

Structured Training Programme for Direct Subsidy Scheme (DSS) Schools Personnel

Module 1: School Governance and Internal Control

**The Hong Kong Polytechnic University
Institute for Entrepreneurship**



Empowering Our
Success & Sustainability

Topic 1

Governance and Internal Control

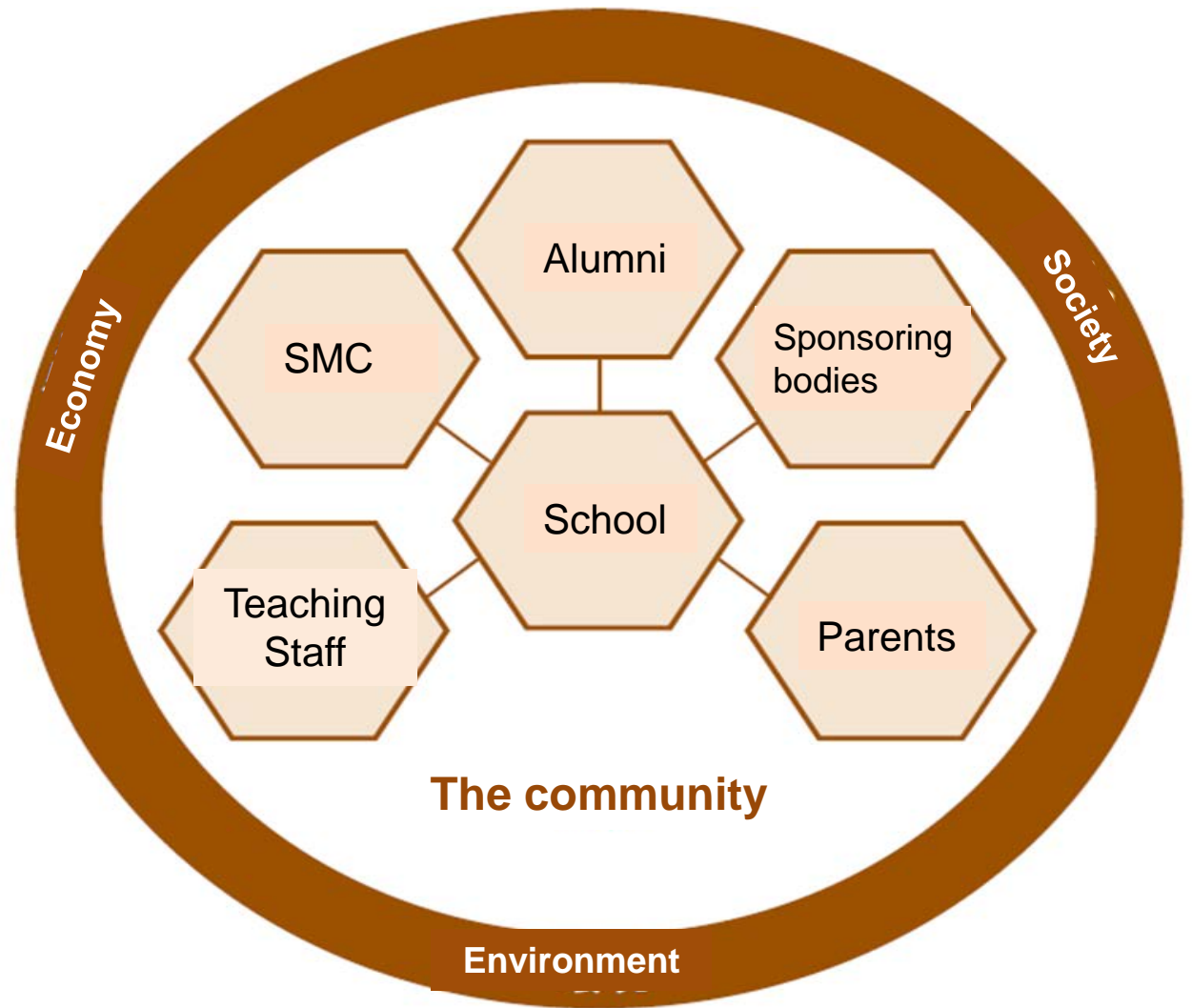
Governance and Internal Control

Major Areas :

- Internal control of Direct Subsidy Scheme schools
- Introduce the concept of governance, including accountability, transparency and participation of relevant stakeholders.
- Key factors of internal control



Major Stakeholders of DSS Schools



Development of DSS Schools

- The school system has changed and progressed along with the diversified development of the society. The introduction of DSS schools is to provide more choices for parents other than government and aided schools.
- DSS schools provide a wide range of high-quality education in response to the needs of society, and are given greater flexibility in various areas including curriculum design, collection of school fees and student admission.

