



Sharing of Audit Experience (DSS Schools)

**School Audit Section
Education Bureau
October 2018**



Common Audit Findings



Common Audit Findings

Common Audit Findings by functional areas:

- A. Procurement
- B. Trading Operations
- C. Payments and Collections
- D. Operation of Bank Accounts
- E. Safe Keeping of Assets
- F. Use of Subsidiaries

Common Audit Findings

A. Procurement – main points

- ◆ Procurement – a risk area.
- ◆ Formulate policy - Public accountability, value for money, transparency, open and fair competition.
- ◆ To follow as far as possible EDB's guidelines on procurement procedures for aided schools (EDBC No. 4/2013). Variations from EDB's guidelines should be approved by the SMC/IMC and documented for information of stakeholders. (EDBC No. 17/2012)
- ◆ Quotation/tender exercises should be conducted in accordance with the schools' policies and procedures.

Common Audit Findings

A. Procurement

- ◆ No quotation/tender exercises were conducted for procurement of goods and services e.g. photocopying machine leasing, security guard services, broadband internet services, coaching services for school's extra-curricular activities.
- ◆ No quotation/tender exercises were conducted for renewal of contracts.



Common Audit Findings



A. Procurement

- ◆ No prevention of bribery clause was included in the terms of quotations/tenders and in the contract.
- ◆ Staff were not required to declare any conflict of interest.
- ◆ Requirements for security of information were not set.



Common Audit Findings

A. Procurement

- ◆ Splitting orders to evade financial limits.
- ◆ Insufficient number of quotations/tenders were invited.
- ◆ No explanation recorded/prior approval were provided for not inviting the minimum number of suppliers.



Common Audit Findings

A. Procurement

- ◆ Justifications and reasons were not provided for not accepting the lowest/lower offers.
- ◆ Quotation/Tender documents were not properly prepared and kept, and/or not available for inspection e.g. original tenders, Tender Summary and Approval Record, Price Comparison Table, Purchase-by-Quotation Form and written quotations.



Common Audit Findings

A. Procurement

- ◆ Tenders were not opened on the closing day of the tender.
- ◆ No segregation of duties, e.g. the Tender Opening & Vetting Committee (TOVC) and the Tender Approving Committee (TAC) were not made up of different staff members.

Common Audit Findings

A. Procurement: Case Study (1)

Background information

Name of school: Blossom College

Item purchased: Security guard service for 2018/19

Estimated cost: \$250,000 ~ \$300,000

Procurement policy of the school

For estimated purchase of \$200,000 and above, school should invite tenders from at least 5 suppliers.

**Tender Summary and Approval Record of Tender No. IT001
for the provision of 2018/19 IT Support Services**

Name of School : Blossom College

School Tender Reference : IT001

Date of Issue : 4 June 2018 Date of Closing : 11 June 2018

Date of Approval : ?

Validity of Tender up to : 10 September 2018

Supplier's Name	Offer	No Offer	Received Late	No Reply	Total cost for 2018/19	Recommendation
Good Company	✓				\$300,000	
Nice Limited	✓				\$298,000	
Best Co Ltd				✓	--	
Great IT Ltd	✓				\$267,000	?
?						

Any problems?



Common Audit Findings



A. Procurement: Case Study (1) (cont'd)

- ◆ **Problem (1):** The period between tender issue and closing date was too short.
- ◆ **Proper Practice:** At least three weeks should be set between the issue and closing of a tender.



Common Audit Findings

A. Procurement: Case Study (1) (cont'd)

- ◆ **Problem (2):** The information on the Tender Summary and Approval Record was incomplete.
- ◆ **Proper Practice:** Relevant tender information should be recorded in the Tender Summary and Approval Record .



Common Audit Findings

A. Procurement: Case Study (1) (cont'd)

- ◆ **Problem (3):** Insufficient number of suppliers were invited for tender exercise.
- ◆ **Proper Practice:** School should follow the school-based procurement policy to invite sufficient number of suppliers for quotation/tender exercises.

