



THE HONG KONG  
POLYTECHNIC UNIVERSITY  
香港理工大學

I/E Institute for Entrepreneurship  
企業發展院

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

# Module 2 : Financial Management

The Hong Kong Polytechnic University  
Institute for Entrepreneurship

Empowering the  
Success & Sustainability

# Content

---

**Topic 1: General Financial Management Principles and Practices for DSS Schools**

**(The Concept and Practice of Accounting and Finance)**

**Topic 2: Use of Government and Non-Government Funds**

**(Usage and Limitation of Resources )**

**Topic 3: Delineation between Operating Reserve and the Designated Reserve**

**(Allocation and Control of Resources)**

**Topic 4: Guidelines on Investment and Purchase of Property**

**(The Concept of Risk)**

**Topic 5: Monitoring and Internal Control**

**(Tools of Internal Control)**

**Topic 6: Transparency and Accountability**

**(The Fundamentals of Governance)**

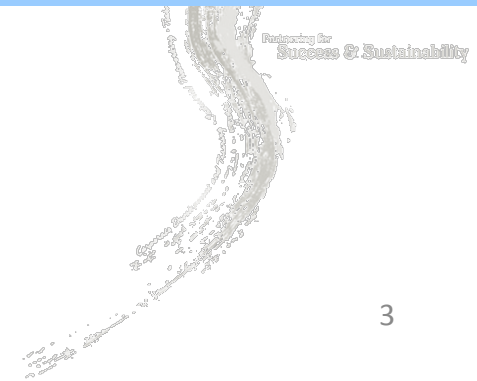
**Discussion: Checklist and Case Study**





## Topic 1

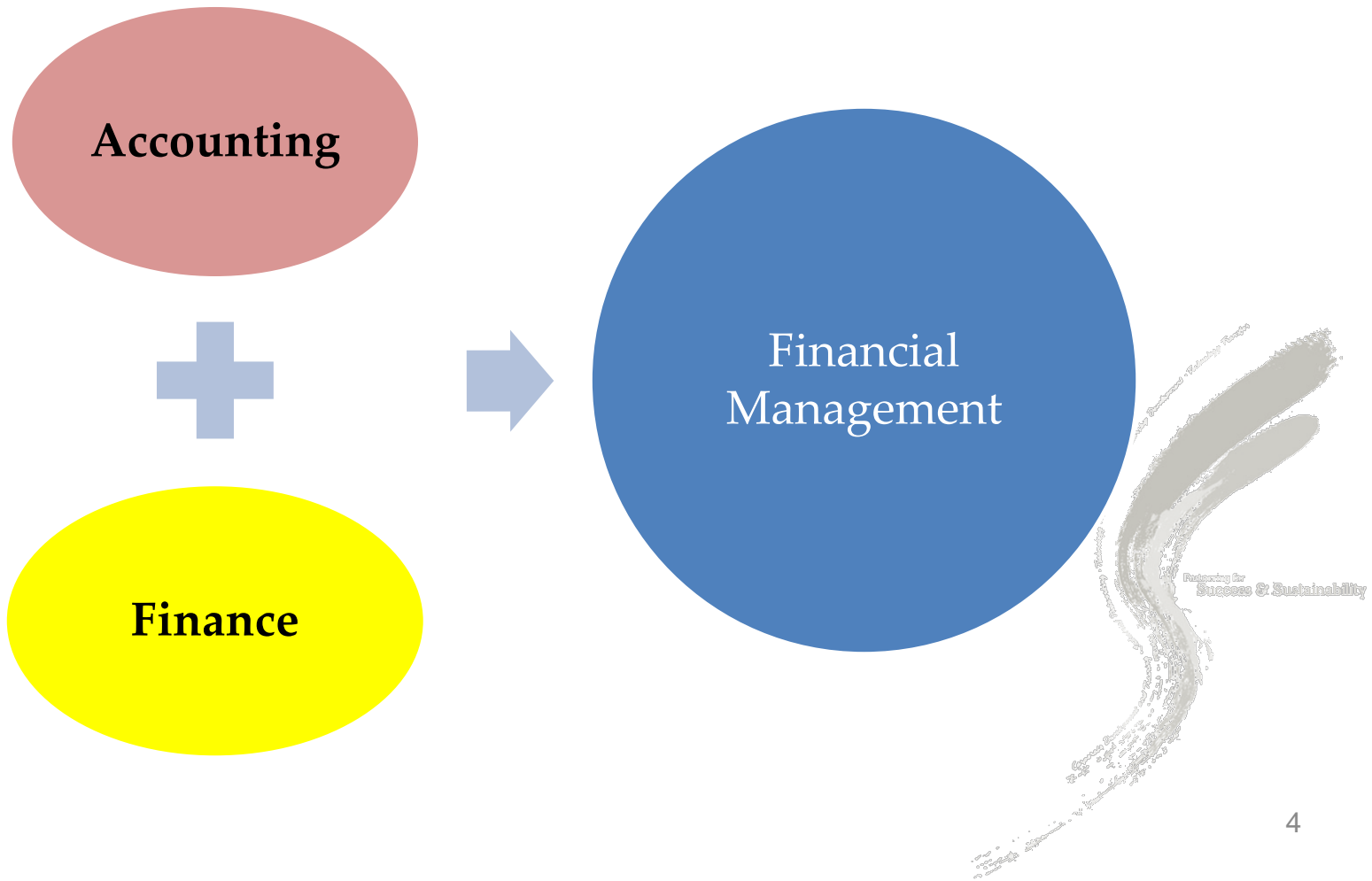
# General Financial Management Principles and Practices for DSS Schools



# The Framework of Financial Management

---

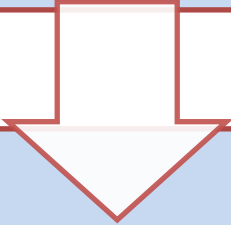
Financial Management comprises Accounting and Finance



# Financial Management of DSS Schools

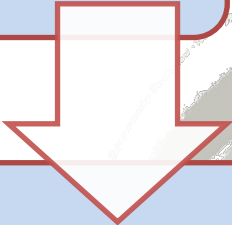
---

Available Resources



## Directions from School Management

- Proper use according to school and education needs
- Value for money (i.e. effectiveness, efficiency and economy)
- Publicly defensible and accountable

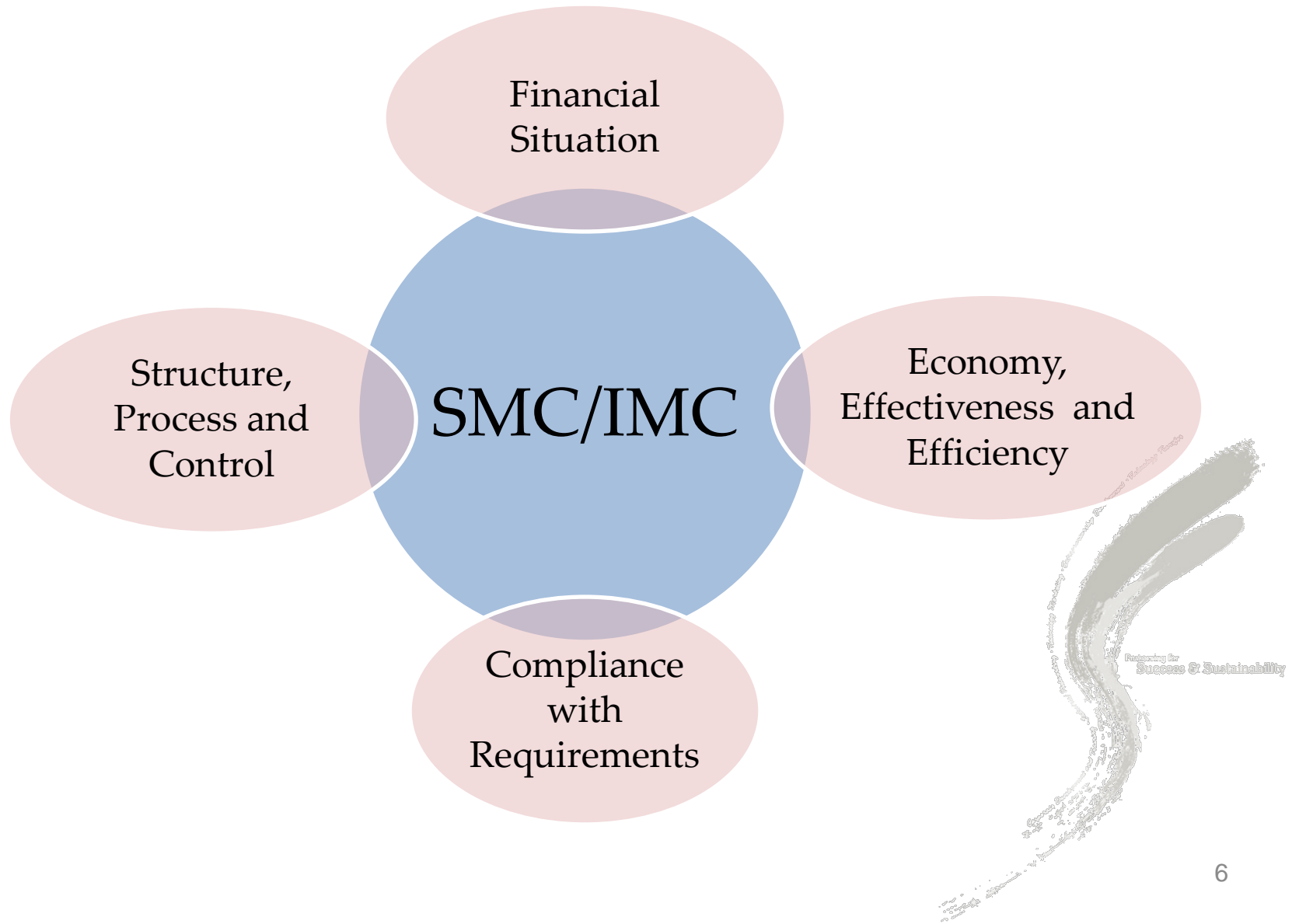


## Monitoring and Review

- whether the school management's directions are complied with ?
- whether the school 's intended target is achieved?
- whether the school activities are cost-effective?