Operation of DSS Schools

- DSS schools must maintain efficiency and capability to act in good faith in relation to their operations. They are also required to maintain transparency and be accountable for their performance.
- DSS schools are required to exercise their professional judgment to deploy the government and non-government funds flexibly and diligently for educational and school needs in the best interest of their students. They should also ensure that the use of government and non-government funds is justified, publicly defensible, and in compliance with relevant legislations, such as the Education Ordinance, the Education Regulations, the Service Agreements, etc.
- The DSS Working Group believes that the regulation of DSS schools by the Education Bureau and the governance and internal accountability of DSS schools should be complementary to each other.

The Government of the HKSAR Guidelines – Accountability

- The Government is responsible and accountable for the proper use of public funds, and is duty bound to monitor the activities and performance of publicly funded bodies to ensure that public monies are properly used for their intended purposes. Subvented organizations are obliged to cooperate with the Government in the monitoring of their performance.
- Like aided schools, DSS schools are receiving a large amount of recurrent funding from public funds. They therefore must be responsible to the government and society and maintain a high standard of governance.

Internal Control

Two Methods:

- **Integrity-based** -focus on the ethics of the management staff, and take responsibility for the actions taken
- **Compliance-based** -should ensure that the operation is in accordance with relevant laws and regulations. Compliance is always the first priority.

Accountability Mechanisms

Two types of mechanism:

- **Internal Accountability Mechanism** - cultivated internally, design a framework that allows self-improvement with checks and balances through the implementation of an internal control system.
- **External Accountability Mechanism** -the school must be in compliance with the Education Ordinance, the Education Regulations, the Service Agreement signed between the schools and the EDB, other relevant legislations and such other requirements as specified from time to time by the EDB, and are accountable to the stakeholders, which is the basic guiding principles.

Composition and the Role of IMC/SMC

- IMC/SMC should clearly specify in the Terms of Reference, among others, their accountability to the government and public.
- The roles and responsibilities of the Chairman of the SMC /school supervisors and principals should be clearly defined.
- In order to strengthen the checks and balances, the elected / appointed IMC/SMC members should include relevant stakeholders (such as representatives of the school sponsoring bodies, parents, teachers, alumni, independent members, etc.)

Composition of IMC

Composition of IMC	Number	Alternate Manager
Sponsoring Body Manager	Maximum 60% * of the Maximum number of all managers	Not more than one
School Principal	one	Not applicable
Teacher Manager	Not less than one	One (where the constitution allows the nomination of not more than one teacher manager)
Parent Manager	Not less than one	One (where the constitution allows the nomination of not more than one parent manager)
Alumni Manager	One or more (where manager(s) is nominated)	Not applicable
Independent Manager	Not less than one	Not applicable

(*when counting the maximum number of all sponsoring body manager, all alternate managers should not be taken into account.)

Composition of SMC

- For DSS schools bound by Service Agreement, the members of the SMC must include principals, representatives of sponsoring bodies, parents, teachers and other community members or professionals and, where appropriate, alumni.
- For DSS schools not bound by Service Agreement, the SMC should also incorporate different stakeholders as members of the SMC in order to meet public expectations.

- Class Discussion:

What are the Standing Orders and Rules of Procedure of SMC/IMC meetings?



Advantages of Transparent Policies and Disclosure of Information

- The high degree of transparency and information disclosure can improve the management capacity of the school, thus enabling the school to make more smart decisions;
- Give stakeholders greater confidence in the operation of the school;
- Allow stakeholders to see that the school will fulfill its legal responsibilities;
- Enhance stakeholders' understanding of the school's overall performance and the financial position;
- Provide stakeholders with a way to monitor the school performance and prevent violations

IMC/SMC – Transparent Policies and Disclosure of Information

- Morally obligated to make policies transparent. DSS schools should put in place policies to improve transparency and disclosure of information.
- School operations (such as school governance, acceptance of donations and other issues) should be transparent. Relevant information must be disclosed through the school's prospectus, website or school report.
- School achievements and performance can also be made public.

Parent Teacher Association

- Set up Parent-Teacher Association (PTA) in order to **strengthen the home-school cooperation** and **enhance transparency** of school management.
- When PTA handles school affairs, for example, selecting suppliers, contractors or operators, it is required to **declare any conflict of interest**.
- The value of any advantages, including gifts, entertainment, promotional premium or discount, to be accepted by the PTA must be kept as low as possible. If the acceptance of any advantages may affect the objectivity of one towards school business, one should reject such advantages.

Purpose of Establishing Internal Control

- The purpose of internal control is to improve the efficiency and effectiveness of an organization.
- Reducing the risk of misconduct and fraud is the key to prevent violation of rules/ regulations.
- Internal control is to comply with the regulatory requirements.



