai-ling

Mr Webster NG Kam-wah
Mr SY Ching-tam
Mr Roland WONG Ka-yeung
Ms WONG May-kwan
Mr Addy WONG Wai-hung, MH, JP
Mr IP Chi-wai
Mr TSE Wah-wan

Secretary

Ms CHIU Pui-fung Chief Social Work Officer (Subventions)1, SWD

In Attendance

Ms WONG Yin-yee Deputy Director of Social Welfare (Administration),
SWD

Ms LUI Ka-wing Chief Social Work Officer (Subventions)2, SWD

Ms Elaine CHOY Yuk-ling Senior Social Work Officer (Subventions)1, SWD

Ms LAW Miu-sheung Senior Social Work Officer (Subventions)2, SWD

Miss CHOW Mei-yee Senior Social Work Officer (Subventions)3, SWD

Ms LAU Yee-shan Social Work Officer (Subventions)4, SWD

Mr Sam LAM Chun-ho Executive Officer (Subventions), SWD

Miss Catrina TSE Pui-ying Treasury Accountant, SWD

Absent with Apologies

Mr Kirin LAW Tsz-yeung
Miss Jasmine CHAN Hoi-yan
Miss Yanmi LEUNG Ho-yan

Opening Remarks

1. The Chairman welcomed members to the meeting. He also welcomed the following persons who attended the meeting for the first time:

- (a) Mr IP Chi-wai, who joined as a new member;
 - (b) Mr Tony YIP Ka-sing and Ms Elaine CHOY Yuk-ling, who had taken up the posts of Principal Assistant Secretary for Labour and Welfare (Welfare)¹ and Senior Social Work Officer (Subventions)¹ of SWD respectively; and
 - (c) Miss Catrina TSE Pui-ying, the Treasury Accountant of SWD, who would attend the meeting for the agenda item “Any Other Business”.
2. Miss Irene LEUNG Pui-yiu would attend the meeting later due to other commitments.

Declaration of Interests

3. The Secretariat reminded members of the need to make a full disclosure of their interests in the event of any potential conflict of interest in matters placed before the Lump Sum Grant Steering Committee (LSGSC). Members could make a declaration before the meeting or when a conflict of interest was involved in a particular item to be discussed. The Chairman advised that members, despite being board or staff members of relevant non-governmental organisations (NGOs), could still speak on the issues insofar as sector-wide policies were concerned.

Agenda Item 1 – Confirmation of Minutes of Last Meeting

4. The Secretariat circulated the draft minutes of the 48th meeting to members on 13 May 2022 and no proposed amendments were received before the deadline for reply. The minutes of the 48th meeting were confirmed.

[Post-meeting note: The minutes of the meeting were uploaded to the SWD’s website on 22 July 2022.]

Agenda Item 2 – Matters Arising

Paragraph 4 of Minutes of Last Meeting – Progress of Implementation of the Second Generation Service Performance Management Information System

5. SWD reported that a series of preparatory work had been undertaken for implementing the Service Performance Management Information System (SPMIS), including (a) organising five rounds of briefings and training programmes for the staff of NGOs between February and May 2022 to brief them on the features of the system (with about 880 participants) and provide them with related training (with about 4 460 participants); (b) launching a six-week trial run in June 2022 to familiarise the staff of NGOs with the system’s operation; and (c) providing them with a user manual, a list of frequently asked questions and information on training videos, as well as setting up a technical support hotline. Owing to the pandemic, NGOs needed more time to prepare for the implementation of the new system, such as adjusting their workflows to dovetail with the use of an electronic system. In this connection, SWD had made a special arrangement to allow NGOs to defer the submission of statistical returns for the first quarter of 2022-23, which would be submitted together with those for the second quarter through the SPMIS in October 2022.