# Financial Management Framework of DSS Schools

---



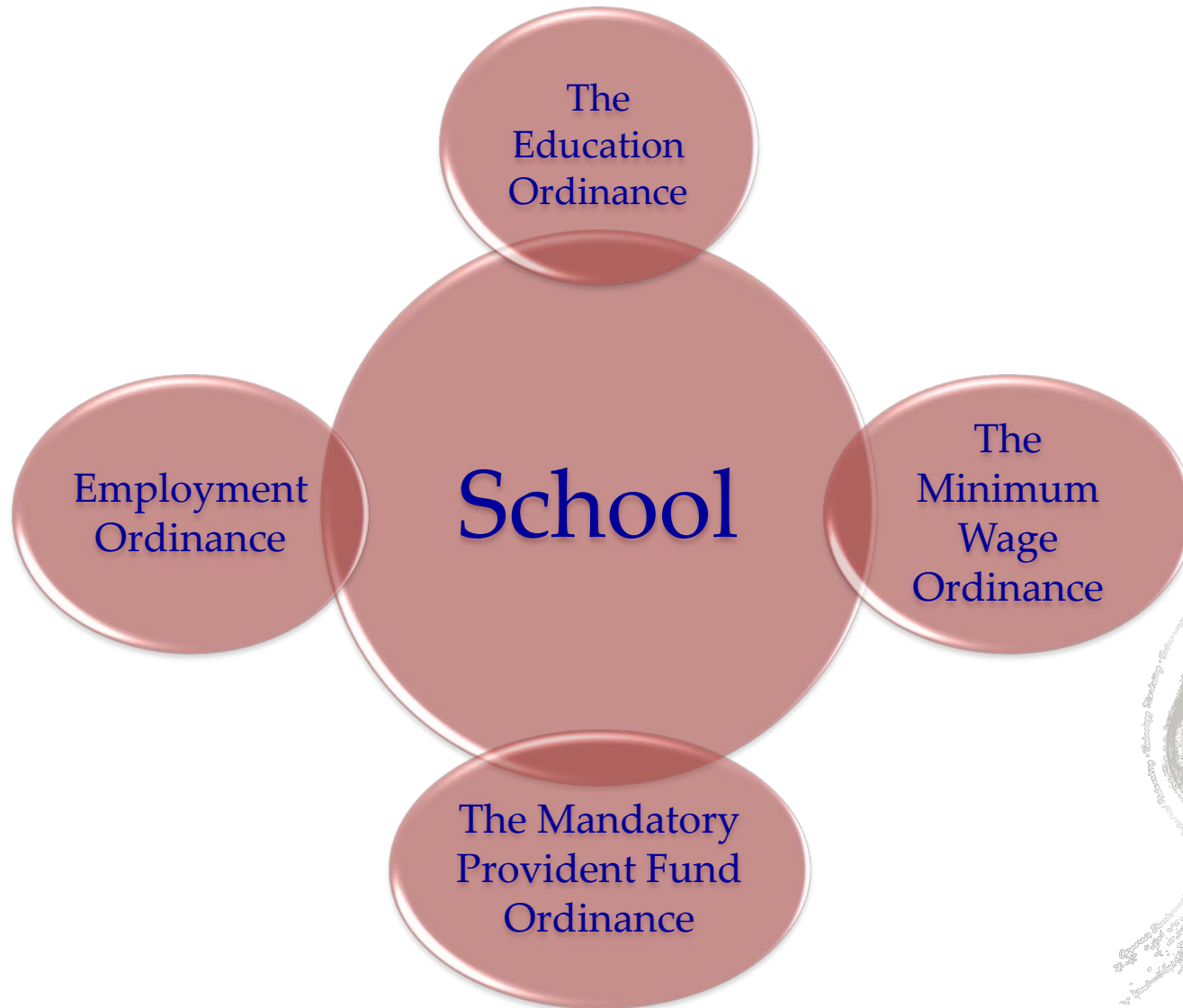
# Setting up Structure of Financial Management

---



# External Factors

---





# Financial & Accounting Regulatory Framework

---

## Standard Operating Procedure Controls

- which define the detailed control procedures that must be observed and provide standard detailed operating procedures in implementing financial systems.



# Financial Control

---

**Financial control** is not only about understanding the financial information but also ensuring that an organization has the right policies and procedures in place to ensure that the financial information is recorded accurately.

Financial control to detect and/or prevent errors or non-compliance in a financial transaction process.



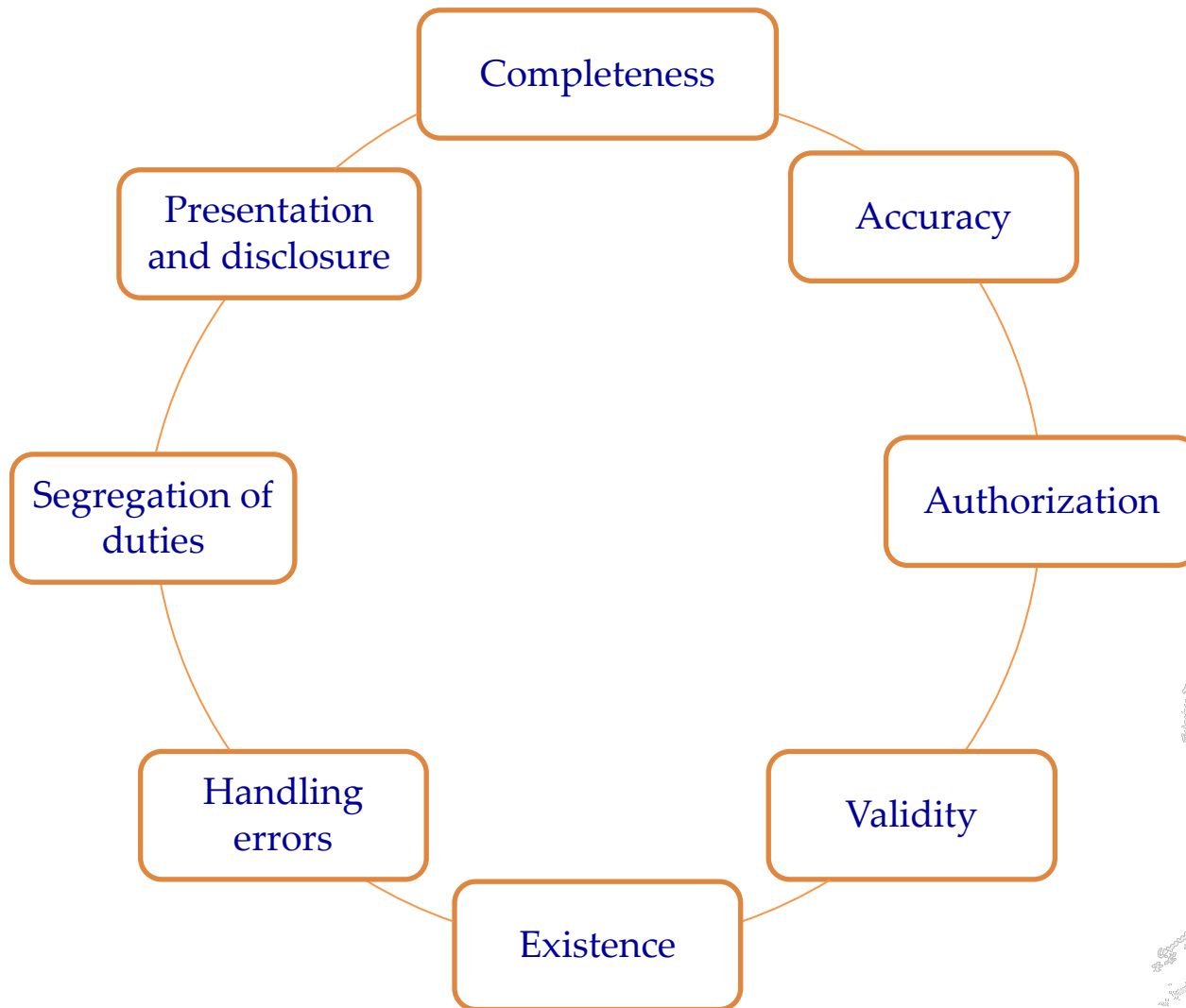
# Type of Financial Controls

---



# Financial Control Procedure

---



# External Auditing

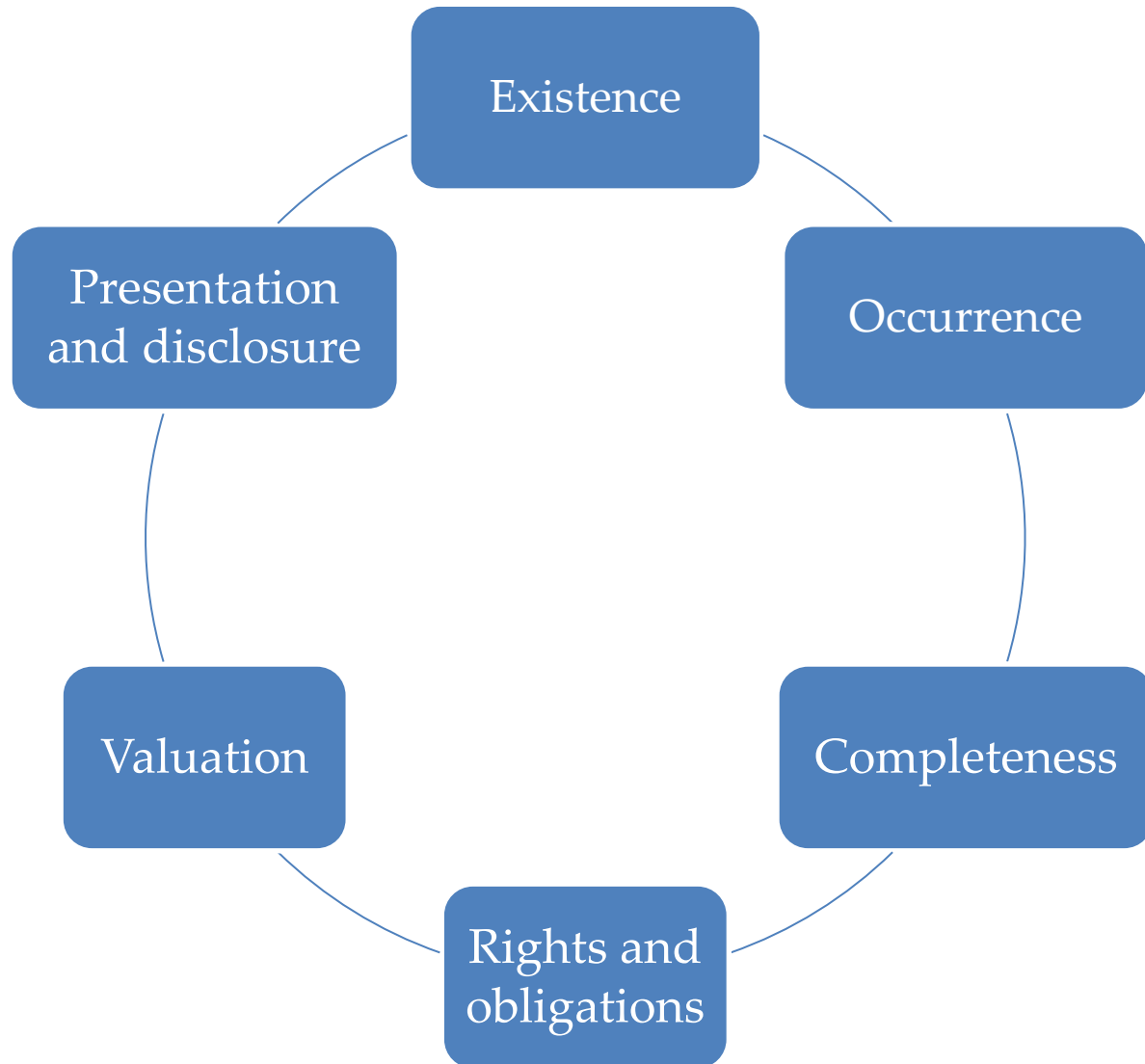
---

**“ A systematic process of objectivity obtaining and evaluating evidence regarding assertions about economic actions and events to ascertain the degree of correspondence between those assertions and established criteria and communicating the results to Stakeholders”**



