

<b>Doc Type</b>	EFC
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<b>Title</b>	Financial Development Programme
<b>CONTENTS</b>	<p>EFC 30/96</p> <p>THE HONG KONG HOUSING AUTHORITY</p> <p>Memorandum for the Establishment and Finance Committee</p> <p>Financial Development Programme</p> <p>PURPOSE</p> <p>This paper provides Members with an update of the Department's Financial Development Programme and its implications.</p> <p>BACKGROUND</p> <p>2. The Financial Development Programme was first notified to Members in February 1995 vide Paper No. EFC 14/95 by the Department after a review of its financial framework, operations and systems. This review was conducted in the light of significant increases in the volume and complexities of the Authority's financial operations, particularly in response to changes to the financial arrangements, policy initiatives in progress or under discussion and demands for more comprehensive financial advice and information. This paper reports on the progress to-date and the updated Financial Development Programme which is designed to keep pace with the Authority's future growth and developments and to meet the anticipated needs over the next three to five years, including the major recommendations arising from the recent PA Risk Management Consultancy.</p> <p>THE ENVIRONMENT</p> <p>3. Our financial operating environment reflecting the changes over the last year and our improvements to the financial framework and systems to date are summarised at Annex A for Members' ease of reference.</p> <p>THE CURRENT FINANCIAL DEVELOPMENT PROGRAMME</p> <p>4. It has always been our objective to maintain high quality financial management comparable to the best public sector organisations in Hong Kong and elsewhere. To this end, we have to ensure that the financial management framework and systems deliver comprehensive, accurate, and timely financial information on all of the Authority's operations and activities and is conveniently available to the HA and its Committees, senior management and executive levels to enable cost effective and efficient policy decisions and ongoing management of operations to be made. We also need to ensure that our professional finance staff are well skilled and are provided with ongoing development and training to deliver the expected levels of advice and support and that non-financial managers have an adequate knowledge of finance to satisfactorily discharge their responsibilities.</p> <p>5. In this regard, we will continue to focus on three major areas, viz -</p>

- (i) the Financial Management Framework;
- (ii) the Financial and Accounting Systems; and
- (iii) Staff Training and Development.

However these major areas will, over the next few years, be significantly impacted by the formulation and implementation of business and financial objectives, policies and strategies as an integral part of the Management Enhancement Programme (MEP).

## (I) FINANCIAL MANAGEMENT FRAMEWORK

6. Financial management involves financial planning, resources allocation and evaluation against the policy objectives and performance targets. The following financial services need to be in place to support the Authority -

### (a) Policies and Regulations

To implement the Authority's financial policies and regulations effectively, we need to translate them into practical operating instructions, guidelines and procedures. The target areas are -

- (i) Management Accounting Handbook (including Risk Management Manual and Costing Manual);
- (ii) Funds Management Manual; and
- (iii) HA Stores and Procurement Manual.

The major accounting policies and regulations of the Authority have already been incorporated into these manuals but these require ongoing review and updating (Annex A - Section 2); work is currently progressing on the drafting of the Risk Management, Costing and Funds' Management Manuals.

### (b) Promulgation, Commitment and Support

Effective financial management requires its promulgation and commitment throughout the management structure, including senior management and line managers.

#### (i) Strengthening of budgetary management

With the recent establishment of a Budgetary Management Sub-section within the Finance Division, enhancements to the budgetary management systems and procedures are being actively progressed. In addition briefing sessions are being introduced on a regular basis for senior staff and professionals to help promote financial and budgetary awareness with a view to strengthening and enhancing financial and accounting awareness with initial emphasis on cost benefit analyses and budgetary management.

#### (ii) Devolution of financial operations and management

To improve efficiency and effectiveness by reducing the number of processes and volume of paper flows, plans are being drafted for the decentralisation by phases, where appropriate, of some of the operational elements of the Finance Division to the operating divisions as the required control systems are now gradually being put in place. The initial areas to be considered will include income and payment operations closely related to regional housing management operations, financial management of capital works projects and financial management related to Maintenance and Improvements. Adequate training and resources will be given to line managers. Whilst the AD/F will retain responsibility for the overall monitoring and evaluation of the effectiveness throughout the whole process and for the

functional role of accounting staff, the staff will work and report to the line managers on a day-to-day basis.