Specific Monitoring Procedures

- Whether the various measures are executed basing on school-based policies;
- Approval and authorization to use and access files;
- Check the accuracy of the calculation;
- Maintain and inspect accounts and audit balances;
- Reconciliation;
- Compare accounting records of cash, assets and inventory;
- Compare internal data with external sources of information.

The Key Elements of Internal Control

(a) Clear Policies and Procedures

- Set clear policies and procedures for the main areas of work of the school, including personnel management, financial management and procurement.
- Clearly define the responsibilities of respective staff members, the scope of work, the staff involved and their powers in the process.
- Ensure that the relevant staff understand the policies and guidelines.
- Review policies and procedures on a regular basis, and update them when necessary, in order to meet the operational needs of the school.

The Key Elements of Internal Control

(b) Allocation of Duties

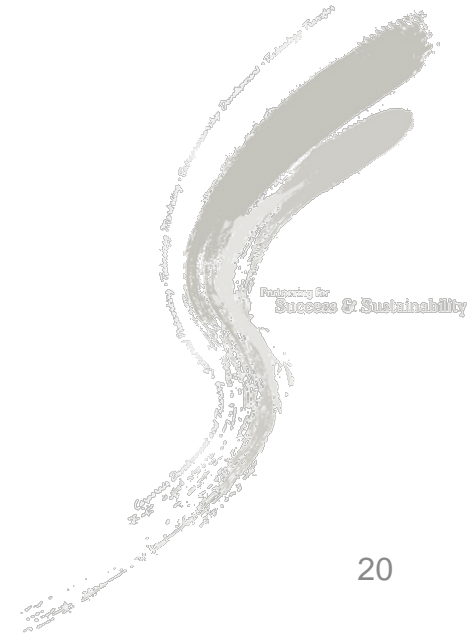
- Staff responsibilities must be clearly specified with checks and balances

(c) Record Keeping

(d) Information Security

(e) Supervision and Inspection

(f) Complaints Mechanism



Internal Control Mechanisms of DSS Schools

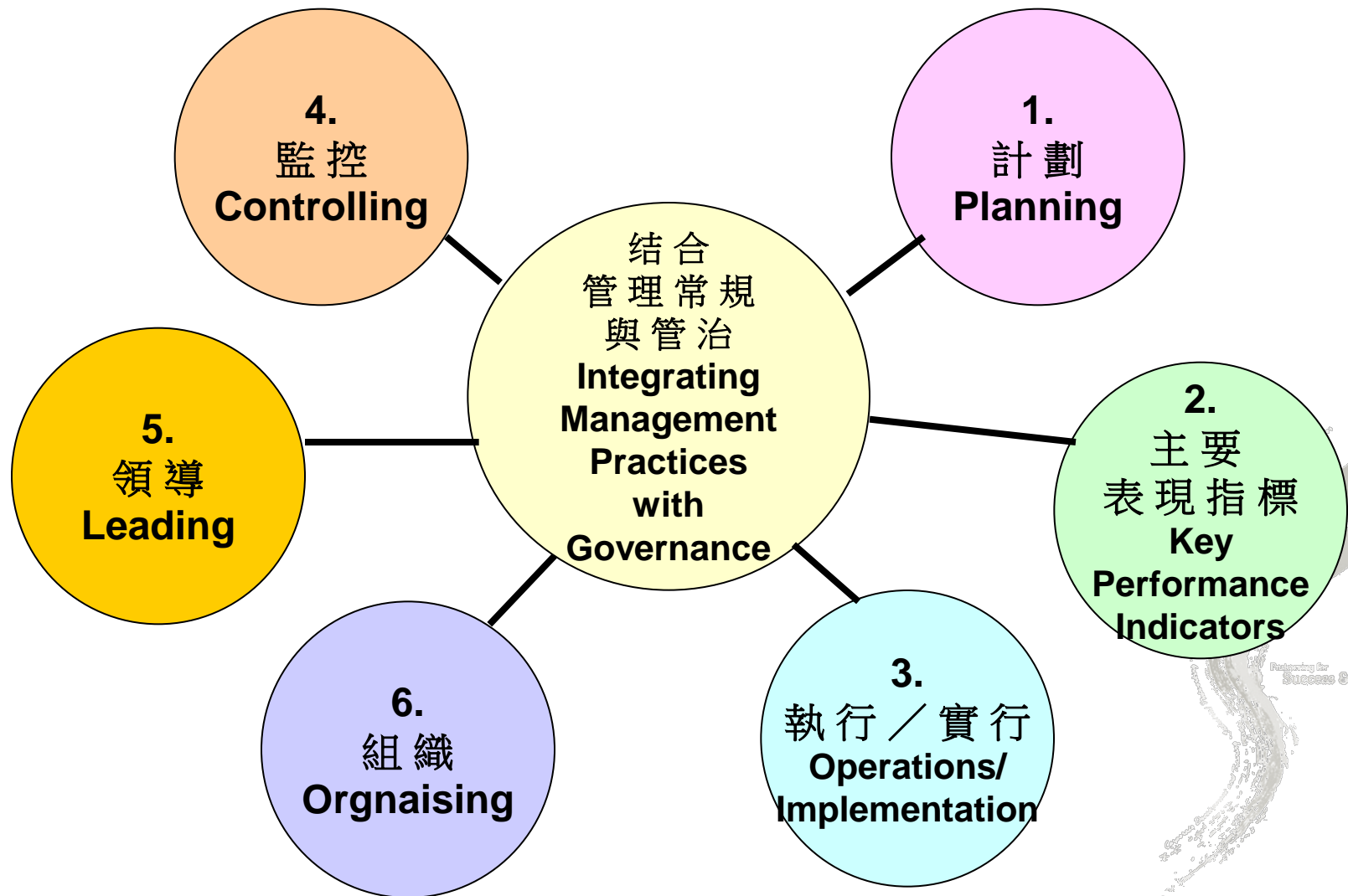
- Framework of Internal Control included:
 - A self-evaluation checklist
 - A list of essential items to be discussed at SMC/IMC meeting
 - A Governance Review Sub-committee

