

Tips on Handling Government Subventions for Aided Schools

In parallel with the autonomy given to schools in the context of school-based management, all aided schools are required to be publicly accountable for their educational achievements and proper use of public funds. For ensuring the proper use of government subventions, it is vital for schools to set up and adhere to good internal control procedures and to comply with the requirements of the Codes of Aid, relevant guidelines, circulars and letters issued by the Education Bureau (EDB) from time to time.

2. In this connection, EDB provides guidelines, circulars, letters, seminars and training on financial management for schools. To assist schools in setting stronger internal controls, we have compiled some tips on handling government subventions for aided schools' reference. Although the list is by no means exhaustive, it will be updated as and when necessary.

DOs

3. Schools can refer to the following DOs when handling government subventions:

General principles

Accounting

- Income collections must be properly reported in the income collection records. Vital information such as date of receipt, description of income, serial number of official receipts, amount collected, bank-in date and accounts credited must be recorded.
- All payments must be properly authorised and supported by payment vouchers attached with original invoices with full details of goods and services to be provided.
- Ledgers/statement accounts with supporting documents such as receipts, payment vouchers, invoices, bank statements, bank deposit slips, cash books, monthly bank reconciliation statements must be updated/prepared.
- The Fixed Assets Register must be properly maintained. For schools with a School Management Committee (SMC), any write-off must be done with the approval of the Principal. The report on the write-off must be passed to the SMC for information. For schools with an Incorporated Management Committee (IMC), any write-off must be done with the approval of the IMC. A report on written-off items, including cost, quantity and reasons for writing-off should be passed on to the IMC for approval and disclosed in the

note to accounts.

Records

- Approval to the appointment and dismissal of regular and temporary teaching staff must be recorded in the minutes of meetings of the IMC/SMC.
- Leave records for teaching and/or non-teaching staff must be maintained in a timely manner to avoid possible incorrect payment of salaries.
- Approvals for accepting donations must be recorded in the minutes of IMC/SMC meetings. Schools must register details of all donations received by schools. A sample Register of Donations Received by Schools is available at <http://www.edb.gov.hk/attachment/en/sch-admin/fin-management/notes-sch-fin/ref-trading-operations/donation%20register-e.pdf>.

Quotation/Tender

- The financial limits of procurement of stores and services and their corresponding procurement arrangements and approving authorities are summarised below for easy reference:

Financial limits	Procurement arrangements	Approving authorities
\$5,000 or below	Competitive bidding not required for procurement of any stores or services provided that a member of school staff at an appropriate level certifies that such procurement is essential and the prices are fair and reasonable	Principal/Deputy Head <i>[Note: For schools without Deputy Head, the approving authority rests with the Principal.]</i>
Above \$5,000 to \$50,000	By oral quotations (at least two)	
Above \$50,000 to \$200,000	By written quotations (at least five)	Principal
Above \$200,000	By tenders (at least five)	Tender Approving Committee comprising the School Supervisor/Manager, the Principal, a teacher and a representative of the Parent-Teacher Association or a parent manager

- Quotations/tenders must be properly recorded.
- If it has not been possible to invite sufficient number of suppliers, the circumstances should be explained and recorded on file. Prior approval should also be obtained from the IMC/SMC.
- Normally, the lowest offer to the specifications should be selected. Justifications and reasons for not accepting the lowest quotation/tender must be documented. If a marking scheme is adopted, normally the quotation/tender attained with the highest overall score should be recommended for acceptance.
- If it is considered necessary to obtain information on the stores/services to be procured before drawing up the written quotation/tender documents, schools should obtain the information from a number of suppliers preferably offering different varieties of the stores/services for consideration. Schools should then digest the information obtained, identify their own needs and draw up their stores/services specifications in generic terms. Schools should also avoid stipulating a brand/model of store/service in the specifications. If needed, they should seek advice from the technical staff as necessary. To enhance checks and balances, schools may consider forming a panel to vet the specifications before issue to ensure they are not too restrictive to put off competitive bids.

Approval for trading operation

- SMC schools must follow proper procedures to obtain quotations/tenders for trading operation. Application forms for permission to conduct trading operation from the schools must be endorsed by the SMCs and forwarded to the respective SSDOs for approval. For IMC schools, trading operations should be approved by the IMC. The profits or net income arising from the trading undertaking shall be applied for the purpose directly benefiting the pupils of the school.

