



中華人民共和國香港特別行政區政府總部教育統籌局
Education and Manpower Bureau
Government Secretariat, Government of the Hong Kong Special Administrative Region
The People's Republic of China

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To: Supervisors/ Heads of Direct Subsidy Scheme Schools

Dear Sir/ Madam,

Financial Management in Direct Subsidy Scheme (DSS) Schools

While DSS schools are given funding flexibility, they are required to be publicly accountable for proper use of schools funds in the best interest of students and school. It is therefore imperative for DSS schools to put in place a sound and effective financial management mechanism and regularly review the mechanism for continuous enhancement.

To better facilitate DSS schools to do so, we have compiled a list highlighting the points to note for financial management for the attention of the school management as well as those personnel involved in the related work. For details, please see **Appendix** attached. Please note that the list is by no means exhaustive and it will be updated as and when necessary.

For further enquiries, please contact your Senior School Development Officer.

Yours sincerely,


(Mrs. Lydia LEUNG)

for Permanent Secretary for Education

Encl.

c.c. STA(MS)1
STA(MS)3
CSDOs

教育統籌局已於二零零七年七月一日重組為教育局。為免浪費，我們繼續使用舊文具，直至存貨用罄為止。
The Education and Manpower Bureau has been re-organised as Education Bureau since 1 July 2007. To minimize waste, we are using our old stationery while stock lasts.

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Points to Note for Financial Management in DSS Schools

1. Accountability of School Management Committee (SMC)/ Incorporated Management Committee (IMC)

SMCs/ IMCs are held accountable for the proper use of government and non-government funds. SMCs/ IMCs should determine the extent of the accounting and internal control systems appropriate to their own circumstances and should segregate and rotate accounting duties to prevent/detect errors and frauds. For details of financial management duties of school managers, please refer to 'Financial Management Duties of School Managers' of the *Tips for School Managers issued by the Education Bureau (EDB)*.

2. Procurement of Goods and Services

All procurement must be conducted on a fair, open and competitive basis. It is important that schools should put in place a fair, open and transparent system of procurement of goods and services, including tendering procedures so that available resources are utilized to the best advantage. In this connection, schools should adhere to the relevant guidelines and procedures set out in *The Integrity Management for Schools – A Practical Guidebook for School Staff (issued by ICAC)*, *Guidelines for Corruption Prevention: Best Practices - Procurement Procedures in Schools (issued by ICAC)* and follow as far as possible EDB's guidelines on procurement procedures for aided schools. For details, please refer to *EDB Circular 30/1999 on Tendering and Purchasing Procedures in Aided Schools*. Any variation from EDB's guidelines should be approved by the SMC/IMC and documented for information of stakeholders. Schools should ensure that staff responsible for tendering and purchasing are familiar with the procedures and adhere to them strictly.

3. Acceptance of Advantages and Donations

Schools should formulate policies and clear guidelines for school and staff on acceptance of advantages and donations. The acceptance of donations by schools should not jeopardize the interests of students and should be approved by SMCs/ IMCs. For details, please refer to *EDB Circular 14/2003 on Acceptance of Advantages and Donations by Schools and their Staff*.

4. Trading Operations

All schools undertaking trading operation shall apply the profits or net income arising from the trading undertaking for the purpose directly benefiting the students of the school. Schools should follow proper procedures to obtain competitive tenders/quotations for trading operation. Please observe the fundamental principles stipulated in *EDB Circular 13/2003 on Fundamental Principles for Conducting Trading Operations in Schools in Receipt of Public Funds*.

5. Staff Remuneration Policy

Schools should set out their own system for determining remuneration packages. The system should be transparent and be made known to stakeholders. There should be proper and fair procedures for approving remuneration packages for individual staff to ensure that the packages are fair and justifiable.

6. Declaration of Conflict of Interest

Proper procedures should be put in place to require the school personnel, including school managers and staff, to declare any conflict of interest that might influence, or appear to influence, his/ her judgment on the performance of his/her duties, like duties related to appointment and promotion of staff, student admission, trading operation, purchase of goods and services, acceptance of advantages and donations. For more information to prevent conflict of interest, please refer to *EDB Circular 13/2003 on Fundamental Principles for Conducting Trading Operations in Schools in Receipt of Public Funds and EDB Circular 14/2003 on Acceptance of Advantages and Donations by Schools and their Staff*.

7. Approved Items of Expenditure

Schools are required to account for all government and non-government funds in their books of accounts. In principle, only expenditure items for educational and school needs should be charged to school funds and only approved items of expenditure can be charged against the government fund account. For details, please refer to *Section 5 of the Explanatory Notes for DSS schools on the EDB website*.

8. Investment

All income derived by schools should be kept in a manner that involves the minimum risk regardless of whether such income is derived from the Government or any other source. Any loss arising from investment activities must not be charged to any of the school's accounts. Please observe the details stipulated in

EDB Circular No. 2/2003 on The Choice of Bank Counterparties in the Investment of Public Assets.

9. Student Financial Assistance

Schools are required to offer to parents a fee remission/ scholarship scheme no less favourable than the government fee remission scheme so that no students will be deprived of quality education for financial reasons. Schools should also consider using accumulated reserve for fee remission/ scholarship to provide other financial assistance to students.

