



**Financial Management Seminar
on Common Findings
During Audit Inspection
for Direct Subsidy Scheme (DSS)
Schools**

20 November 2015

Fundamental Principles of Financial Management for Proper Use of Funding

- **For educational and school needs in the best interest of students**
- **To ensure the use of funds is justified and publicly defensible**
- **To ensure the government and non-government funds are used in a prudent, cost-effective, timely and value-for-money manner**
- **DSS schools have to draw up guidelines on declaration of conflict of interest so as to avoid any actual or perceived conflict of interest**
- **To keep proper administration and financial records**



Common Findings During Audit Inspection

Three Aspects

(1) Tendering and Quotation

(2) Accounting Records and Internal Control

(3) Trading Operations


Tendering and Quotation (1)

Basic Principles

- **DSS schools should follow as far as possible the guidelines on procurement procedures for aided schools as set out in the EDBC No. 4/2013 to formulate their school-based procurement policy.**
- **Quotation/tender exercises conducted in accordance with schools' procurement policies.**

Tendering and Quotation (2)

Common Findings

- **No tender / quotation had been arranged for some stores / services and renewal of contracts, e.g. audit services, internet services, etc.**
- **No prevention of bribery clause included in the quotations / tenders and the agreement.**
廉政公署, 《防貪錦囊 - 學校管治與內部監控》 
- **No policy on requiring staff to declare conflict of interest.**

Tendering and Quotation (3)

Common Findings

- **Not fully complying with the tendering procedures endorsed by the school SMC/IMC and insufficient number of tenders / quotations invited.**
- **Tender/quotation documents not properly kept for audit inspections, e.g. original tenders, quotation form, agreements signed, etc.**

Accounting Records and Internal Control

Common Findings

- **No school-based hire of accommodation policy**
- **No donation register**
- **Improper use of government funds**
- **No approval for collection of fees**
- **Incorrect recording of staff leave**

Trading Operations

Common Findings

- **Approval for the provision of some services were not available for inspection.**
- **Making a profit exceeding the ceiling of 15% from the sale of exercise books, school accessories, etc.**



Cases Sharing

Case 1: Procurement of Service (1)

Name of school: **Happy Secondary School**

Services acquired: **Audit services**

Total amount: **\$95,000**

Procurement: **No**

Any Concern?

Case 1: Procurement of Service (2)

Concern

- **No tender / quotation exercise was conducted.**

Proper Practice

- **The school should seek audit services with a competitive selection process which should be conducted periodically (preferably every three years). Please refer to para. 2 of EDBC No. 5/2014.**

Case 2: Procurement of Service (1)

Name of school: Elegance High School

Event: Computer Software

Quotation price: \$3,000

Final Payment: \$4,000

Any Concern?

Case 2: Procurement of Service (2)

Concern

- **Acceptance of revised offer may affect fairness.**

Proper Practice

- **To observe the principles of openness, fairness and competitiveness while handling procurement of services and goods.**

Case 3: Trading Operation (1)

Name of school: Faith Primary School

Services provided: Tuckshop

Procurement: No

Procurement conducted by: The Parent-teacher Association

Charges for electricity and water: Paid by school

Any Concern?

Case 3: Trading Operation (2)

Concerns

- **No proper tender exercise for tuckshop operation was conducted.**
- **The electricity and water charges in respect of the tuckshop area were not borne by the tuckshop operator.**

Case 3: Trading Operation (3)

Proper Practice

- **Follow the guidelines on “Operation of School Tuckshop” as set out in EDBC No. 24/2008.**
- **Conduct quotation / tender exercises at appropriate intervals, preferably not exceeding three years.**
- **The tuckshop operator is responsible for the electricity and water charges.**

Case 4: Trading Operation (1)

Name of school:	Perfect College
Services provided:	Sale of exercise books and stationery by school
Contract period:	No specific expiry date with supplier
Contract clause:	The supplier would donate school 50 boxes of A4 size paper annually

Any Concern?

Case 4: Trading Operation (2)

Concerns

- **No quotation / tender exercise at regular intervals was conducted.**
- **School accepted / solicited donation / advantage from the trading operator; affecting the price of the goods to students.**

Case 4: Trading Operation (3)

Proper Practice

- **Seek supplier through competitive tender / quotation exercises at regular intervals, preferably not exceeding three years. Please refer to para. 3 of EDBC No. 24/2008.**
- **Donations from suppliers should only be accepted in exceptional circumstances with compelling reasons, proper documentation as well as approval by the SMC/IMC in advance.**

Case 5: Staff Employment (1)

**Name of schools: Sunshine Secondary School
Golden River Primary School
(under the same School Sponsoring Body)**

Case:

An Education Psychologist served two schools but his monthly salary was charged to Sunshine Secondary School.

Any Concern?

Case 5: Staff Employment (2)

Concern

- **Cross-subsidisation to Golden River Primary School.**

Proper Practice

- **A fair and justifiable apportionment basis of the remuneration should be arranged.**

Case 6: Time Deposit Placement (1)

Name of school: **Wonderful Secondary School**

Case:

A staff paid \$10,000 on behalf of school in July 2014 for convenience sake because most of the government and non-government funds of the school were placed in time deposit. The school repaid \$10,000 to the staff in August.

Any Concern?

Case 6: Time Deposit Placement (2)

Concerns

- **The school obtained loan from a staff.**
- **Cash flow was not orderly managed.**

Case 6: Time Deposit Placement (3)

Proper Practice

- **Surplus funds which are not immediately required for use by schools may be placed in time deposit. Please refer to para. 3 of EDBC No. 14/2015.**
- **DSS schools should not obtain any loans from other parties including their staff, SSB, etc. Please refer to para. 18 of EDBC No. 17/2012.**
- **School should have better cash flow control.**

Case 7: Use of Subsidies (1)

Name of school: Silver Moon College

Case:

School staff were given a one-off bonus of \$3,000 in a particular school year and the bonus was charged to government funds.

Any Concern?

Case 7: Use of Subsidies (2)

Concern

- **Fringe benefits for staff not included in the remuneration packages should not be charged against the government funds.**

Proper Practice

- **To adopt a conservative and modest approach and use non-government funds as approved by the SMC/IMC. Please refer to para. 30 of EDBC No. 17/2012.**

Useful References

- **EDBC No. 14/2003 “Acceptance of Advantages and Donations by Schools and their Staff”**
- **EDBC No. 24/2008 “Trading Operations in Schools”**
- **EDBC No.17/2012 “Use of Government and Non-government Funds in Direct Subsidy Scheme (DSS) Schools”**
- **EDBC No.4/2013 “Procurement Procedures in Aided Schools”**
- **EDBC No. 5/2014 “Appointment of Auditors and Audit Engagement Letter ”**
- **EDBC No. 14/2015 “ The Choice of Bank Counterparties in Investment”**
- **ICAC “Corruption Prevention Best Practices – Procurement”**
http://www.icac.org.hk/filemanager/en/Content_1031/procurepractices.pdf
- **ICAC “Corruption Prevention Best Practices – Governance and Internal Control in Schools”**
http://www.icac.org.hk/filemanager/en/Content_1031/school.pdf

Thank You !

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