# Financial Statement Assertions as follows:

---



# General Financial Management Practice

---

## Financial Statement

- Income and Expenditure Account

**Annex:** M2T1A2



---

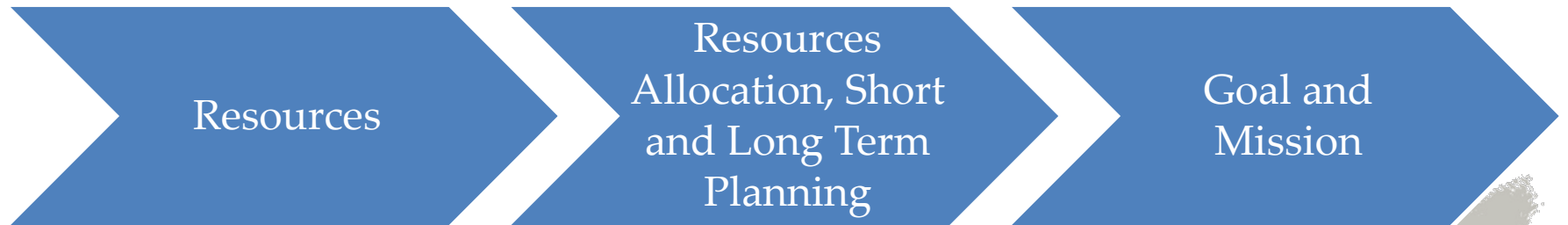
# Concept of Budget and Budgeting





# The Nature of Budget

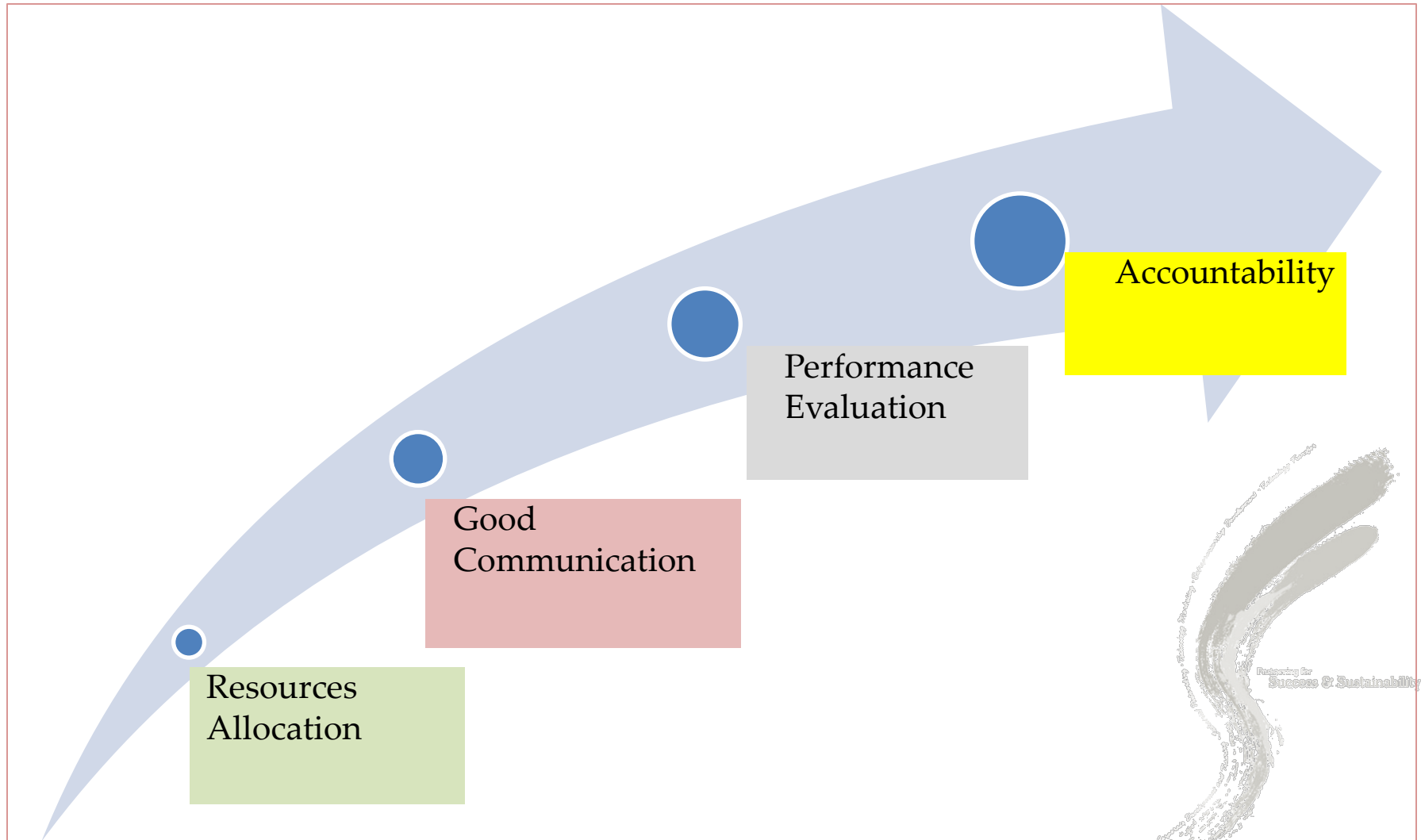
---



Endorsing the  
Success & Sustainability

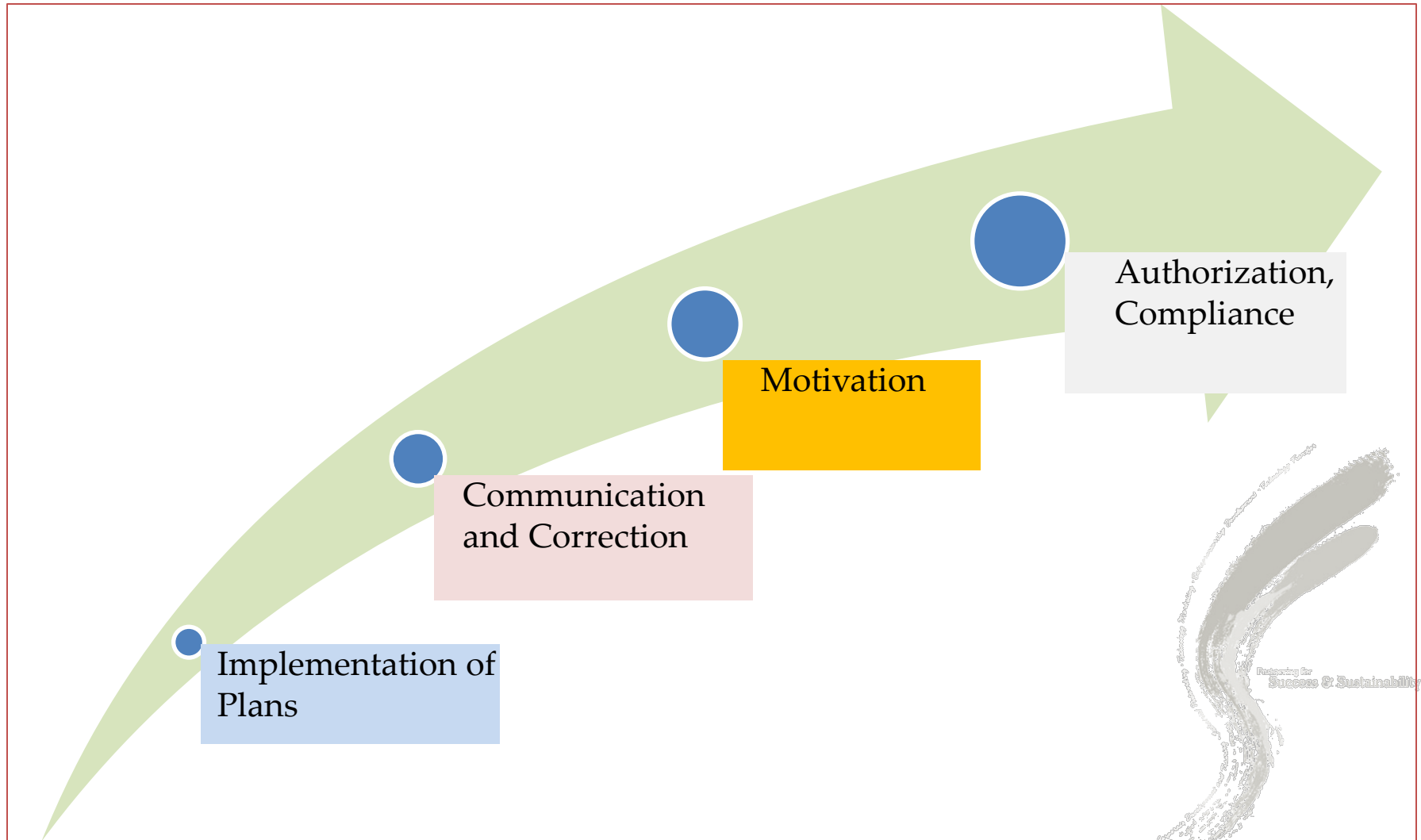
# A Well Managed Budget:

---



# A Well Managed Budget:

---



# Budgetary Control

---

- Use of funds should be under the direction of school management. The comparison between budget and expenditure can provide reference for decision-making of school management;
- Schools can enhance performance through regular report to the school management.



# Budgetary Control

---

## Yearly Report

- Submission of annual financial statements as required by the Education Bureau, balance sheets and other related schedules and analysis, and audit reports should be approved by the SMC/IMC;
- Upon completion of the audit report by the external auditor, the report should be approved by SMC/IMC before it is submitted to the Education Bureau.

# Points to Note

---

- In case of any major changes in the budget, the principal should investigate, explain and correct them in a timely manner and report the case to the SMC/IMC;
- Any revisions to the original budget should be approved by the SMC/IMC;
- SMC/IMC should inform the relevant government departments of any unexpected or special events, such as loss of cash and fraud.

# Budgeting Principles and Practice

---

- Budgets should be complied with the policies, rules, regulations and circulars as set out by the Education Bureau
- Funds and assets should be used as prescribed by the School Management Committee (SMC)/Incorporated Management Committee (IMC) in the best interest of the students and school.