所謂企業管治，
是指董事會建立適當的程序及政策，
以指引及監控公司的表現及行為，
恆久地為股東創造價值。

“Corporate Governance refers to the system of policies and procedures established by the board of directors to direct and control the company’s performance and behaviour in order to achieve sustainable shareholder value.”

管理實務指引

Management Practice Guidelines



Topic 2

Integrity Management



Vanessa SO

Visiting Lecturer , IfE of PolyU

(Former Principal Education and Media
Communication Officer, ICAC)



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Integrity Management

Major Areas:

- How to manage conflicts of interest
- The role of the Code of Conduct
- Class discussion: Self-assessment items of the School Code of Conduct



Managing Integrity is the Basis of Managing a School

- Acceptance of Advantages and donations
- Conflict of Interest



Common areas of Complaints

- Personnel management
- Procurement/Tendering
- Student admission



Court Cases



Discussion

- Is it an offence if there is no intention of bribery for the offeror?
- Can school staff accept gifts from students?
- Should school staff accept entertainment offered by companies/ persons with business connections with their schools?
- Should the school accept donations from suppliers?

Abide by the law (1)

- **Section 9 of PBO :**
- An offence for an “**agent**” to solicit or accept an advantage
- without the permission of his “**principal**”.
-
- Any person who offers an advantage
- is also guilty of an offence.
-
- **Principal** : A principal generally refers to an employer. In the
- context of a school under government
- subvention, “employer” refers to the School Management
- Committee (SMC)/ Incorporated Management Committee (IMC)

Abide by the law (2)

- **Agent** : An agent is a person employed by the
- SMC/ IMC. It generally refers to the school heads, teaching and
- non-teaching staff.
-
- **Advantage** : Advantage as stipulated in the PBO refers to
- gift, money, commission, loan,
- employment, service, favour, etc., but does not include
- entertainment such as food or drink which is provided for
- immediate consumption on the occasion

Factors to consider before accepting gifts

- Will accepting the gift infringe the PBO?
- Does it conform to the employer's/school's guidelines on acceptance of advantage?
- Has the value of the gift exceeded the limit allowed?
- Is it a proper occasion to accept the gift (e.g. graduation, retirement)?
- Has the offeror requested overtly or covertly that you have to return a favour at work?
- Will accepting the gift make you feel obliged to the offeror, or influence your decision at work?
- If in doubt, consult your school management for advice.

4As Model

- A- Agent
- A- Acceptance
- A- Advantage
- A- Approval



Should the school accept donations from suppliers?

- As the school sports day is approaching, the school uniform supplier, Mr. Lam, suggests donating 100 sets of tracksuits and flag prizes for the event and hopes that the school may favour extending his school uniform contract which is soon due for renewal. The school has invited tenders for the new contract and Lam is among the tenderers invited. Should the school accept the donations from Lam under such circumstances?

Factors to consider when accepting donations

- Is the donation for the use or other educational purposes of the school? Will it benefit the students and the school?
- Will accepting the donation bring the school into disrepute?
- Will accepting the donation induce a conflict of interest or a perceived conflict of interest situation and provoke criticism from people affected?
- Will accepting the donation put the school in a position of obligation to return favour to the offeror?

Conflict of Interest

- School employees (including all school staff), school supervisors and other members of the SMCs may encounter situations where their personal interests clash with the interests of the school, in either a perceived or actual way.