Agenda Item 3 – Implementation Plans for Recommendations 7, 25 and 26 in the Review Report on Enhancement of Lump Sum Grant Subvention System

(LSGSC Paper No. 4/2022)

6. SWD introduced the implementation plans for recommendations 7, 25 and 26 in the Review Report on Enhancement of Lump Sum Grant Subvention System (Review Report) as set out in LSGSC Paper No. 4/2022. Highlights are as follows:

Recommendation 7: Specify in the Lump Sum Grant Manual (LSG Manual) the frequency and means of internal service inspections conducted by NGOs to enhance the self-assessment mechanism for service performance; share good practices on the mechanism for internal service inspections among NGOs and formulate sector benchmarks through regular sector sharing sessions

- (a) Under the Lump Sum Grant Subvention System (LSGSS), NGOs operating subvented welfare services are required to put in place an effective internal audit mechanism to properly monitor and manage their service units for compliance with the relevant requirements of the Funding and Service Agreements (FSAs), and early detection and rectification of irregularities. Currently, all NGOs are required to submit to SWD an annual self-assessment report on whether their subvented services/units are in compliance with the essential service requirements and Service Quality Standards (SQSs), and whether the output and outcome indicators stipulated in the FSAs have been achieved.

- (b) SWD would specify the frequency and means of NGOs' internal service inspections as per the recommendations in the Review Report. All NGOs should appoint designated staff of service supervisory rank or above (including management committee members, senior executives and service supervisors of NGOs, etc.) or internal audit units/teams to conduct internal service audits of their service units at least once every year. Such audits should be conducted by means of on-site assessments (including surprise checks and visits by appointment), written reports and random checks, etc. The management of NGOs should take the opportunity to meet with staff members and service users, and hear directly from them their views on the service units. Moreover, depending on the nature of the services and modes of service delivery, staff members, service users and/or experts in the relevant fields might also be invited to participate in service inspections, so as to enhance the self-assessment mechanism for service performance.

- (c) Starting from October 2022, all NGOs should review and enhance their mechanisms for internal service audit, and provide relevant information and an account of their internal control measures in their 2022-23 self-assessment reports for SWD's reference. Starting from 2023-24, NGOs should confirm in their self-assessment reports that internal service audits of their subvented service units have been conducted as required. SWD would assess whether they have met the requirements, and evaluate the internal service audit mechanisms of their service units through performance assessment visits. SWD would also update the self-assessment report proforma to include the above requirements on internal service audits so as to facilitate NGOs in submitting their reports through SPMIS.

Recommendation 25: NGOs should enhance the transparency of the establishment of their regular posts (i.e. non-temporary or non-short-term posts) under LSG subvention

- (a) Regarding staffing establishment, SWD currently requires all subvented service units to comply with the requirements of SQSs (i.e. Standard 4, which is about roles and responsibilities) that job description and duty statements, which define the roles, responsibilities and accountability relationships in respect of all positions, should be made available to all employees, service users and other parties. The subvented service units should also have organisation charts that depict their overall organisation structures and accountability relationships. The Review Report recommended that NGOs upload the organisation structures and relevant staffing establishments of their service units onto their websites, or disclose such information through other means such as notice boards, with a view to enhancing transparency.
- (b) Starting from January 2023, all NGOs should display the organisation structures of their subvented service units and the relevant staffing establishments of their regular posts (i.e. non-temporary or non-short-term posts) on their websites and/or

notice boards. SWD would conduct performance assessment visits to determine whether the requirement was met.

Recommendation 26: NGOs should enhance the transparency on special incidents and significant incidents which occurred in the NGOs concerned or their service units by disclosing the relevant information to the service users/family members/staff concerned or any other parties involved, on top of the established practice to make timely report to SWD

“Special incidents”

- (a) Currently, SWD requires subvented service units to file a report on “special incidents” occurred during the operation of services in subvented service units and/or other venues within three working days. The Review Report recommended that NGOs disclose the information of “special incidents” occurred in NGOs or service units to the service users/family members/staff members concerned or any other parties involved on the premise that personal data privacy is protected.