# Budgeting Principles and Practice

---

- The SMC/IMC should establish a budgetary mechanism to approve budgets and to monitor budgets with a view to managing the funds and assets effectively;
- The financial budget should tie in with the daily operations and the School Development Plan (SDP). The budget including its implementation schedule should be approved by the SMC/IMC.





# Budgeting Principles and Practice

---

- A budget must be realistic, reasonable and attainable;
- A deficit budget should be avoided as far as possible;
- The SMC/IMC should ensure adequate internal control are in place.



# Budgeting Process

---

SMC/IMC  
**To approve**

Budget Committee (If applicable)  
**To make recommendations for SMC/IMC's approval**

School Supervisor / Principal  
**To review**

Working Group / Committee  
Deputy head, other managers and teachers should participate as necessary.

# Budget Preparation

---

- The preparation of the annual budget for the next school year should commence as early as possible according to school's actual circumstances. Below is a suggested timetable .

Time	Stage	Action
Feb	<ul style="list-style-type: none"><li>-Start to prepare the budget</li><li>-Revise estimates of all income and expenditure items of the current financial year;</li><li>-Request annual budget for the next financial year;</li><li>-Attach relevant schedules and documents</li></ul>	Administrative staff
Mar	<ul style="list-style-type: none"><li>• Discuss draft budget with school supervisor &amp; submit to the Budget Committee (if applicable) for endorsement</li></ul>	School Management
April	<ul style="list-style-type: none"><li>• Budget Committee (if applicable) to review &amp; endorse the budget</li></ul>	Budget Committee (if applicable)
	<ul style="list-style-type: none"><li>• SMC/IMC to discuss and approve the budget</li></ul>	SMC/IMC

# Useful Guide for Preparing a Budget


---



- Number of operating classes



- Manpower planning



- Government subsidies and allocation of subsidies;
- (Some items cannot be paid by Government Funds)



- School Fees



- Donations



- Expected expenses (previous expenditure as the basis for estimate)



- External Factors(Inflation)

# Discussion

---

- Books of Account: Annex M2T1A3
- Budgeting Process: Annex M2T1A4



# Accounting Arrangement

---

Separate bank accounts for government and non-government funds have to be maintained in the name of the school.

Only approved expenditure under the ambits of government funds should be paid from the government fund accounts, and expenditure that meet the school's educational needs shall be paid from the non-government fund accounts.

Use of Government Funds and Non-Government Funds should be recorded and kept separately.

The year-end balances of government funds should be either maintain a surplus or zero. Any spending in excess of the government funds should be covered by the non-government funds.

Bank accounts (include Fixed/Time Deposits and cheques) should be operated by jointly authorised signatories. Cheques should be jointly signed by any two of the registered managers designated for this purpose.

# Accounting Arrangement

---

An updated certified bank mandate of the authorised bank signatories should be kept in schools. Any changes to bank signatories should be promptly updated in the bank mandate.

All expenses should be properly authorised and supported by vouchers and original invoices before payments are made.


Schools should ensure that there are adequate and appropriate controls governing the retention, storage and destruction of accounting records.

- (a) Minimum period of retention – 7 years
  - (i) Books of accounts, i.e. cash books, ledgers, etc.,
  - (ii) All types of vouchers, bank statements
- (b) Minimum period of retention – 2 years
  - (i) Fees receipts/school attendance registers,
  - (ii) Register of hire of school accommodation


# Accounting Arrangement

---

Schools should keep a Fixed Assets Register to record the existing items of fixed assets under schools' control, recorded properly whether the fixed assets are purchased through government or non-government funds.



Proper school-based arrangements for the safe custody of school assets, cash and other valuables under schools' control are also required.



Schools should conduct physical stocktaking on a yearly basis. Any discrepancies found should be investigated and reported to the SMC/IMC.