Use of resources

- Schools must be prudent in the use of resources and always put students' interest as the first priority. Schools must ensure that expenditures incurred are reasonable and necessary for educational purposes.
- In deploying the resources under Operating Expenses Block Grant (OEBG)/Expanded Operating Expenses Block Grant (EOEBG) and the Composite Furniture and Equipment Grant, schools must observe the rules & list of reminders as mentioned in EDB Circular Memorandum No. 137/2023.
- SMC schools must also adhere to the related principles of handling school finance matters and follow the proper procedures for accounting and financial control as detailed in Chapters 5 & 6 of the *School Administration*

Guide (SAG). Chapters 5 & 6 of the SAG also apply to aided IMC schools except those exceptions stated in the *Guide to Financial Management for Aided Schools Operated by IMCs* at <https://www.edb.gov.hk/attachment/en/sch-admin/sbm/corner-imc-sch/fm%20guide%20english.pdf>. IMC schools must also follow the *Guide to Financial Management for Aided Schools Operated by IMCs* and *Supplement to School Administration Guide*.

Examples of DOs

(a) *Report cases of fraud immediately upon discovery*

A school discovered that an Accounting Clerk had repetitively failed to deposit cash collections intact into the school's bank account over the last two years. The school had suffered a loss of more than \$50,000.

The school should report the case to the IMC/SMC and the Police immediately, and inform the Senior School Development Officer concerned in writing as soon as possible upon discovery.

(b) *Credit appropriate income from hire of accommodation to government subvention account*

A school sub-let the school premises to another School Sponsoring Body (SSB) for operating evening courses. The rental income so received could not be found in the school's bank and books of accounts.

A school credited the charge (over \$400,000) for hiring out the school premises to the school's own funds instead of the government funds.

According to EDB Circular No. 5/2011, schools must credit 40% of the net income from the hire of school premises to the government subvention account.

(c) *Obtain approval from IMC/SMC before accepting donations*

A school could not produce the IMC/SMC's approval for accepting donations from a book publisher, a school uniform supplier and a school bus provider.

A school accepted donations of over \$200,000 from a book publisher and vending machine and lunch box suppliers without proper approval records.

According to EDB Circular No. 3/2022, IMCs/SMCs should determine whether donations should be accepted and this responsibility should not be delegated to the school principals. According to EDB Circular No. 10/2016 on Trading Operations in Schools, acceptance of donations or advantages from suppliers/

contractors should be considered only in very exceptional circumstances with justification of compelling reasons. In addition, according to EDB Circular Memorandum No. 43/2023, schools should not accept or request complimentary learning and teaching resources from textbook publishers. They cannot accept any form of donations or benefits from textbook publishers or textbook retailers, such as (1) the provision of equipment, teaching aids or supplementary teaching packages on free loan, free on-site support service or teacher training (except for essential after-sale technical support for e-textbooks); (2) cash grants for purchase of equipment or teaching aids; (3) funding for school functions; (4) advertisements in school publications; and (5) floral baskets, scholarships, prizes, etc., to avoid increasing the cost of publishing textbooks or affecting schools' choice of textbooks.

(d) *Set limit for charging entertainment expenses to OEBG/EOEBG*

A school had not set ceiling on entertainment expenses incurred by school staff in relation to their discharge of duties in major school functions to the OEBG/EOEBG.

The IMC/SMC should set limit per occasion and per head for charging the entertainment expenses incurred by school staff in relation to their discharge of duties in major school functions such as School Anniversary Dinner and Parent Teacher Association Annual Dinner, etc. to the OEBG/EOEBG, in accordance with the OEBG/EOEBG User Guide. Schools are required to avoid lavishness and to make conscientious decision in providing such expenses. The limits of such expenses per occasion and per head are \$200 for breakfast/other official meals, \$450 for lunch and \$600 for dinner with service charge and tips included. The IMC/SMC is required to provide full justifications if the expenses exceed these limits.

(e) *Spend resources economically*

For celebrating its anniversary, a school spent about \$180,000 in which around \$70,000 was spent on printing the school reports.

The school should spend their resources economically.

(f) *Follow proper procedures to obtain quotations for trading operation*

The tuckshop of a school is run by its sponsoring body, not arranged by means of obtaining quotations. The rent is unreasonably low and only a low percentage of net profit on sale of tuckshop items is used for sponsoring students' activities.

Both IMC and SMC schools must follow proper procedures to obtain quotations for trading operation. IMC schools have to seek prior approval from the IMC

whereas SMC schools have to seek prior approval from respective SSDOs.

(g) *Settle outstanding amount receivable as soon as possible*

Schools should try to settle the outstanding amount receivable from the related parties as soon as possible.

(h) *Invite tenders for procurement of stores or services exceeding \$200,000*

A school did not invite tenders for purchase of two sets of photocopiers, musical instruments, provision of security guard service and provision of broadband service.