Case 1 Can school staff work simultaneously as textbook reviewer for publishers?

- A school plans to change the history textbook for a new curriculum next year. The school head appoints Mr. Lee, who is the history panel chairman, to choose a new textbook. Mr. Chan, a good friend of Lee, heads a publishing company that will be reediting their history textbooks. Chan invites Lee to be a textbook reviewer. Lee takes the job but has not informed the school about this. During the selection process, Lee checks through many new textbooks suggested by various publishers, and still finds the one published by Chan's company the most suitable. He then makes his recommendation to the school.
- Has Lee's action constituted any conflict of interest?

Case 2 How to avoid suspicion of partiality?

- Mr. Chan is a deputy school head and his school has to recruit a new teacher to fill a vacancy in the new school year. His nephew has just graduated and wants to be a teacher. The nephew learns from a recruitment advertisement that Chan's school is recruiting a new teacher. He seeks advice from Chan and Chan suggests him to apply according to the proper procedures. The nephew later is invited to an interview. The school head appoints Chan to sit on the selection panel for the new recruit. Since Chan believes he will be impartial and unbiased towards anyone, including his nephew, he accepts the appointment.
- Has Chan made a proper decision?

Case 3 Should school staff recommend relatives and friends to tutor their students?

- Mr. Chan is an English teacher and discovers Chi-man, a new student in his class, has lagged behind in the new school year. Concerned about Chi-man's progress, Chan introduces Chi-man to a tutor school operated by his wife. After a while, Chi-man has improved his English.



Conflict of interest- Examples (1)

- Taking part in the vetting/approving of tenders in which one is from his friend's/ relative's company
- Accepting lavish and overly frequent entertainment from suppliers
- Admission of a candidate who is his relative or child of a friend
- Involvement in a recruitment process where a candidate is his relative
- Introduce students to a tutor school which is operated by his family
- Responsible for selecting textbooks whilst simultaneously working as a textbook reviewer for publishers

Conflict of interest- Examples (2)

Recommendations:

- Declare interests
- Avoid taking favours and becoming indebted to others
- Don't take outside work without permission
- Be impartial :
- Protect the school's interests
- Implement the school's code of conduct
- Manage the school with fairness and objectivity

The code should clearly state

- The mission of the school and the standard behaviour of its staff
- The limits on acceptance of advantages and donations
- The avoidance of conflict of interest
- The rules governing outside work



ROSE Model

- R- Regulations
- O- Obligation
- S- Sunshine test
- E- Ethics



Procedures for Handling Conflicts of Interest

(1) Establish relevant guidelines and procedures



(2) Remind staff of relevant guidelines and procedures on a regular basis



(3) School staff declares a conflict of interest or perceived conflict of interest deemed to arise in writing



(4) Approve by the SMC/authorized persons



(5) Keep relevant record



(6) Monitor the proper implementation

Handling Conflict of Interest

- To avoid any (actual or perceived) conflict of interest, DSS schools have to draw up guidelines on declaration of conflict of interest.
- DSS schools are required to properly record any declarations (with the use of a standard form) or disclosures made and necessary action taken to avoid any actual or perceived conflict of interest.
- Use prescribed forms, please refer to Annex M1T2A2 for a sample. (Sources: EDBC No. 17/2012)

Purpose of the Code of Conduct

- Establish a framework of professional ethics and responsibility. Even the most comprehensive regulations cannot guarantee the employees' commitment to the organization's principles and values as well as awareness of their responsibility. Therefore many successful organizations build their internal culture and practices through a board code of ethics and values.

Examples:

- [Code of Conduct] is an indicator and a communication medium to maintain the most important value of an organization.
- It is used to raise the confidence of the stakeholders and public towards the organization, and to help the organization to establish a positive public image.
- Regulations formulate boundaries. [Code of Conduct] builds up the basis of the Code from top to bottom, and confirm the importance of moral ethics, which can help staff understand the public expectation of them.

Function of the Code of Conduct

- Face squarely the problem of conflict of interest.
- Increase transparency and disclosure of information, so as to facilitate communication.
- Make a clear commitment to the society and stakeholders, establish integrity and expectations of values such as fairness and equity, reduce risk.
- Strengthen the rationale and raise the effectiveness of policies. Link up the ethical principles and policies or guidelines to promote best practices in various aspects of work.

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Source: International Federation of Accountants (Hong Kong Institute of Directors)

Class Discussion:

What should be included in School Code of Conduct?