# Discussion

---

- Bank Account: Annex M2T1A5
- Fixed Asset: Annex M2T1A6



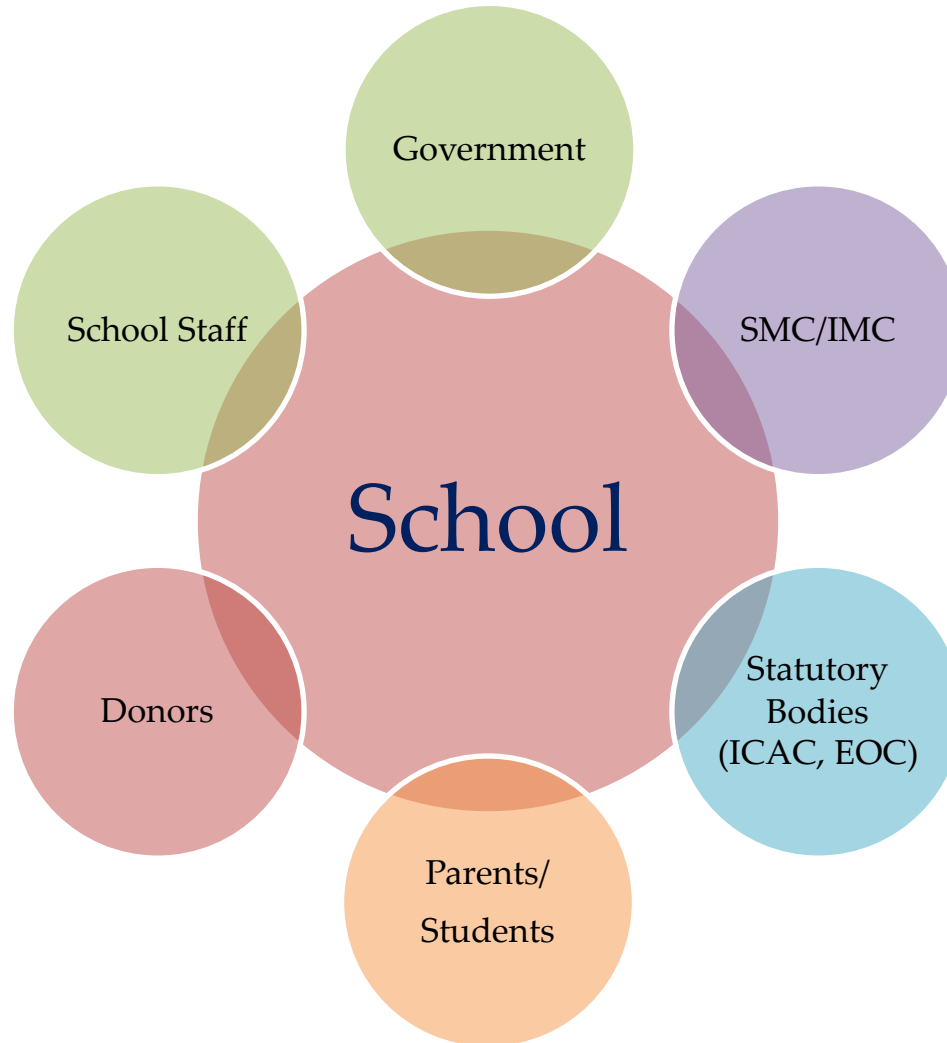


## Topic 2

# Use of Government and Non-government Funds

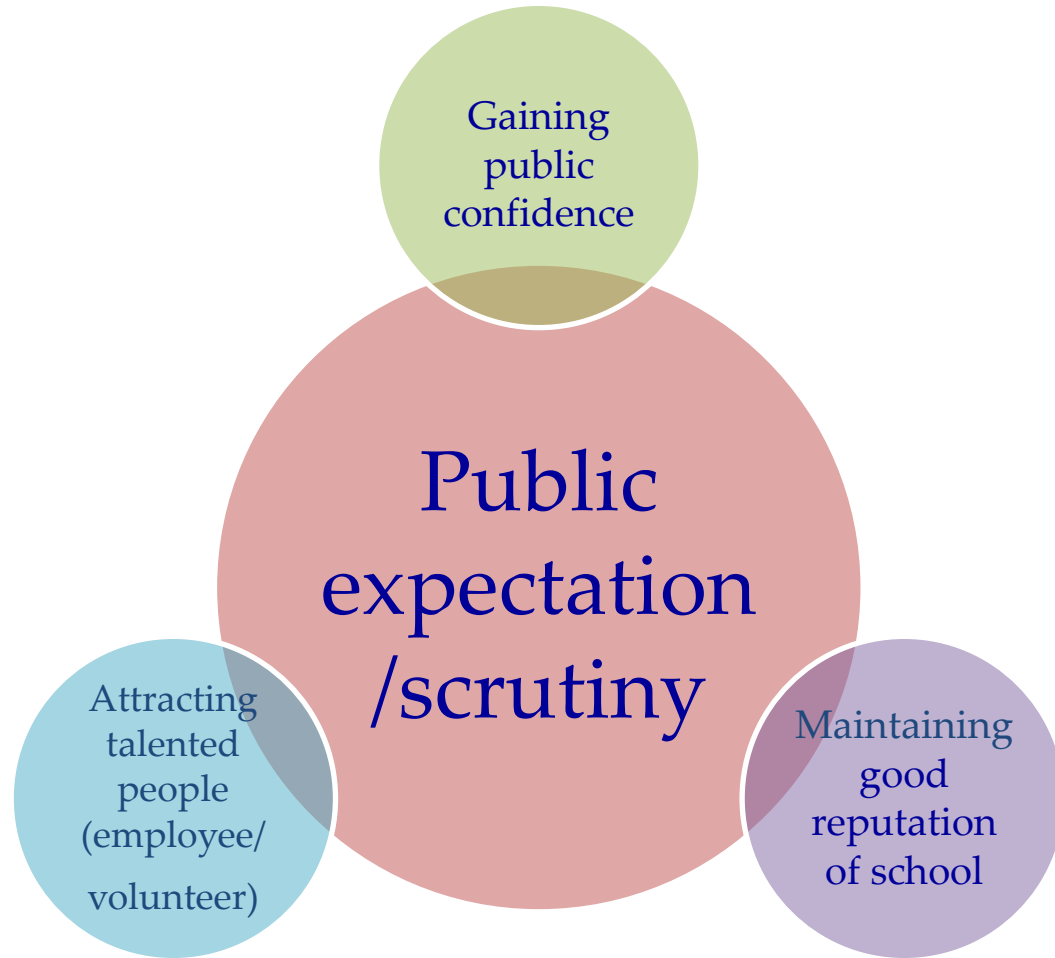
# Public Expectation /Scrutiny

---



# Advantage

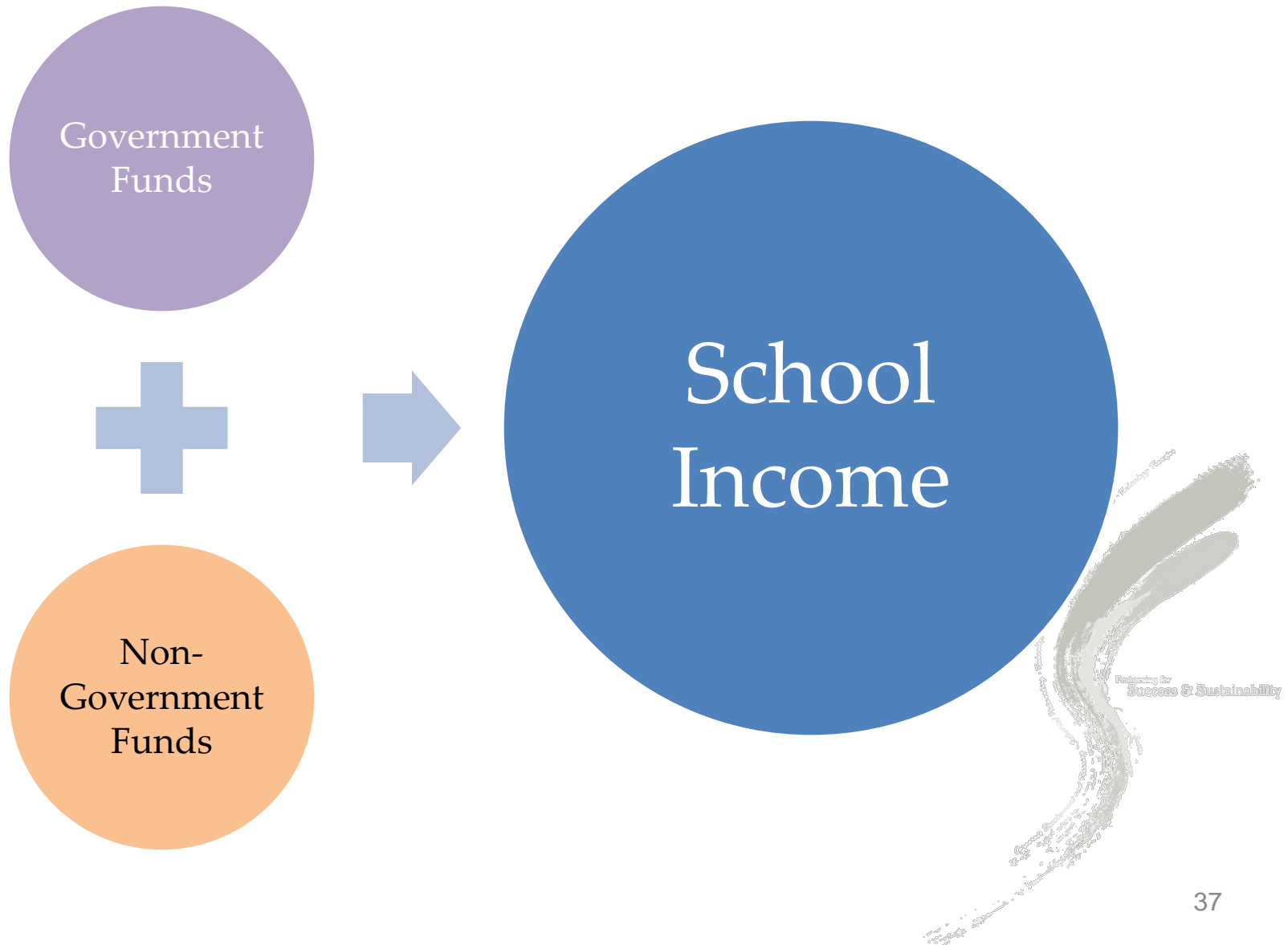
---



Endorsing the  
Success & Sustainability

# Sources of School Income

---



# Sources of Government Funds

---

## Recurrent Subsidy

The government funds mainly come from a recurrent per capita government subsidy based on the average unit cost of an aided school place that include: pay allowances, provident funds and block grant for operating expenses.




Endeavour for  
Success & Sustainability


# Use of Government Funds

---

To meet educational needs



Approved expenditure items, please refer to the EDB circular 17/2012 (Annex 2)



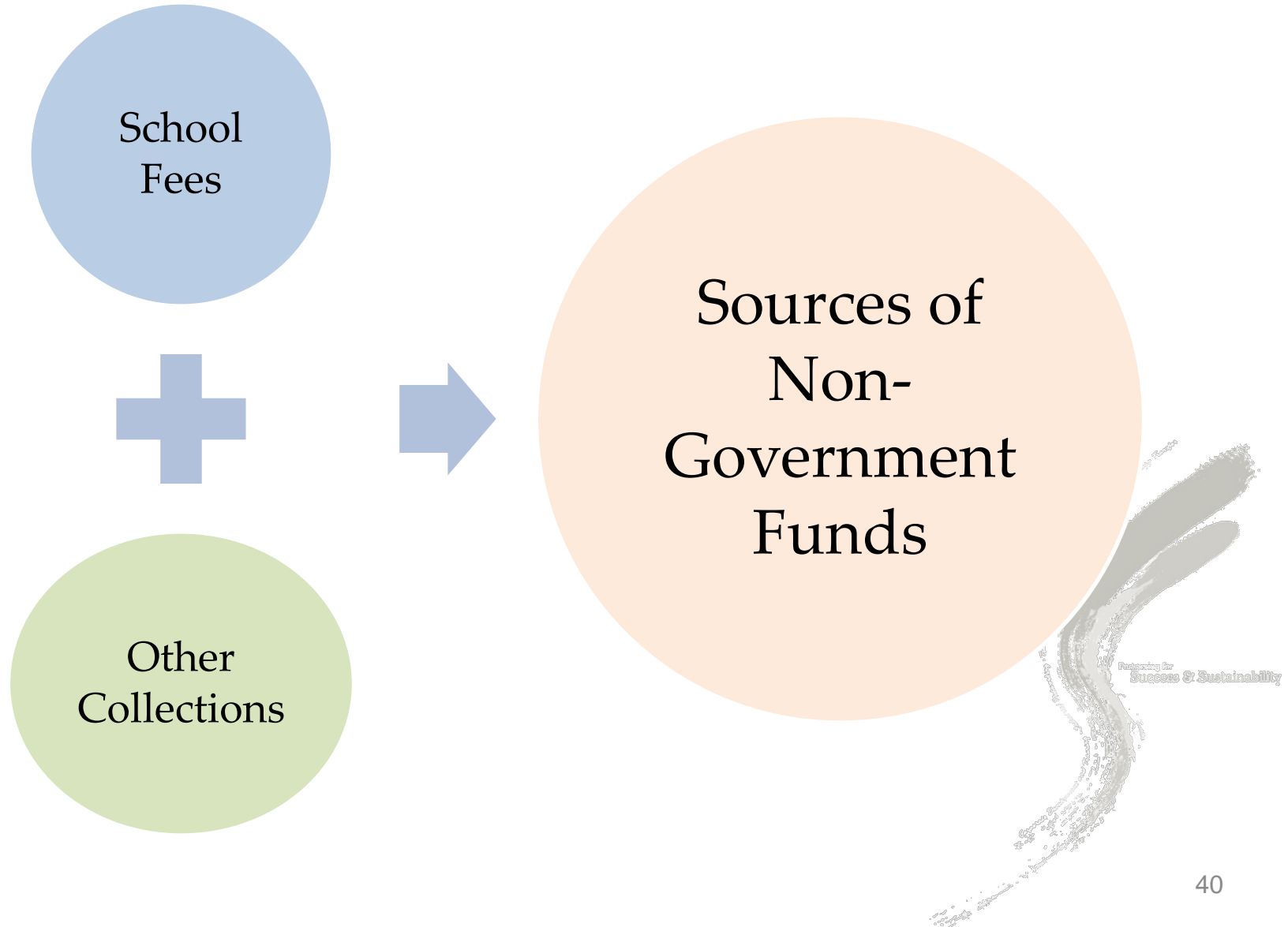
School should not accumulate a large surplus of government funds.



Disallowable expenditure items should not be charged against the government fund account.

# Non-Government Funds

---



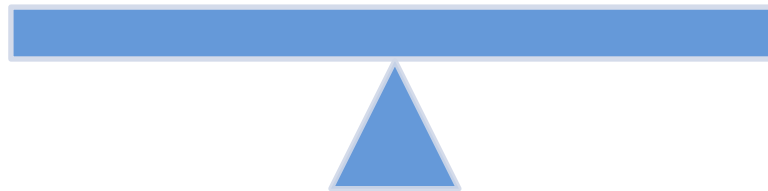


# Points to Note

---

Prior approval must be sought from the EDB for any fee adjustment or new charges.

Schools are required to formulate a policy and an appropriate mechanism to examine and review their level of school fees and other collections. Regarding fees and collections, schools should maintain good communication with parents.



# Other Collections

---

## Trading Operations


- Schools' attention is drawn in particular to the requirement that the profit from the sale of items should not exceed a maximum of 15% of the cost price, except for sale of textbooks which should not generate any profit.




# Points to Note

---


The profits/net income arising from trading operations should be applied for the purposes of directly benefiting the students of the schools.



Schools should select the trading operators/suppliers through competitive tender/quotation exercises.



Appropriate action should be taken in order to avoid any conflict of interest.



A fair and transparent mechanism should be established.

# Hire of Accommodation

---

- In hiring out their premises to support meaningful events, schools have to ensure that the hire of accommodation does not affect school operation and undermine their educational services for students;
- Schools should formulate their school-based policy on hire of accommodation with reference to the prevailing EDB circular on “Hire of Accommodation in Aided Schools”.

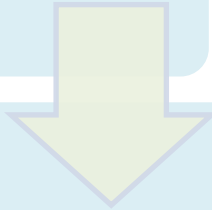


# Fund-raising Activities

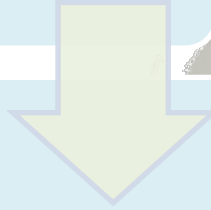
---

## Notes:

Schools have to ensure that fund-raising activities held are lawful and in compliance with the requirements stipulated by the EDB and/or other government departments.



Purposes of the fund-raising activities and their relevant information should be provided to parents in advance.



The financial statement recording the income and expenditure of each fund-raising activity should be displayed for a reasonable period of time for the information of teachers, parents and students and then be retained for audit purposes.

# Donations and Sponsorships

---

- Schools are required to formulate their school-based policy on acceptance of donations and to comply with the principles of acceptance of donations as promulgated in the prevailing EDB circular on *Acceptance of Advantages and Donations by Schools and their Staff*.



# Points to Note

---

All donations to the school should be expended on the school and for educational purposes only.

The acceptance of donations by schools should be approved by the SMC/IMC.

A register of all donations received should be maintained.

In no circumstances may a school suggest to the suppliers and contractors that the school will provide an advantage in return for their donations. Donations from suppliers and contractors should only be accepted in exceptional circumstances with compelling reasons, and with proper documentation as well as approval by the SMC/IMC in advance.