- (b) As NGOs were required to take follow-up actions as soon as possible in the wake of “special incidents” occurred in their subvented service units, SWD would, starting from October 2022, require all subvented service units to submit a “special incident” report within three calendar days (public holidays inclusive) following the incident, specifying, among others, the channels for disclosing the relevant information to the service users/family members/staff concerned or any other parties involved. SWD would revise the present format of “special incident” report to facilitate NGOs’ compliance with the requirement.

“Significant incidents”

- (c) The Review Report recommended that NGOs establish a mechanism to report to SWD “significant incidents” involving public interest or the public’s right to know (e.g. NGOs’ governance crisis, or disruptions to services and staffing arrangements caused by financial management problems), and to timely disclose the relevant information to the public through proper channels.
- (d) Starting from October 2022, if NGOs notice that there were potential problems with their governance, financial management or other aspects of their operations that might affect their services and staffing arrangements, they should report them to SWD as soon as possible, and timely disclose the relevant information to the public through proper channels. SWD would develop a template for “significant incident report” for use by NGOs.

7. Members’ views on the above recommendations are summarised as follows:

(a) Regarding Recommendation 7

- (i) Members generally agreed that NGOs should enhance their mechanisms for internal service audits through on-site inspections of various services by their managerial staff every year. Some members were of the view that SWD should require the management of NGOs to examine their services more closely, such as rating the performance of various services. Some members opined that self-assessment results tended to be positive in general. If any NGOs were found to be untruthful in their self-assessment reports during SWD’s random checks, then SWD should consider putting in place a mechanism to follow up on these cases.
- (ii) SWD agreed with members’ suggestions and reiterated that NGOs should conduct in-depth and truthful self-assessments. Under the existing Service Performance Monitoring System, in the event of non-compliance with the

requirements of FSAs, SWD will require the NGO concerned to formulate an action plan for implementing rectifications or improvement measures within a specified time frame, or conduct an investigation or issue a warning notice and/or a notice of recommendations for improvement depending on the circumstances.

(b) Regarding Recommendation 25

Some members agreed that NGOs should display the organisation structures and staffing establishments of their service units on their websites, notice boards or through other means to enhance transparency. Some members welcomed the recommendation, considering that it would help staff members and service users better understand the operations and manpower situation of the service units.

(c) Regarding Recommendation 26

- (i) Some members supported the recommendation to improve the arrangements for handling “special incidents”. As special incidents often required immediate attention and quick follow-up, it was very reasonable to require NGOs to submit a “special incident” report within three calendar days. Meanwhile, stakeholders should be informed of the situation as soon as possible to allay their concern. Some members indicated that the recommendation allowed staff members to have a better grasp of the operations of their service units, and to work with the management to effectively and expeditiously improve services. On the other hand, there was suggestion that NGOs should take into account the privacy of data subjects when reporting “special incidents”. Apart from cases that involved unusual deaths of service users, some members considered that NGOs should also report cases that involved service users sustaining severe or repeated injuries.
- (ii) SWD would take the above views into consideration. Meanwhile, NGOs should make sensible judgments in accordance with the relevant principles

when considering the approach for reporting special incidents to various stakeholders, in order to enhance communication and transparency.

- (iii) Regarding “significant incidents”, some members suggested that SWD should provide a specific definition for them just as it did for “special incidents”, in order to clarify what scenarios constitute a “significant incident”. In particular, an incident could be regarded as significant if it had the possibility to ferment quickly and draw extensive public attention. For example, an NGO lost a massive amount of personal data, which would require it to take immediate actions and provide the public with an account of the incident. SWD remarked that “significant incidents” pertained to corporate governance issues. In the past, there were cases where the staff or even the entire operations of individual NGOs were jeopardised by governance or financial crises. SWD was very concerned about these incidents, and had to swiftly conduct enquiries and formulate contingency plans. Members agreed that if NGOs were aware of a potential “significant incident” or governance crisis, they should proactively reach out to SWD and take prompt follow-up actions.