### (c) Internal Audit and Risk Management

Given the significant size and complexity of the Authority's operations and finances, we must have a framework to prevent any potential unexpected financial losses or mismanagement which may undermine the capital or creditability of the Authority. Such disciplines include -

(i) Internal Audit - The Internal Audit Section's role and responsibilities have been enhanced with the audit functions (Internal Audit and Technical Audit) now reporting independently to the Director of Housing.

(ii) Risk Management - We also need to identify and assess our financial and business exposures through a structured approach in respect of risks such as treasury risks and insurable risks. The ultimate aim is to develop risk management disciplines across the organisation by guiding and monitoring the management of risk for all activities. External consultants were engaged to review the management of financial and treasury risks and the overall insurance arrangements of the Authority. Whilst the consultant's major findings and recommendations will be notified to Members under separate papers, as stated in paragraph 2 above, the major recommendations which are supported and which impact on the Financial Development Programme have already been incorporated into the updated programme.

## (II) FINANCIAL AND ACCOUNTING SYSTEMS

7. The availability of timely and useful financial information and analyses is a prerequisite for financial planning, evaluation and decision making. To this end, we have various financial and accounting systems/projects under development, implementation or planning to achieve the following objectives -

(a) To provide timely and accurate accounts with sufficient information, analyses and advice

Substantial changes to the Integrated Financial and Accounting System (IFAS) and the interface modules to cater for the New Financial Arrangements with the Government and other changes in accounting policies have been timely and smoothly implemented. The major project in hand is the consultancy study commissioned for an overall review of the IFAS and the related interfaces which commenced on 1 March 1996 and is scheduled to be completed by 30 June 1996. The appointed consultants (Coopers and Lybrand Management Consultants) are working closely with the Finance Division to critically evaluate the operational efficiency, effectiveness and adequacy of the existing IFAS to meet the fast changing and increasing demand for enhanced financial and management information, and to make recommendations on the strategy and implementation plan for the future upgrade or replacement of the system. This consultancy study project is expected to have far-reaching and significant implications on the future development of IFAS which is the core of the Authority's financial and accounting systems. System and productivity improvements have also been made to the annual accounting processes, as a result the submission of the annual accounts to the Director of Audit for the year 1994/95 compared to that for 1993/94 was three weeks earlier.

(b) To promulgate the use of financial information

The Finance modules of the Executive Information System (EIS), which aim to provide management with key financial and accounting data through on-line terminals in a user-friendly, easily comprehensible manner, using graphics and drill-down facilities, will be progressively put into production. The Estate Accounts System (EAS), also targeted to be

fully implemented around mid-late 1996, will provide Senior Directorate and the estate managers with regular financial statements on the operating results for each estate (domestic and non-domestic) to facilitate improved financial management and accountability.

(c) To improve the budgeting, forecasting and modelling capabilities

Substantial changes to the Financial Budgeting, Forecasting and Modelling System (FBFMS) to cope with the New Financial Arrangements with the Government and other identified enhancements have been completed on schedule. The system became fully operational in time to produce the Authority's 1996/97 budgets and forecasts and to enable ongoing financial updates and outturns, as well as scenario and goal seeking analyses to be produced. To further improve the system's efficiency and security, migration of the present PC-based system to another platform is being planned. In addition, enhancements to cater for improved presentation and accuracy, and revised accounting requirements are being carried out.

(d) To automate processes and improve efficiency and controls

Major automation developments already implemented or expected to be completed in the coming months include -

(i) Enhancements to the Cost Allocation Modules of IFAS to cope with the development of the EAS and revised cost allocation analysis approach;

(ii) Electronic interface with the Master Custodian's mainframe system for the capturing of fund managers' investment transactions, auto-generation of journals, and on-going enhancements to the Interim Investment System to serve the reporting needs of Finance users;

(iii) Investment Quotation Subsystem (IQS) of the Cash and Funds Management System (CFMS) - a sophisticated system which will handle the quotation and dealing aspects of the fund management operations, it is being developed in-house and prototyping is currently in progress, the system is expected to be operational in June/July 1996;