(Please refer to Annex: M1T2A4 & M1T2A5)

Topic 3

Understanding and Use of Self-evaluation Checklist

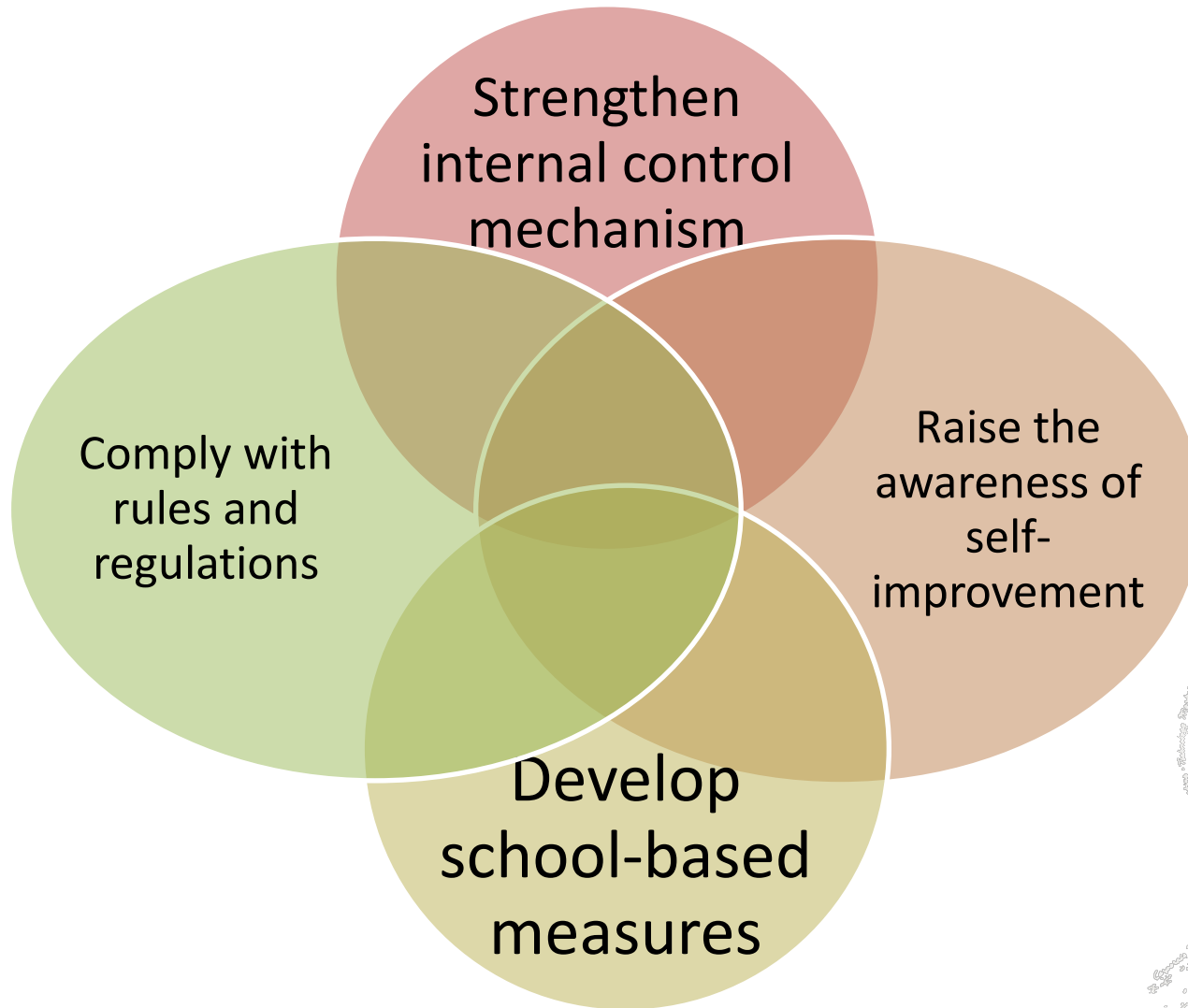


Understanding and Use of Self-evaluation Checklist

Background

- The self-evaluation checklist is jointly developed by the Hong Kong Direct Subsidy Scheme Schools Council and Education Bureau. Its aim is to help DSS schools to strengthen their internal controls. *[Please refer to Annex M1T3A2 for sample Self-evaluation Checklist]*
- As stated in Education Bureau Circular No. 7/2012 on “Improvement Measures to Strengthen the Governance and Internal Control of Direct Subsidy Scheme (DSS) Schools”:
 - Trial implementation in the 2012/13 school year;
 - The self-evaluation checklist (trial use version) has been uploaded to the website of Education Bureau for schools’ use on December 17 2012;
 - Education Bureau will collect views from the DSS schools on the use of the self-evaluation checklist, and will make necessary changes based on the experience gained.