Common Audit Findings

A. Procurement: Case Study (2)

Name of school:	Decent College
Item purchased:	Gardening service
Contract period:	1 September 2017 – 31 August 2018
Contract sign date:	1 December 2017

Any problem?

Common Audit Findings

A. Procurement: Case Study (2) (cont'd)

- ◆ **Problem:** Service contract was signed after the contract start date.
- ◆ **Proper Practice:** Service contract should be signed on or before the contract start date.

Common Audit Findings

A. Procurement: Case Study (3)

Name of school:	Galaxy Secondary School
Service description in: tender specification	IT support service from September 2018 to August 2019
Estimated amount:	\$300,000
TOVC :	Ms Chan, Mr Wong
Tender recommendation:	Ms Chan
TAC :	Principal (Chairperson), Mr Wong & other members
Contract period signed:	September 2018 to August 2020

Any problem?

Common Audit Findings

A. Procurement: Case Study (3) (cont'd)

- ◆ **Problem (1):** No segregation of duties –

Ms Chan opened the tender and recommended the tender.

Mr Wong was a member of both the Tender Opening and Vetting Committee (TOVC) and the Tender Approving Committee (TAC).

- ◆ **Proper Practice:** The staff who opened, recommended and approved the tender should be different persons.

Common Audit Findings

A. Procurement: Case Study (3) (cont'd)

- ◆ **Problem (2):** Contract period stated in tender specification was different from that stated in the contract signed with the supplier. Acceptance of longer contract period might affect fairness.
- ◆ **Proper Practice:** Contract period stated in tender specification and contract signed with supplier should be consistent.

Common Audit Findings

B. Trading Operations

- ◆ Prior approval for trading operations was not sought from REO (for schools without IMC) or IMC.
- ◆ Prior approval for subsequent changes to the approved trading operations (e.g. change of supplier/contractor, changes to the terms of the agreement) was not sought from REO (for schools without IMC) or IMC.

Common Audit Findings

B. Trading Operations

- ◆ The profit from sale of exercise books, school uniforms, stationery, equipment and other items (other than textbooks) exceeded the profit limit of 15% of the cost price. No profit should be generated from sale of textbooks.
- ◆ Rates, government rent and other relevant expenses in respect of the tuckshop area were not borne by the tuckshop operator.

Common Audit Findings

B. Trading Operations

- ◆ No quotation/tender exercises were conducted. *(Conduct quotation/tender exercises at regular intervals, say at least once every three years, or before renewal of a contract as appropriate.)*
- ◆ No prevention of bribery clause in the terms of quotations and tenders and in the contract with supplier/contractor.

Common Audit Findings

C. Payments and Collections

Payments

- ◆ Payments were not supported by payment vouchers and original invoices.
- ◆ Paid vouchers and invoices were not stamped with the word “PAID” and dated by the paying staff to avoid duplicate payment.

Common Audit Findings

C. Payments and Collections

Payments

- ◆ No segregation of duties e.g. the preparation and authorisation of payment vouchers were conducted by the same person.

Common Audit Findings

C. Payments and Collections

Collections

- ◆ Incomes from school activities were credited to non-government funds but the relevant expenses were charged to government funds.
- ◆ Official receipts were pre-signed and were not issued in sequence.
- ◆ Spoiled/obsolete official receipts were not marked “Cancelled”.

Common Audit Findings

C. Payments and Collections

Collections

- ◆ Daily Collection Summary (DCS) was not prepared.
- ◆ DCS was prepared without essential information such as the date of receipt, serial numbers of official receipts issued, the nature of the income, the amount collected and the date of banking.

Common Audit Findings

C. Payments and Collections

Collections

- ◆ The school incomes (e.g. income from trading operations, library book fine) were not credited into the bank accounts maintained in the name of the school.

Common Audit Findings

C. Payments and Collections

Collections

- ◆ Policy on acceptance of donation was not formulated.
- ◆ SMC/IMC's prior approval were not obtained for accepting donations.
- ◆ Register of Donations Received by Schools was not prepared.

Common Audit Findings

C. Payment and collections : Case Study

Name of school: Million Day College

Case: Income from sales of exercise book was credited to non-government funds, while the relevant expenditure was charged to government funds.