# Loans from Other Parties

---

Schools should not obtain any loans from other parties including their SSB.



Only under very exceptional circumstances should schools consider obtaining loans from other parties including their SSB.



Prior approval from the EDB has to be sought for any proposed loans.



For approved loans, repayments including related charges should be charged to the non-government funds.



Terms and conditions of approved loans, including repayment schedule, interest and other charges, should be clearly set out in the loan agreements.



# Use of Non-Government Funds

---


- Based on professional judgment, schools may exercise flexibility on the use of non-government funds for schools and educational purposes, such as providing students with additional measures and facilities (including the recruitment of additional teachers, reducing class sizes and improving the teaching environment).



# Above-standard Educational Services and Facilities

---

Schools may use non-government funds to provide additional and high quality support services for students, such as organizing more student enrichment programmes, designing more diversified curricula to develop the multiple intelligence of students and to cater for their needs.



Any facilities which are normally not provided in an aided school are treated as above-standard facilities, e.g. swimming pool, school bus, etc..

# Points to Note

---

Enhance the quality of education having regard to the benefits for the students, impact on the school's financial situation and key stakeholders' concerns.



Develop a comprehensive budget and credit such expenses to the non-government funds account.



Avoid imposing undue pressure on school's finance that may lead to an increase of school fees.



The surplus of government funds, if any, cannot be used for any above-standard plans / facilities / services.

# Points to Note

---

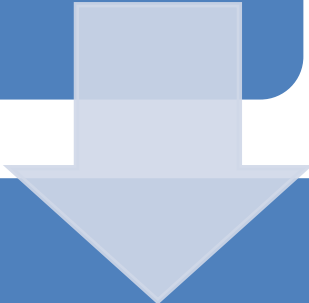
- As no additional recurrent or non-recurrent government funds are provided for the above-standard services and facilities, schools with genuine needs for constructing, maintaining or upgrading above-standard facilities, will be allowed to set up a reserve for the purpose.
- Schools are required to follow the arrangements for setting up the reserve and setting aside school fee income for the reserve as set out in the EDB Circular No. 16/2012 on *Delineation of Reserves and Reserve Ceiling for the Operating Reserve of Direct Subsidy Scheme (DSS) Schools*.

# Fee Remission/Scholarship Schemes

---

## Points to Note:

Schools should develop an open and clear criteria (such as eligibility criteria and the maximum remission percentage) for the fee remission/scholarship scheme to provide financial assistance to needy students. Schools can also according to their own circumstances provide other assistance to needy students.



Details of the Fee Remission/Scholarship Scheme should be provided in the School Profile and uploaded onto the school website.

# Points to Note

---

At least 10% of the school's total school fee income should be set aside to provide fee remission/scholarship for deserving students. If a DSS school charges a school fee between  $\frac{2}{3}$  (two-third) and  $2\frac{1}{3}$  (two and one-third) of the DSS unit subsidy rate, the school should set aside 50 cents for the fee remission/scholarship scheme for every additional dollar charged over and above  $\frac{2}{3}$  (two-third) of the DSS unit subsidy rate.



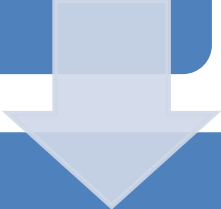
Acceptable options to avoid excessive reserve include:

- (a) relaxing the criteria for awarding fee remission/scholarship;
- (b) reducing the school fees;
- (c) subsidizing eligible students in their purchase of textbooks/ reference books/stationery; and
- (d) sponsoring eligible students for joining extra-curricular activities, such as overseas educational visits and exchange study programmes, etc.

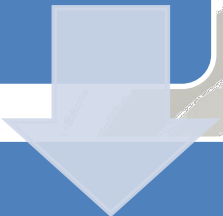
# Providing Loans / Making Donations to Other Parties

---

Schools should always put students' interest on top priority in the use of their resources and also ensure that all the expenditures from non-government funds are necessary for educational or school purposes.



Schools should not provide a loan to any other party in any circumstances. In addition, schools are reminded not to make donations to any other party.




If there are strong justifications relating to the educational needs of their own students, such intended donation should be deliberated and approved by the SMC/IMC with proper documentation and disclosure of information to the stakeholders including all the parents.

# Expenses on Meals and Presents for Staff

---

Schools are advised to adopt a conservative and modest approach to such matters and need to ensure that such expenses fall within the scope of expenses of non-government funds as set by the SMC/IMC.

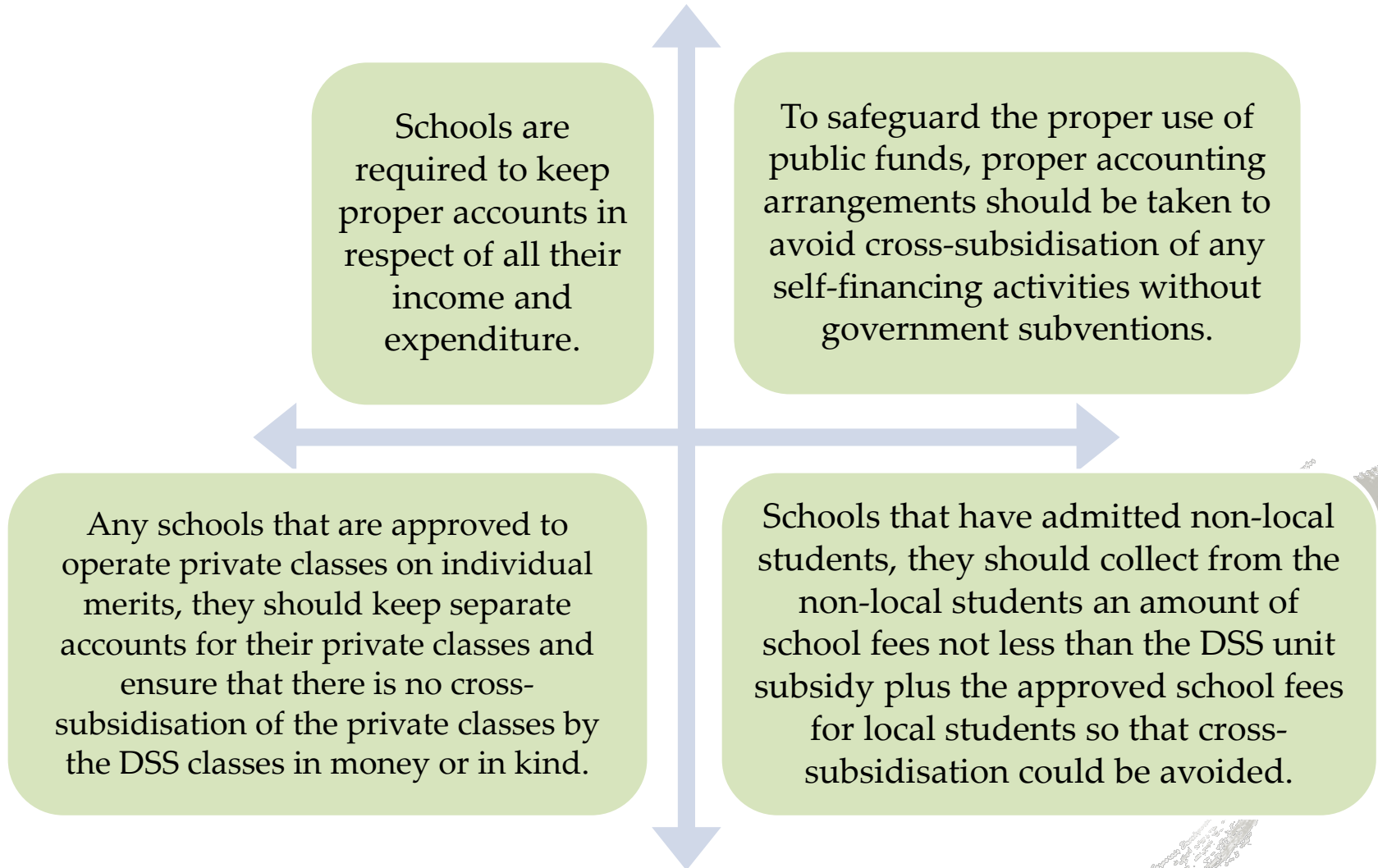


SMC/IMC should approve such expenses according to the needs and policy priorities of the schools. The SMC/IMC should also consider setting limit of such expenses per occasion and/or per head.



# Accounting Arrangement

---



# Procurement

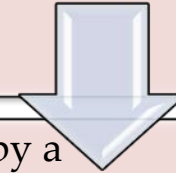
---

- While DSS schools are given flexibility in formulating their own procurement policy, they should follow as far as possible the guidelines on procurement procedures for aided schools as set out in the prevailing EDB circular on *“Tendering and Purchasing Procedures in Aided Schools”*.
- Any variation from the EDB’s guidelines has to be approved by the SMC/IMC and documented for information of stakeholders.
- School should formulate their own policy on procurement and amount.

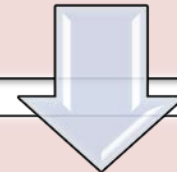
# Ensure the procurement activities are conducted in a fair and competitive manner

---

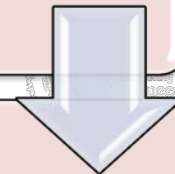
For ad hoc purchases, compile a shortlist of suppliers based on predetermined criteria and invite the shortlisted suppliers to bid.



Maintain a shortlist of suppliers or contractors approved by a panel for frequently purchased items or services, and select a sufficient number (or invite all) from the list for invitation to bid on a fair share basis, in addition to any nominations from the users.



Draw up predetermined assessment criteria for the award of service and works contracts if price is not the only consideration.



Take measures to prevent leakage of or tampering with quotation information.

# Points to Note

---

- Schools have to observe the principles of openness, fairness and competitiveness;
- The staff involved in procurement have to be reminded to adhere to the requirement on declaration of conflict of interest and procurement procedures on a regular basis.



# Case Study (1)

---

- A school Principal invited teachers to have lunch and recorded the expense in the account of non-government funds.



# Case Study (1)

---

- Expenditure on items such as meals and presents and other fringe benefits for staff is sensitive in the eyes of the public. DSS schools are advised to adopt a conservative and modest approach to such matters. DSS schools need to ensure that such expenses fall within the scope of expenses of non-government funds as set by the SMC/IMC. Moreover, the SMC/IMC should approve such expenses according to the needs and policy priorities of the schools. The SMC/IMC should also consider setting limit of such expenses per occasion and/or per head.