Function of Self-evaluation Checklist



Content of Self-evaluation Checklist

Self-evaluation Checklist includes the policies or measures that a school with a sound management system must have. DSS schools can adapt or amend the contents of the list by adding items to view the details of implementation, so as to meet the needs of the school. The items in the list can be categorized into four areas as follows:

- Major policies regarding school governance and administrative matters;
- Human resources and personnel management;
- Financial and resource management issues;
- Fee remission /scholarship schemes

How to Use of Self-evaluation Checklist (1)

(Annex M1T3A2)

Part 1

- SMC/IMC may assign different managers to complete this part.

Part 2, 3 & 4

- Principals can fill in the checklist on their own or assign staff who are responsible for the matters to complete this part.

How to Use the Self-evaluation Checklist (2)

- If answered “Yes” in the checklist, that means the school is complied with the requirements.
- If answered “No” in the checklist, that means the school has failed to meet the requirements.
- During the process, the school should be able to evaluate whether its operation is complied with the requirements and effective.



How to Use the Self-evaluation Checklist (3)

Procedures

DSS schools should first review whether the self-evaluation checklist can meet their school needs, and add details of implementation if necessary. Implementation details can be added as Annex(es) to the checklist.

- DSS schools can modify the self-evaluation checklist according to their needs, but any amendment made must be approved by SMC/IMC and be recorded.
- DSS schools may consider completing the self-evaluation checklist within three months after the end of school year (i.e. before the end of November), so as to ensure school-based policies are reviewed timely.

How to Use the Self-evaluation Checklist (4)

- If there is any item on the checklist being answered “No”, the school should take action immediately to identify the problem.
- Schools are required to rectify the problem involved, and to ensure school operations are in compliance with regulatory requirements.
- All DSS schools have to hand in the completed self-evaluation checklist to their Governance Review Subcommittee (GRSC) for review in the next academic year.

Class Discussion

Please refer to Annex M1T3A3

Topic 4

Essential Items to be Discussed at SMC/IMC Meetings



Responsibilities of SMC/IMC (1)

General Responsibilities of SMC/IMC

- Develop various school-based policies and set direction of development;
- Monitor and evaluate the performance of the school - including academic and non-academic performance, to ensure the quality of education services;
- Establish monitoring and accountability mechanisms to ensure that the school policies are implemented properly.

Responsibilities of SMC/IMC (2)

DSS schools will have to put up the following essential items, where applicable, to their SMC/IMC for discussion and approval as **from the 2012/13 school year** to forestall the inadvertent oversight of important administrative and management matters.



Essential items to be discussed at SMC/IMC Meetings (1)

- 1. the human resource policies for senior teaching and administrative posts;
- 2. annual school budgets and financial report/audited account including acceptance of donations and fund raising activities;
- 3. large-scale capital works;
- 4. procurement of services or goods through tendering with significant financial implications;

Essential matters to be discussed at SMC/IMC Meetings (1)

- 5. operation of the fee remission/scholarship scheme;
- 6. fee revision proposals;
- 7. investment policy and update;
- 8. advisory letter(s) specifying for the attention of the SMC/IMC and/or any warning letter(s); and
- 9. self-evaluation on schools' academic as well as non-academic performance under the School Development and Accountability Framework, including the endorsement of School Development Plan, Annual School Plan and School Report.

Class Discussion

Which period of time in a school year do you think is appropriate to discuss the above essential items at SMC/IMC meetings?

[Please refer to Annex M1T4A2]



Topic 5

Functions and Composition of the Governance Review Sub-committee

Functions and Composition of the Governance Review Sub-committee (GRSC)

Purpose

- Assisting the SMC/IMC to review key management and financial control systems and procedures, including the identification of the different checks and balances is working as expected.



Composition

- The governance review sub-committee (GRSC) will comprise at least three members appointed by the SMC/IMC, including :
 - one member being a manager of the school; and
 - one member preferably with experience and qualification in accounting/financial management.
- The Chairperson of the GRSC may either be elected among committee members or selected by the SMC/IMC subject to the school-based arrangement.
- For avoiding conflict of interests, school should not invited the following persons as a member of the sub-committee:
 - parents of students studying in the school; and
 - the principal and senior teachers/heads of functional committees of the school.

Composition

- The SMC/IMC of DSS schools are encouraged to enlist an independent member to serve on the GRSC to offer independent views on the school's policies and procedure.

(P.S. The independent manager of the SMC/IMC is also regarded as an independent member.)

- To maintain the independence and credibility of the GRSC, members will serve the GRSC on a voluntary basis. As the sub-committee is formed under the SMC/IMC and reports to the SMC/IMC, members, like members of the SMC/IMC, will serve on a non-remunerated basis as well.
- The GRSC members and school staff participating in GRSC meetings are reminded to keep confidentiality of what has been discussed and decided at GRSC meetings.