Agenda Item 4 - Implementation Plan for Recommendation 17 Regarding Cost Apportionment Guidelines in the Review Report on Enhancement of Lump Sum Grant Subvention System

(LSGSC Paper No. 5/2022)

8. SWD introduced the implementation plan for Recommendation 17 in the Review Report regarding cost apportionment guidelines as set out in LSGSC Paper No. 5/2022. Highlights are as follows:

Recommendation 17: Formulate guidelines on cost apportionment to set out the cost apportionment arrangements, benchmarks and examples for the use of LSG subvention

- (a) The Review Report recommended that SWD formulate a set of cost apportionment guidelines for using LSG subventions, which should cover the arrangements and benchmarks for cost apportionment between FSA-activities and non-FSA activities, and cite relevant examples for the reference of NGOs.
- (b) In addition, the Review Report recommended reminding NGOs that the Operating Income and Expenditure Account for each subvented service unit should be separated into FSA activities and non-FSA activities as required under the LSG Manual, and central administration expenses for LSG-subvented services and non-LSG-subvented services should be fairly apportioned. The Review Report also recommended that NGOs formulate transparent human resource policies, thus allowing LSG-subvented and non-LSG-subvented staff to know the source and mode of subvention for their salaries.
- (c) The LSGSC held focus group discussions on 30 May and 24 June 2022 to examine in detail the principles and methods of cost apportionment. Taking the relevant information and views of stakeholders into account, the NGOs should conduct cost apportionment based on five principles, namely transparency, fairness and reasonableness, causality and relevance, materiality, and consistency.
- (d) NGOs should conduct cost apportionment for all non-FSA activities, including direct recurrent expenses incurred from operating non-FSA activities (i.e. salaries of staff responsible for the implementation of non-FSA activities, programme expenses and administrative costs of the service unit, etc.), and the central administrative costs of the head office of NGOs (e.g. salaries of administrative staff of the general office, rent and rates, and costs of human resources management, financial accounting,

corporate communication, insurance, information technology systems and technical support, etc.).

- (e) To make good use of resources and maintain the flexibility of LSGSS, NGOs were not required to conduct cost apportionment when operating different FSA activities or FSA-related activities at their subvented service units or subvented service units of other NGOs if non-FSA activities were not involved.
- (f) For non-FSA activities, NGOs might group the cost items of activities that required cost apportionment based on the classification of respective cost items, and determine the costs to be apportioned using reasonable bases and methods in conjunction with traceable supporting documentation and financial information. If NGOs had the same group of staff operating both FSA activities and non-FSA activities at their subvented service units, they might consider conducting cost apportionment based on the service outputs of or the floor area occupied by, and man-hour spent on as well as the recurrent expenses of the non-FSA activities, etc.
- (g) As for the central administrative expenses of head offices, while agreeing that SWD had the responsibility to ensure that government resources were used in accordance with the purposes for which they were deployed, the sector expressed concern over the complicated and tedious administrative work involved in and additional resources required for cost apportionment. To balance the concerns of NGOs against the need to ensure that there was no cross-subsidisation, SWD recommended that NGOs use the ratio of expenditure on FSA/FSA-related activities to that of non-FSA activities as the basis for the apportionment of the central administrative expenses of their head offices.