Schools must follow EDB Circular No. 4/2013 to invite separate tenders for procurement exceeding \$200,000 each from at least five suppliers.

DON'Ts

4. When handling government subventions, schools should avoid the following DON'Ts:

General principles

- Expenditure that should be borne by the school's own funds, such as Tong Fai, must not be charged to government subvention.
- Fees collected from school activities and relevant expenses must not be credited or charged to the government subvention account.
- Expenses wrongly charged to the government funds must be settled/cleared and credited back to the school's own funds as soon as possible.
- Income from trading operation must not be spent on staff welfare.
- Do not evade the financial limits of procurement set out in the EDB Circular No. 4/2013 by splitting orders.

Examples of DON'Ts

(a) *Don't transfer entire amount of government subvention without knowing the exact cost and services*

An associated organization of the School Sponsoring Body (SSB) centrally organized the student guidance service of schools under its sponsorship. A school under the SSB received over \$500,000 government subsidies for delivery of student guidance service. The school then transferred the funds to the SSB, without any supporting invoices attached to the payment vouchers.

It is not appropriate to transfer the entire amount of government grant to the SSB or any other body without knowing the exact cost and the kind of services. The school must ensure that all payments are supported by original invoices with full details of goods and services. Schools must monitor expenditure incurred in line with services received. Also, if schools would like to appoint the SSB as service provider, they should still follow the prevailing procurement guidelines to carry out tender/quotation exercise.

(b) *Don't charge unsubventable items into government subvention accounts*

A school installed an assembly hut (組合屋) at the cost of about \$80,000 in the school compound and charged it to the government subvention account. It included the installation of air-conditioners and an electric awning at the hut.

A school spent around \$70,000 on publicity and promotion such as purchasing carrying bags, gift bags and subscribing newspaper advertisements and charged it to the government subvention account.

A school charged expenses for electricity, installation and cleaning expenses of air-conditioners which are not confirmed "eligible facilities" under the Air-conditioning Grant, premium of comprehensive personal insurance coverage for students, a flower basket for the opening ceremony of a retired teacher's shop, bank charges for stopping cheque payment and bank overdraft interest to government fund.

As these items are non-subventable, the school must pay them out of its own funds and not charge them to government subvention.

(c) *Don't charge unsubvented expenditure into government subvention accounts*

The cost of airfare and lodging of about \$20,000 for the Principal to attend a training course in the United Kingdom was charged to government subvention. According to the guidelines issued by EDB for this training, participants are responsible for their own air-tickets, board and lodging while the course fee would be sponsored by EDB.

(d) *Don't charge the entertainment expenses for the leisure of staff into government subvention accounts*

A farewell dinner was organised for a retiring teacher who has worked in a school for 30 years and the dinner expenses were charged to the OEBG/EOEBG.

A barbecue for social gathering was held by the old students of a school. The school charged the expenses on food provision to its staff joining the activity to government subvention.

According to the OEBG/EOEBG User Guide, expenses for staff not related to their discharge of duties such as lunch/dinner must not be charged to the government subvention accounts or to any school funds accounts.

(e) *Don't spend tuckshop rental income on staff welfare*

An IMC/SMC approved an allocation of \$25,000 from a school's tuck shop rental income to carry out welfare activities for their staff.

According to the prevailing EDB circular on Trading Operations in Schools, the profits/net income arising from trading operations, including tuckshop rental income, must be applied for the purposes directly benefiting the students of the schools as stipulated in the regulations 99A(3) and 99B(2) of the Education Regulations.

(f) *Don't deposit government funds into any bank account(s) not under school's/IMC's name*

A school placed about \$150,000 in bank deposit in the name of the SSB. The deposit served as a pledge to the utility company for waiving the deposit requirement of the school.

According to the Codes of Aid, a SMC school shall only deposit moneys into the bank account maintained in the name of the school. According to the Guide to Financial Management for Aided Schools Operated by IMCs, an IMC school shall only deposit moneys into the bank account maintained in the name of the IMC (for example, The Incorporated Management Committee of XXX School).

(g) *Don't split orders to bypass proper tendering procedures*

A school purchased similar furniture items totalling about \$260,000 separately in twelve quotations either in the same month or within a short period thereby avoiding tendering procedures.

According to EDB Circular No. 4/2013, separate tenders must be invited from at least five suppliers for procurement of stores/services exceeding \$200,000 each. Schools may only make repeated procurement of the same items within 12 months by oral quotations and written quotations if the cumulative value of the procurement does not exceed \$50,000 and \$200,000 respectively. Schools must not split an order as a way to circumvent approval requirement or quotation/tendering procedures.