(iv) HA Payroll System - to be developed by replicating the Treasury Payroll System for handling the payroll of HA's contract and temporary staff and the target implementation date is mid 1996;

(v) Fixed Assets System (FAS) and Stock and Inventory Control System (SICS) - upon endorsement of the system and functional specifications, program development will commence shortly and the systems are expected to be completed in late 1996 or early 1997;

(vi) Revenue Collection System (RCS) Phase 1 - roll-out of the phase 1 domestic revenue collection functions to all estates is expected to be completed by end of this year; and

(vii) Application systems for reducing clerical staff effort, namely the Payment Office Collection System for Multiple Tenancies, Imprest System, Cash Book System and Contractor Financial Evaluation system.

8. Other major systems or enhancements in the pipeline include -

(a) Home Purchase Loan and Subsidy System/Finance (HPLSS/F) - tender evaluation is in progress;

(b) Cash and Funds Management System (CFMS) - development of other CFMS functions including risk management, performance analytics and investment accounting i.e. features not covered by the IQS;

(c) Document Processing System (DPS);

(d) Full implementation of the Contract System;

(e) Revenue Collection System (RCS) Phase 2 - covers non-domestic premises, computerization of letting returns and interface with IFAS;

(f) Costing and Performance Evaluation System;

(g) Headquarters Demand Note System;

(h) Fees and Charges System; and

(i) Participation in other Branches' systems/projects which have substantial financial content, including -

(i) Project Management System (Phase I and II)

(ii) Maintenance Information Systems and Infrastructure Support (MISIS) projects

(iii) HA Enterprise Database (HAEDA) Study

(iv) Disaster Recovery Plan Project

(v) Business Process Re-engineering Studies

9. An updated detailed development programme of the financial and accounting systems is given at Annex B.

### (III) STAFF TRAINING AND DEVELOPMENT

10. Whilst the Department already has in place most of the staff with the essential skills and training, to enable the achievement of the above comprehensive development programme, some fine tuning of the organisation and staffing of the Finance Division will be required. In addition to the skills and expertise of staff who join the Department there are two ongoing training requirements -

(a) for Finance Division staff involved in the development and implementation of financial management and systems; and

(b) financial training for non-financial managers.

Regarding (a) some staff will also require urgent training in specialist areas e.g. Treasury management and techniques, risk management, computer skills, appropriate to their level of responsibility so that they can effectively discharge their duties. In order that the Department has adequately trained personnel to safeguard the Authority's interests, it is considered necessary to draw up a minimum skill set for posts in the specialist areas with a view to providing, on a priority basis, training for staff as they join the Department (if they do not already possess the minimum skill set).

11. Regarding (b), seminars to be regularly conducted by the Finance Division on financial awareness and budgetary management commenced in March 1996 but additional training

programmes for non-financial managers will be drawn up in conjunction with the Department's Training Section.

12. Whilst it is proposed to contain the total Finance Division headcount within the 1996/97 budgeted levels, as pointed out above in paragraph 10, some fine tuning may be necessary. Therefore it is expected that there will be a gradual decentralisation and computerisation of certain functions of Finance Division which will, in addition to improving efficiency and streamlining procedures, also result in a reduction in the staff resources involved in routine checking but this will be offset by additional staff resources to further strengthen the Finance Division Management. This strengthening is required to meet the rapidly increasing workload levels and demands for financial advice and support by the Senior Directorate, HA Committees, Secretary for Housing etc.

13. In order to contain headcount total, some outsourcing and hire of services will also be necessary. Currently the contracting out of the writing up of Standing Accounting Instructions and Costing Policies and Costing Manual is being progressed, other potential tasks or operations suitable for outsourcing will be considered.

#### PUBLICITY

14. As the contents of this paper will not be of general public interest, the contents of this paper will not be widely publicised although some publicity to specialist journals or magazines may be issued.

#### RECOMMENDATION

15. Members are invited to note the financial development programme (paragraphs 6-12 and Annex B).

#### INFORMATION

16. This paper is issued for Members' information.

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[Back](#)