## Case Study (2)

---

### Employee health insurance

- Schools provide an employee with generous health insurance package



## Case Study (2)

---

- Schools are held accountable to their stakeholders and the community for the use of public funds. They are required to establish a proper and transparent mechanism to determine the staff's remuneration packages and ensure that the mechanism is implemented properly with sufficient checks and balances. They are also required to ensure that the remuneration packages are fair and justifiable. The criteria such as qualifications, experience, performance and expertise, and the approving authority for determining the remuneration package of an appointee and any subsequent salary adjustment have to be clearly set out. DSS schools are advised to refer to the prevailing EDB Circular **No. 17/2012 on Use of Government and Non-government Funds in Direct Subsidy Scheme Schools.**



# Discussion

---

- Procurement: Annex M2T2A2
- Payment: Annex M2T2A3

Reference:

Use of Government and Non-Government Funds:  
Annex M2T2A4



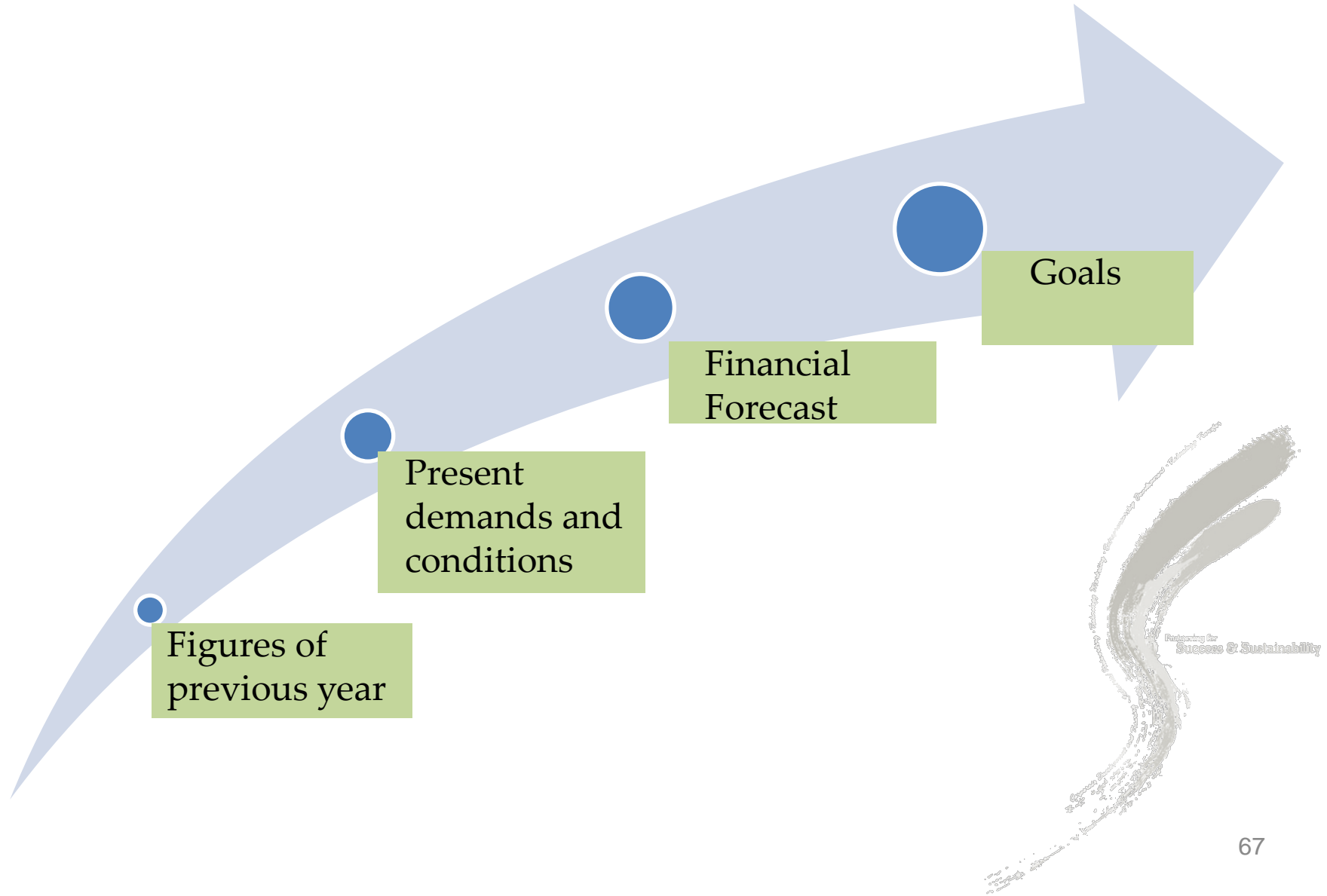


## Topic 3

# Delineation between Operating Reserve and the Designated Reserves

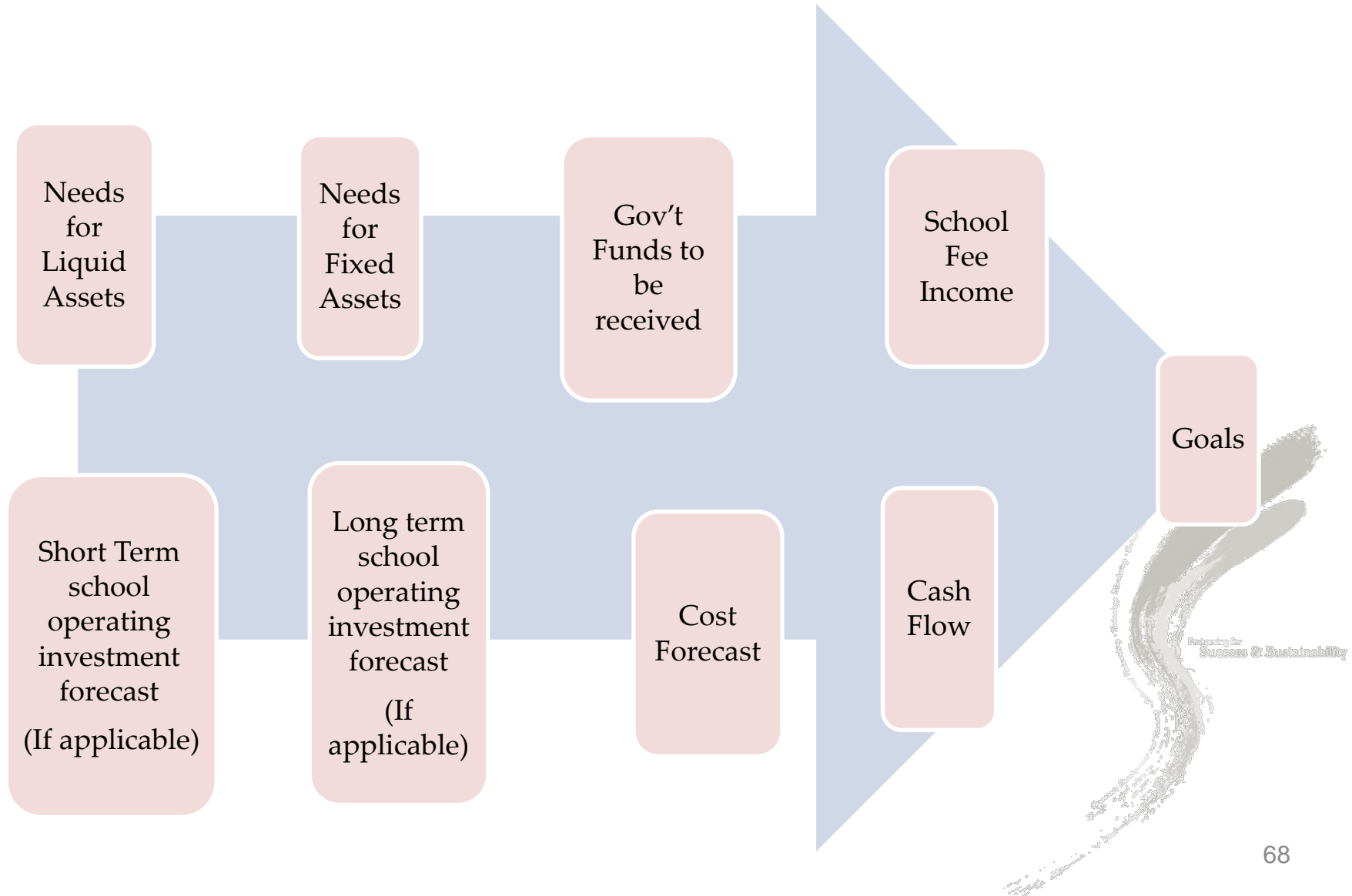
# Concept of Financial Forecast

---



# Items of Financial Forecast

---



# Functions of Financial Forecast

---

Financial Control  
-Analysis  
-Assessment

Preparing plans

Determining goals

Projecting revenue and  
expenditure

Providing a basis for decision  
making

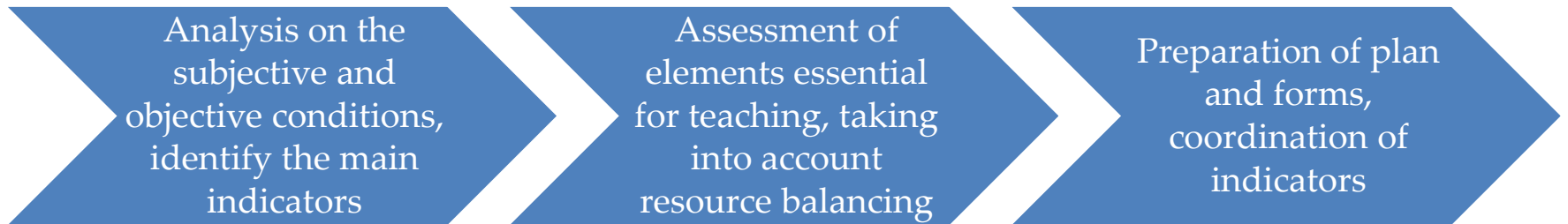
Forecasting operation efficiency

Preparing for  
Success & Sustainability

# Steps of Financial Planning

---

Financial planning typically involves three steps



# Concept of Financial Controls

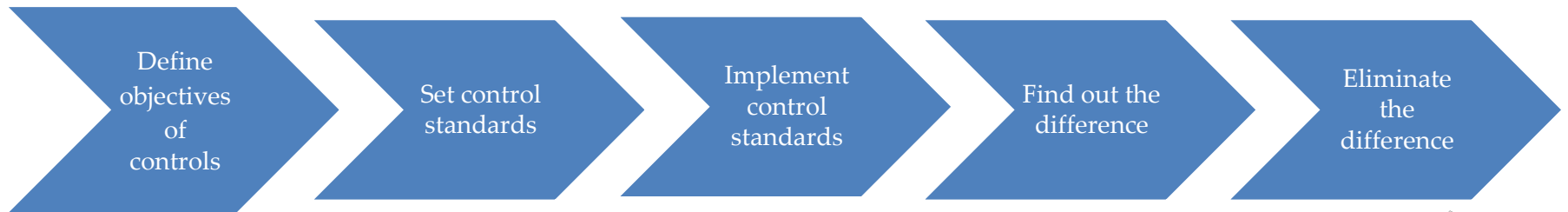
---

- Adjustment and control
- Detect deviations and make necessary adjustments
- Effective Financial Control
- Standards
- Follow prescribed procedures
- Ensure reasonable use of school funds
- Achieve the expected goals