Any problem?



Common Audit Findings

C. Payment and collections: Case Study (cont'd)

- ◆ **Problem:** Expenditure should not be charged to government funds.
- ◆ **Proper Practice:** The expenditure should be charged to non- government funds.

Common Audit Findings

D. Operation of Bank Accounts

- ◆ Bank accounts were not maintained in the name of school.
- ◆ No separate bank accounts were opened for government and non-government funds.
- ◆ Bank authorised signatories included persons other than registered manager.
- ◆ Private bank accounts were used to keep the money received from students for school activities.

Common Audit Findings

D. Operation of Bank Accounts

- ◆ Payments processed through internet banking were approved by a registered manager / school staff alone.
- ◆ Users' access control / transaction limits in internet banking could be modified in the system by a registered manager / school staff alone.

Common Audit Findings

D. Operation of Bank Accounts

- ◆ Spoiled cheques were not marked off as “Cancelled” and attached to the cheque stub to prevent from re-use.
- ◆ Cash books and bank reconciliation statements prepared monthly by school clerk were not reviewed/initialled by the school head.

Common Audit Findings

D. Operation of Bank Accounts: Case Study (1)

Name of school: Relax School

Case: Mr Chan was a registered manager and was included as an authorised signatory for school's bank accounts. Mr Chan resigned from the position of registered manager with effective from 1 September 2018. However, he remained as a bank account authorised signer after his resignation.

Any problem?

Common Audit Findings

D. Operation of Bank Accounts: Case Study (1) (cont'd)

- ◆ **Problem:** Bank authorised signatories included persons other than registered manager.
- ◆ **Proper Practice:** Bank mandate should be reviewed and updated if necessary when there is change of registered manager.

Common Audit Findings

D. Operation of Bank Accounts: Case Study (2)

Name of school: Joyful School

Case: A teacher received entrance fees from students totalling \$500 for a museum visit, deposited the sum into his bank account and then paid it to the museum.

Any problem?

Common Audit Findings

D. Operation of Bank Accounts: Case Study (2) (cont'd)

- ◆ **Problem:** Income should not be deposited into personal bank account.
- ◆ **Proper Practice:** Income should be promptly deposited into school's bank account.

Common Audit Findings

D. Operation of Bank Accounts: Case Study (3)

Name of school: Wonderful School

Case: The school used internet banking for processing salary payments. The monthly salary payments were approved in the system by Ms Lam (a registered manager) alone. The access control and transaction limits of the users could also be modified directly in the system by Ms Lam alone.

Any problem?



Common Audit Findings



D. Operation of Bank Accounts: Case Study (3) (cont'd)

◆ **Problem:** Bank account was not operated by jointly authorised signatories.

Common Audit Findings

D. Operation of Bank Accounts: Case Study (3) (cont'd)

◆ **Proper Practice:** The procedures for approving payments through internet banking as well as personnel authorising modification of access control and transaction limits should remain the same as the arrangements for cheque payments, i.e. should be jointly approved by any two of the registered managers.

Common Audit Findings

E. Safe Keeping of Assets

- ◆ Fixed Assets Register was not prepared/kept properly and up-to-date.
- ◆ Physical checking of assets was not conducted.
- ◆ Surprise cash count was not conducted.
- ◆ Record of surprise cash count was not kept.

Common Audit Findings

E. Safe Keeping of Assets

- ◆ Write-off of assets was done without the approval of the school head.
- ◆ The report on the write-off was not passed to the SMC/IMC for information.

Common Audit Findings

F. Use of Subsidies

- ◆ Expenditure items not included in the List of Approved Items of Expenditure for the Direct Subsidy Scheme Government Subsidy were charged to the government funds account. (*Annex 2 of EDBC No. 17/2012*)



Other Audit Findings

Other Audit Findings

- 1) Surplus funds were invested in speculative securities instead of HK\$ bonds or certificate of deposits #.
(rating not lower than Moody's A3 or S&P A-)
- 2) Policies on hire of school accommodation and fund-raising activities were not formulated.



THANK YOU

End