- (h) SWD would further study the views of the sector and stakeholders, and draw up a set of cost apportionment guidelines based on the above recommendations. The guidelines, containing the principles, bases and examples of apportionment of costs for ‘central administration’ and ‘services’, would enable NGOs to master the specific methods of cost apportionment and achieve compliance.
9. The Secretariat received prior to the meeting a written submission from The Hong Kong Council of Social Service setting out its recommendations on cost apportionment, which included the following: (a) all donations from private individuals/corporations/foundations, etc. and revenues used for enriching and enhancing FSA activities should be excluded from the scope of cost apportionment; (b) the amount of such donations should not be capped; (c) NGOs could show such donations in their LSG accounts, and consider subjecting such donations and activities to independent audit and reporting the results in a schedule to their annual financial statements; (d) the ratio of expenditure on FSA activities/FSA-related activities to that of non-FSA activities should not be the sole basis for apportioning central administrative costs; and (e) different examples be used in the cost apportionment guidelines to illustrate the criteria for apportioning central administrative costs for NGOs’ reference.
10. Members’ views on the above recommendations are summarised as follows:
- (a) Some members opined that the bases for cost apportionment adopted by NGOs might vary due to their different modes of operation. For some NGOs, the LSG might only account for a small portion of their revenue, and their operations did not involve a substantial amount of central administrative expenses. Apart from referring to relevant expenditure ratios, NGOs could consult their Boards of Directors or SWD when conducting cost apportionment to dovetail their modes of operation. Members agreed that NGOs should conduct cost apportionment if non-FSA

activities involved central administrative expenses. They also recommended that NGOs need not conduct cost apportionment for FSA activities operated by staff employed under other funding schemes or with donations from various funds. SWD indicated that NGOs should first consult with SWD to determine whether or not the activities in question were recognised under the FSAs and for which cost apportionment was not required.

(b) Regarding the scope of cost apportionment, some members considered that NGOs should discuss applicable principles and method of cost apportionment with their auditors to ensure financial efficiency. In addition, members recommended that SWD refer to other relevant guidelines when drawing up its cost apportionment guidelines. Some members responded that it was inappropriate for auditors to advise NGOs on the method of cost apportionment. SWD indicated that it would refer to relevant information, including the Cost Allocation Guidelines of the University Grants Committee and the professional advice of the Finance Branch of SWD, when drawing up cost apportionment guidelines for welfare services.

(c) Regarding the method of cost apportionment, some members recommended that NGOs might, taking into account their service development needs, discuss it with SWD annually, and use different methods as circumstances dictate to maintain flexibility. Some members did not agree that NGOs change their methods of cost apportionment every year, as it would make it difficult for NGOs to compare relevant data on the same basis and thus violate the principle of consistency. SWD indicated that NGOs could, based on the classification of respective cost items, determine the costs to be apportioned using reasonable bases and methods. However, it emphasised that the method so adopted should be based on traceable supporting documentation and financial information.

- (d) SWD remarked that it encouraged NGOs receiving LSG subventions to seek community resources and adopt different modes of service delivery. In this regard, some members suggested that SWD, while requiring NGOs to conduct cost apportionment for non-subsented activities, should not hinder or interfere with their efforts to secure additional funding support.
- (e) SWD reiterated that all government subsented NGOs, whether they received LSG subventions or not, must ensure that public resources were used on specified activities and there was no cross-subsidisation of self-financing activities in money or in kind. In addition, the Operating Income and Expenditure Account for each subsented service unit must be separated into FSA activities and non-FSA activities; and central administrative costs for LSG-subsented services and non-LSG subsented services should be fairly apportioned. In view of the breadth of social services and the uniqueness of individual NGO, SWD will draw up a set of cost apportionment guidelines to lay out the guiding principles, bases and examples of cost apportionment for NGOs to master the specific methods and achieve compliance, while maximizing efficiency in the delivery of services by sidestepping complicated administrative procedures. SWD would prepare a draft of the cost apportionment guidelines for consultation with members in due course. SWD would also prepare papers on the criteria for assessing FSA activities and FSA-related activities and the maximum proportion of LSG used for FSA-related activities for members' deliberation at the next meeting.