Functions/Terms of Reference

- GRSC is set up under SMC/IMC, in order to provide advice for it.
- GRSC will review the following areas under the assistance of the principal and senior teachers /persons in charge of the functional committees *[For details of major reviewing areas, please refer to Annex M1T5A2]* :
 - school-based policies and procedures on human resources management matters including staff recruitment, promotion, remuneration, etc;
 - school-based policies and procedures on financial management matters including school budgeting, financial reporting, procurement, investment, transfer of funds from the operating reserve to designated reserves, etc; and
 - the operation of school fee remission/scholarship schemes.
- Subject to their individual needs, the SMC/IMC may request the GRSC to assist in other management functions such as recommending persons for appointment as external auditors.

Implementation Timeframe and Details

- To set up the GRSC before or by the end of the 2013/14 school year
- The number of meetings to be held by the GRSC each year will be determined by individual SMC/IMC on a need basis.
- The GRSC is required to complete a review of all the school-based policies and procedures under the three domains as set out at Annex M1T5A2 within a three-year cycle.
- Within the three-year cycle, the SMC/IMC should determine the areas to be reviewed each year
- The GRSC should then submit a review report on studied areas to the SMC/IMC annually.

Implementation Timeframe and Details

- The GRSC is required to follow the above schedule in conducting the review in the first three-year cycle.
- The first review should be completed by **the end of the 2016/17 school year at the latest.**
- Should the GRSC have justifications for a deviation from the above schedule, it may put up its proposed schedule having regard to the experience gained in the first cycle for deliberation and decision by its SMC/IMC. The decision made should be properly recorded.

Implementation Timeframe and Details

- Before submitting its review report to the SMC/IMC, the GRSC should give an advance copy of the review report to the principal and senior teachers/heads of functional committees of the school for information and/or comment.
- The school personnel may give its response to the GRSC direct. If considered necessary, the school personnel may also choose to submit a written response to the SMC/IMC so that the SMC/IMC will consider the GRSC report having regard to the written response of the school personnel concerned.
- A flowchart on the procedures on conducting the review on Key Domains to be Reviewed by the Governance Review Sub-committee is at [Annex M1T5A3](#).

Topic 6

Review Conducted by Governance Review Subcommittee on a 3-year Basis

Essential Tasks

(1) Reviewing the Self-evaluation Checklist Completed by the School

To assist the SMC/IMC to review the key management and financial control systems and procedures, the GRSC is advised to perform the following work:

- The GRSC should review items marked with “No” with a view to understanding why the school cannot comply with the requirements /complete the tasks. If necessary, the GRSC should put forward recommendations for improvement by the schools.
- For the items marked with “N.A.”, the GRSC should go over them to review if they are genuinely not applicable to the school.

(2) Reviewing School-based Policies and Procedures

■ The GRSC should conduct random cross-checking to validate at least one to two aspects of the policies and procedures of the self-evaluation checklist under the areas that are reviewed in the school year concerned. The GRSC may use the template at Annex M1T6A2, which is compiled based on the self-evaluation checklist, to review the policies and procedures concerned.

■ The GRSC may also review other school-based policies and procedures which are considered necessary.

As and when appropriate

(1) Reviewing Management Letters and Responses of the School to Management Letters

- For management letters received during the period under review on findings of Audit Inspections /Management and Financial Audit conducted by the EDB, the GRSC should study findings put forward by the EDB and consider the follow-up actions proposed by the respective functional teams of the school.
- Where appropriate, the GRSC may recommend improvement measures to be taken by the school.
- For responses of the school to the management letters issued by the EDB during the period under review, the GRSC should consider if the school has satisfactorily addressed the issues raised by the EDB, and submit its recommendation to the SMC/IMC on whether or not to accept the responses.

(2) Reviewing Internal/ External Audit Reports, if any

- Should there be any internal/ external audit reports prepared by auditors appointed by the school during the period under review, the GRSC should study matters raised by the auditors and consider the proposed follow-up actions to be taken by the school.
- If necessary, the GRSC should put forward recommendations for improvement by the school.

How to conduct a review

- On a three-year basis, the SMC/IMC should determine areas to be reviewed in each year, and the GRSC should submit a review report on the reviewed areas to the SMC/IMC annually.
- The review report should put forward recommendations for improvement. A report template is also prepared at Annex M1T6A3 to facilitate the GRSC in compiling reports for review.

Class Discussion 1: Annex M1T6A4

Writing reviewing report on tendering
and procurement policy

Class Discussion 2: Annex M1T6A5

If you are a member of the GRSC, after examining the tendering and procurement procedures of XX school as stated above, how would you compile the report and make recommendations to the SMC?

企業管治經驗分享

Corporate Governance

A sharing session

羅羽明博士
Dr. Gilbert Lo
BA MBA LLB PhD
FHKIoD FiProA



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