10. External Control

Schools are required to set up control means involving independent bodies. A transparent accounting system facilitates external monitoring and reduces the opportunities for abuse and impropriety. School's annual accounts must be audited by a certified public accountant (practising) as defined in the Professional Accountants Ordinance. For details, please refer to *EDB Circular 27/2003 on Appointment of Auditors and Audit Engagement Letter*. For IMC schools, they should comply with Regulation 40BB of the Education Ordinance.

11. Accounting Practices

- Schools are required to keep proper accounts in respect of all income and expenditure. Accounts in respect of transactions (income and expenditure) relating to the government funds, i.e. DSS subsidy and other separate grants, and transactions (income and expenditure) relating to non-government funds should be recorded and kept separately. Separate bank accounts for government and non-government funds should be maintained in the name of the school. An updated certified bank mandate of the authorized bank signatories should be kept in schools. Any changes to bank signatories should be promptly updated in the bank mandate.

- All expenses should be properly authorized and supported by vouchers and original invoices before payments are made. The preparation and authorization of payment vouchers should not be conducted by the same person.

12. Record Keeping

- Schools should ensure that there are adequate and appropriate controls governing the retention, storage and destruction of accounting records.

- Schools should keep records of a permanent nature, e.g. annual accounts, inventories/ fixed asset register, records of government recurrent and non-recurrent subsidies, records in connection with donations etc. The following records may be destroyed after a certain period of retention, as specified below:
 - Minimum period of retention – 7 years
 - (a) Books of accounts, i.e. cash books, Ledgers, etc
 - (b) All types of vouchers, bank statements
 - Minimum period of retention – 2 years
 - (a) Fees receipts/school attendance registers
 - (b) Register of hire of school accommodation

- Schools should keep a Fixed Assets Register to record the existing items of fixed assets under schools' control, showing separately where the fixed assets are purchased through government or non-government funds. The register should clearly state description of items, date of purchase, quantity, location, date and reasons of write-off, the approval signature of write off etc. Proper arrangements for the safe custody of school assets, cash and other valuables under schools' control are also required.

Tips on Financial Management in DSS Schools

	<u>Examples of Irregularity</u>	<i>Tips</i>
(1)	<p><i>Accepting Donations</i></p> <p>A school could not produce the SMC / IMC's approval for accepting donations from book publisher, school uniform supplier, tuckshop operator and school bus provider.</p>	<p><i>In principle, schools should not accept any advantage or donations from trading operators / suppliers as this may influence their choice and jeopardize the interests of students. In exceptional circumstance where there are compelling reasons to accept such donations, they should be fully justified, approved by the SMC / IMC in advance and documented. SMC / IMC has the responsibility to decide whether donations / advantages should be accepted.</i></p>
(2)	<p><i>Procurement of Goods and Services</i></p> <p>A school had not drawn up formal policy and procedures nor has adopted a standard practice for dealing with procurement matters. Thus, the school had not arranged tendering / quotation for some of the procurement of goods and services for the school.</p>	<p><i>SMC / IMC should set out the tendering and purchasing procedures for procurement of goods and services for their staff to follow. Schools should ensure that staff responsible for tendering and purchasing must be familiar with the procedures and follow the procedures strictly.</i></p>
(3)	<p><i>Hire of Accommodation</i></p> <p>A school sub-let the school premises to another School Sponsoring Body for operating evening courses. The rental income received was not recorded in the school's bank and books of accounts and electricity charges relevant to the hiring of accommodation were charged to government fund account.</p>	<p><i>Schools should credit the hire charges levied from accommodation to the non-government fund accounts of the schools. Overhead expenses relevant to the hiring of accommodation should be charged to non-government fund accounts.</i></p>
(4)	<p><i>Approved Items of Expenditure</i></p> <p>A school charged the expenses on the provision of meals, refreshment, red packet money and gifts for staff to government funds.</p>	<p><i>In principle, only expenditure items for educational and school needs should be charged to school funds and only the approved items of expenditure should be charged to government funds.</i></p>

<p>(5)</p>	<p><i>Remuneration of Staff</i> A school paid exceptionally high salary for some of its staff in the absence of an established remuneration policy and procedures to determine salary packages.</p>	<p><i>Schools should set out their own system for determining remuneration packages. They should make reference to duties and responsibilities to be held in formulating their remuneration packages.</i></p>
<p>(6)</p>	<p><i>Overseas training/ education visits for staff</i> A school had not set up formal policy and procedures in providing training/education visits for its staff and had provided many overseas staff training/ education visits for particular staff and incurred expenses for leisure purpose.</p>	<p><i>Schools should put in a place a policy of nomination for courses of training, study trip and education visits. As overseas training and education visit will incur substantial expenses, schools should also formulate policy on provision of overseas training/visits to staff and ensure the incurred expenses are for educational purposes and not for other purposes.</i></p>
<p>(7)</p>	<p><i>Collection of Fees and Charges</i> A school collected air-conditioning fees and administrative charges for issuing student cards and parent cards.</p>	<p><i>All charges to students should be subsumed in the inclusive school fee and students should not be asked for any other specific charges. If specific charges are required, schools should submit application for EDB's approval.</i></p>
<p>(8)</p>	<p><i>Payment and Receipts</i> A school made duplicate payment for the purchase of equipment. In addition, the school did not mark off spoiled cheques / official receipts.</p>	<p><i>All paid vouchers and invoices should be stamped with the word "PAID" and dated by the paying staff to prevent duplicate payment. Spoiled cheques / official receipts should be immediately marked off as "Cancelled" and attached to cheque / receipt stub to prevent from re-use.</i></p>