

Guide to Financial Management (FM)

Key Message

IMCs have to handle funds and assets received from the Government, subscriptions collected from the students and donations from the general public in the capacity of a trustee. They have to establish proper and adequate financial management mechanism with checks and balances to ensure that the entrusted resources are properly spent and accounted for whereas relevant policies and guidelines as promulgated by the Education Bureau (EDB) are complied with.

Functions/Roles of IMC Managers

- Assume steering and monitoring functions/roles –
 - (a) Major steering roles which ensure:
 - effective school performance in relation to the School Development Plan (SDP), Annual School Plan (ASP) and annual budgets;
 - setting up the control mechanism (e.g. internal control procedures and segregation of duties);
 - reporting of the updated financial situation to the IMC; and
 - school's preparation of annual accounts for external auditing.
 - (b) Major monitoring role which include:
 - taking appropriate action on the non-compliance/irregularity cases (e.g. non-compliance with the procurement guidelines/procedures);
 - recommending ways for improvement in the internal control procedures/mechanism (e.g. proper delegation of authority and segregation of duties);
 - setting up and reviewing the mechanism to monitor the budgets and budgetary control (e.g. proper approving levels for budget deviation); and
 - reviewing the annual accounts before submission to the IMC and then to the EDB.

Compliance and Flexibility in the Use of Funds

- Observe the Code of Aid for Aided Schools, ambits governing the use of funds (including the Expanded Operating Expenses Block Grant and Teacher Relief Grant) and any other

instructions as given by the PS(E_d);

- Approve trading operations and ensure the handling of which complies with all EDB procurement guidelines/procedures; apply all the profits and net income for purposes directly benefiting the pupils of the school; and
- Approve the collection of fines, charges and fees for specific purposes exceeding the ceilings under the blanket approval given by PS(E_d) if such collection is used for educational purposes and has the express consent of the majority of parents.

Planning and Annual Budgeting

- ***Annual Budgeting***
 - ♦ closely tie in with the ASP, SDP and operational needs of the school for allocation of resources;
 - ♦ establish mechanism for annual budget preparation/revision, budgetary control and evaluation, and solicit views from teachers;
 - ♦ avoid deficit budget;
 - ♦ monitor financial transactions against the approved budget and report any significant underspending/overspending to the IMC;
 - ♦ review/revise the approved budget at appropriate time during the school year; and
 - ♦ work out the performance indicators/success criteria during the planning stage to evaluate the outcome/effectiveness of the activities/programmes.
- ***Borrowing and Investment***
 - ♦ borrow money only under exceptional circumstances and should not invest school funds in high risk investment;
 - ♦ seek prior approval from the IMC for any intended borrowing and investment and disclose the cases in the ASP and School Report (SR); and
 - ♦ refrain from using government subvention, boarding fees and Capital Reserve Fund to meet payment of interest and investment loss. Do not use government subvention for loan repayment.

Checks and Balances

- ***Accounting and Disclosure***
 - ♦ maintain proper books of accounts and financial records;
 - ♦ validate all account entries with vouchers and supporting documents;
 - ♦ prepare an annual income and expenditure account and balance sheet;

- ♦ keep the accounting system transparent;
 - ♦ put in place proper procedures to require the school personnel to declare/disclose conflict of interest which might influence, or appear to influence, their judgement in performing their duties. (This should be strictly observed when handling procurements and trading operations);
 - ♦ declaration/disclosure of interest should be made in writing and properly recorded in respective registers, which should be available for inspection by EDB; and
 - ♦ observe Sections 40BF to 40BH of the Education Ordinance for handling declaration/disclosure of interest.
- ***Internal Control Mechanism***
 - ♦ set up internal processes and procedures to minimize fraud and negligence [Schools may consider to strengthen the internal control by hiring related external services (e.g. auditing services). Subject to IMC endorsement on hiring services and compliance with EDB procurement procedures, the expenditure incurred can be charged to the EOEBG according to the principles on usage of EOEBG.];
 - ♦ follow procurement guidelines/procedures as promulgated by EDB;
 - ♦ properly delegate authority to IMC managers to perform the steering and monitoring roles; and
 - ♦ apply the principle of segregation/rotation of duties (e.g. the person(s) responsible for inviting suppliers to bid tenders should not approve the tenders).
- ***External Control Mechanism***
 - ♦ appoint a certified public accountant (practising) to audit the annual school account;
 - ♦ solicit external auditors' comments on the internal control and accounting systems; and
 - ♦ ensure the availability of all accounting records and financial information for inspection by EDB and other Government Bureaux/Departments.
- ***Reporting***
 - ♦ keep IMC posted of the financial situation regularly, in particular, significant underspending/overspending from the budgeted amounts;
 - ♦ report the revised budget (if any) to IMC for approval;
 - ♦ keep IMC informed of any abnormal or exceptional school incidents (such as cash loss, fraud, fictitious documents, etc.) and report these to the EDB promptly;
 - ♦ report the recommendations as advised by the external auditors or the EDB to the IMC and incorporate the follow-up actions (if any) into the ASP;
 - ♦ give a financial summary in the SR for release to the stakeholders annually; and
 - ♦ submit the audited annual account to the EDB within 6 months as from the end of

school/accounting year.

Points to Note

- The IMC would build on the strength of the school's existing structure to ensure that a sound and proper financial management mechanism is in place;
- The Guide to FM should be read in conjunction with the relevant stipulations of the School Administration Guide (e.g. budgeting and school finance matters) for day-to-day operations except:
 - (i) Bank/cheque signatory – joint signatories of IMC managers (supervisor is not mandatory) required
 - (ii) Trading operations – prior IMC (not PS(Ed)'s) approval required
 - (iii) Collection of fines, charges and fees for specific purposes exceeding the ceilings under the blanket approval given by PS(Ed) – prior IMC (not PS(Ed)'s) approval required
 - (iv) Issuing receipts – issued upon request of students/parents (instead of issuing receipts for every sum of money)
- IMCs should observe Ordinances other than the Education Ordinance where appropriate.

Reference Materials:

- § Guide to Financial Management for Aided Schools Operated by Incorporated Management Committees
- § School Administration Guide
- § Tips on Handling Government Subventions for Aided Schools
- § Points to Note on Financial Management of Aided IMC Schools
- § Basic principles in relation to raising funds and entering into contract, agreement or arrangement involving funds other than funds received from the Government

July 2013

School Development Division