Agenda Item 5 – Implementation of the Recommendations in the Review Report on Enhancement of Lump Sum Grant Subvention System and the Related Work Progress

(LSGSC Paper No. 6/2022)

11. SWD briefed members on the implementation of the recommendations in the Review Report as set out in LSGSC Paper No. 6/2022 and the related work progress. Highlights are as follows:

(a) The Review Report set out 30 recommendations under five domains, namely (1) quality of welfare services; (2) staffing establishment, subvention benchmark and human resource management; (3) financial planning matters; (4) relevance of utilising LSG subvention; and (5) accountability and corporate governance of NGOs. SWD has been progressively implementing the recommendations in the Review Report since 2022-23.

(b) SWD implemented the following ten recommendations in the first quarter of 2022-23:

- Recommendation 3: Provide additional supervisory support for paramedical grades;
- Recommendation 5: Standardise the cycle of reviewing a time-defined FSA at five years since April 2022;
- Recommendation 6: Conduct reviews on notional staffing establishments, service targets, service nature and service performance standards;
- Recommendation 8: Maintain the subvention benchmark at mid-point salaries;
- Recommendation 10: NGOs should improve human resource management continuously;
- Recommendation 11: NGOs should improve the management of Holding Account, and formulate utilisation plans and financial projections to optimise the use of the reserve;
- Recommendation 12: NGOs should optimise the use of Provident Fund reserve to enhance staff morale and their sense of belonging to NGOs;
- Recommendation 13: NGOs should conduct annual financial projections;

- Recommendation 20: NGOs should disclose their Annual Financial Reports (AFRs); and
 - Recommendation 22: NGOs should disclose the remuneration of their senior executives in the top three tiers.
- (c) SWD discussed the four recommendations (i.e. Recommendations 15, 16, 18 and 19) in relation to the relevance of utilising LSG subventions in the second and third quarters of 2022-23, and planned to discuss the seven recommendations (i.e. Recommendations 21, 23, 24, 27, 28, 29 and 30) under the domain of accountability and corporate governance in the fourth quarter. As for the recommendations involving additional financial resources (i.e. Recommendations 1, 2, 4, 9 and 14), SWD would seek additional funds pursuant to the established procedures. SWD would continue to update members on the relevant progress to facilitate LSGSC's monitoring of the implementation of the Review Report's recommendations.

Agenda Item 6 - Any Other Business – Practice Note 851 of the Hong Kong Institute of Certified Public Accountants – “Reporting on the Annual Financial Reports of Non-governmental Organisations”

(LSGSC Paper No. 7/2022)

12. SWD introduced the plan of the Hong Kong Institute of Certified Public Accountants (HKICPA) to issue a revised Practice Note (PN) 851 “Reporting on the Annual Financial Reports of Non-governmental Organisations” as set out in LSGSC Paper No. 7/2022. Highlights are as follows:

- (a) The proposed revised PN 851 incorporated updates from relevant professional standards issued by HKICPA and provided auditors with the latest guidance on the code of ethics, terms of engagement and planning of work, etc.

- (b) The contents of the auditor's Conclusion in the review report of the AFR of an NGO were revised to align with the requirements on accounting, financial reporting and the use of funds as set out in the current LSG Manual.
- (c) To facilitate the auditor's work, a list of recommended procedures, including testing on internal controls, substantive testing and analytical procedures (such as fluctuation analysis), was also provided in the proposed revised PN 851.

The proposed revised PN 851 was tabled by HKICPA at the meeting of their Auditing and Assurance Standards Committee in July 2022 for approval. Consultations with practitioners were then conducted in August 2022. Subject to the comments received, HKICPA planned to issue the revised PN 851 within 2022. The revised PN 851 would be applicable to AFRs of NGOs for the financial year ending 31 March 2023 and onwards.

[Post meeting note: The revised PN851 was issued by HKICPA in September 2022.]

Date of Next Meeting

13. The meeting was adjourned at 5:15 p.m. Members will be informed of the date of the next meeting in due course.

Social Welfare Department

August 2022