# Steps of Financial Controls

---





# Setting up the Reserves

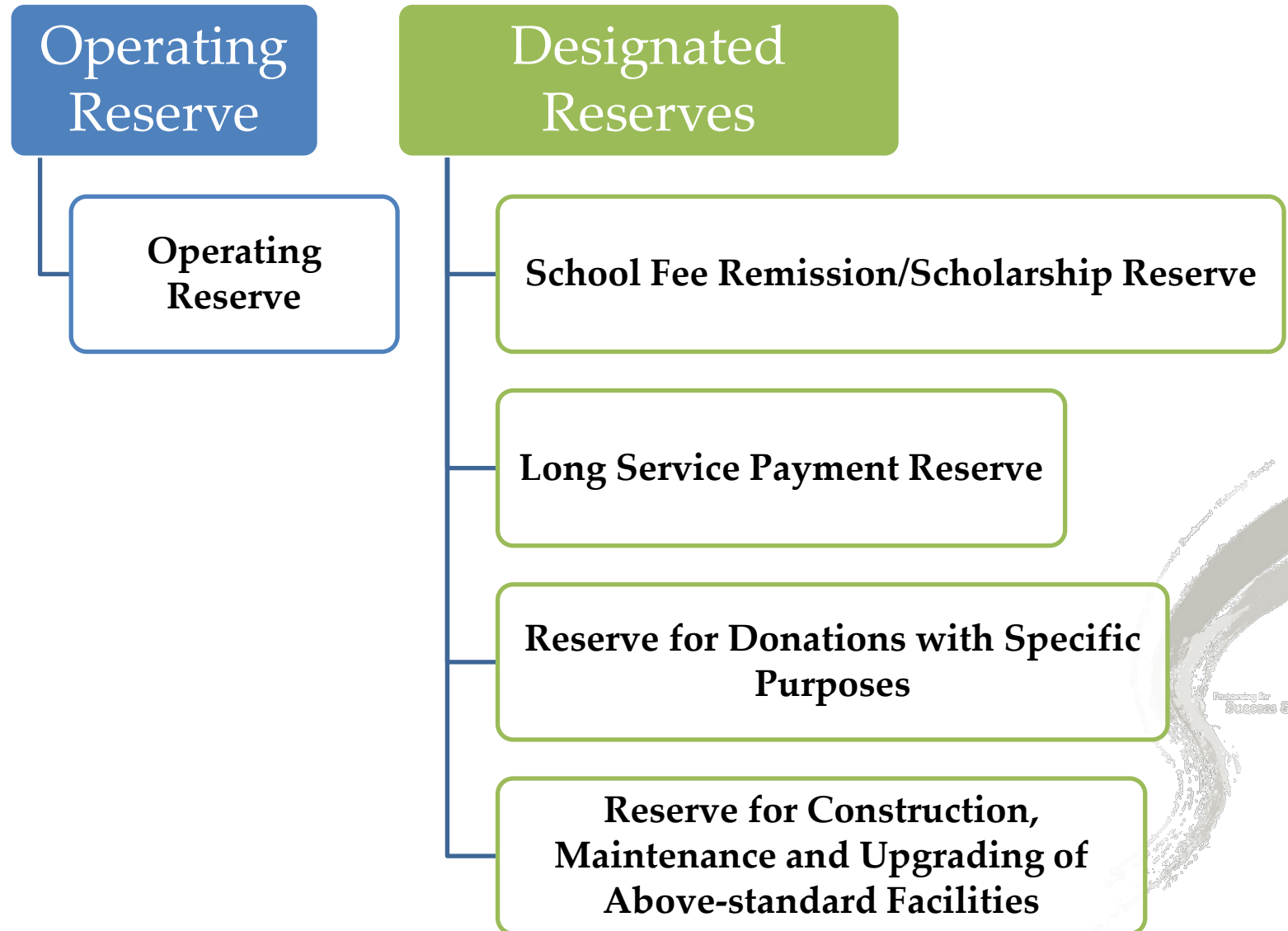
---

- The balance of the accumulated surplus of schools as at the end of the 2011/12 school year will be used as the basis for delineation between **the operating reserve and the four designated reserves.**



# Operating Reserve VS Designated Reserve

---



# Operating Reserve

---

- All the surplus other than those in the designated reserves are recorded under the operating reserve.
- Schools shall retain at least two months of operating expenses.



# Designated Reserves

---

- All unspent balances of the provisions for the school fee remission/scholarship scheme accumulated in or before the 2011/12 school year, if any, should be recorded under the school fee remission/scholarship reserve.
- There is no change regarding the requirements for setting aside school fee income for school fee remission/scholarship scheme, i.e. at least 10% of a school's total school fee income or 50 cents for the school fee remission/scholarship scheme for every additional dollar of school fee charged over and above  $\frac{2}{3}$  of the DSS unit subsidy rate, whichever is greater, should be set aside.

# Points to Note

---

- For schools having used up all the provisions and the accumulated reserve of the school fee remission/scholarship scheme in a school year, they can continue to top up their school fee remission/scholarship reserve by transferring the non-government funds in the operating reserve to this reserve on an actual need basis.
- Transfer of funds in the school fee remission/scholarship reserve out to other reserves is prohibited unless with the special approval of the EDB.

# Points to Note

---

- Under the existing requirement, when the reserve of school fee remission/scholarship scheme has reached a cumulative amount which exceeds a school's half-year total school fee income due to low utilisation of the school fee remission/scholarship provision, the school should forward to the EDB a plan on how this specific reserve could be effectively deployed.
- Only non-government funds can be recorded under/transferred to this reserve.



# Long Service Payment Reserve

---

- As from the 2012/13 school year, DSS schools may transfer funds from the operating reserve to this reserve equivalent to the amount required to meet the level of minimum requirements under the Employment Ordinance after taking into account the employees' Mandatory Provident Fund (MPF)/retirement scheme benefits already provided.
- For transfer of funds above the level of minimum requirements under the Employment Ordinance, the corresponding long service payment policy should be endorsed by their SMC/IMC with proper documentation kept for checking by the EDB on a need basis.

*Note: school can decide to establish the reserve  
or not under their own situation.*

# Points to Note

---

- If the required long service payment can be offset by employees' MPF/retirement scheme benefits in accordance with the Employment Ordinance or guidelines issued by the Labour Department, the relevant amount already set aside in this reserve has to be transferred back to the operating reserve. Schools may make such rectifications annually or at least once every three years in their audited accounts. The rectifications should be certified by the schools' auditors and the details should be kept for checking by the EDB on a need basis.



# Points to Note

---

- If DSS schools have already set aside funds in or before the 2011/12 school year for long service payment, they may record those funds under this reserve in the 2011/12 audited accounts. In this connection, the schools concerned will be required to keep relevant records/proof of their funds already set aside, e.g. list of relevant reserves as at the end of the 2010/11 school year as shown in the audited accounts, list of staff with their entitled long service payment, for checking by the EDB on a need basis.
- Both government and non-government funds can be recorded under/transferred to this reserve.

# Reserve for Donations with Specific Purposes

---

- Only donations with specific purposes could be recorded under this reserve. Donations without specific purposes should be recorded under the operating reserve.
- Schools will be required to keep details of the donations with specific purposes and proof of the intended uses as specified by the donors or planned uses as endorsed by their SMC/IMC including timeframes for planned projects/activities where appropriate for checking by the EDB on a need basis.
- Only non-government funds can be recorded under/transferred to this reserve.

*These refer to donations with intended  
uses as specified by the donors OR  
planned uses as endorsed by the SMC/IMC.*



# Reserve for Construction, Maintenance and Upgrading of Above-standard Facilities

As from the 2012/13 school year, it will be at DSS schools' own discretion to start transferring up to 10% of the school fee income to the reserve for above-standard facilities when they prepare the 2012/13 audited accounts if they have fully met the following requirements with proper documentation kept:

- (a) concrete plans with purposes, timeframe/ cashflow and funds required have to be deliberated and approved by the SMC/IMC;

# Points to Note

---

- (b) Parent-Teacher Associations have to be consulted about the plans (all parents have to be consulted if the reserve is used for new above-standard capital works); and
- (c) The cash remains in the operating (there remains cash in the operating reserve) equivalent to six months' or more of the schools' expenses after the transfer of funds.

*Note: school can decide to establish the reserve  
or not under their own situation.*



# Points to Note

---

- For transfer of more than 10% of the school fee income to the reserve or if after the transfer, the cash in the operating reserve account falls below six months' expenses of the schools, DSS schools will be required to seek prior approval from the EDB.
- Applications for such transfer, should be sent to schools' respective Senior School Development Officers three months before the deadline for schools' submission of the audited accounts in which the proposed transfer of funds is made. Applications will not be approved should the cash in the operating reserve account of the schools fall below three months' expenses after the proposed transfer.

# Points to Note

---

- If DSS schools have already set aside funds in or before the 2011/12 school year for above-standard facilities with the approval of the SMC/IMC, they may record those funds under this reserve in the 2011/12 audited accounts. In this connection, the schools concerned will be required to keep relevant proof of their projects and the amount already set aside, e.g. records of decisions at SMC/IMC meetings, for checking by the EDB on a need basis.
- Only non-government funds can be recorded under/transferred to this reserve.



# Submission of the Allocation of the Reserves

---

- The funds in the operating reserve and designated reserves have to be certified by schools' auditors.



# Reserve Ceiling

---

- The ceiling on the operating reserve will be set at an amount equal to 100% of the annual total expenditure of the school, i.e. 12 months' operating expenditure as reflected in the audited accounts of the same school year;
- The reserve ceiling will be implemented as from the 2013/14 school year;
- The accumulated total balance of the operating reserve and the annual expenditure as reflected in the 2013/14 audited accounts will be used to determine whether a DSS school's operating reserve has exceeded the reserve ceiling for the first time.



# Points to Note

---

- For schools with accumulated operating reserve exceeding the ceiling as reflected in the audited accounts as from the 2013/14 school year, they will be given the following options to rectify the situation:
  - (a) schools may choose to submit a plan on how to reduce school fees in the forthcoming school year so that the accumulated operating reserve will drop to below the ceiling taking into account their own long-term financial considerations;

# Points to Note

---

- (b) Schools may choose to receive less DSS subsidy in the forthcoming school year, i.e. the amount exceeding the ceiling will be deducted from the DSS subsidy to be paid to the school in the next payment;
- (c) Schools may choose to return the surplus in excess of the ceiling to the Government in a specified timeframe;  
or



# Points to Note

---

(d) Schools may choose to transfer the surplus in excess of the ceiling to the school fee remission/scholarship reserve subject to the following conditions being met:

- there is no surplus in the school fee remission/scholarship reserve as reflected in the latest audited accounts;
- the utilization rates of the school fee remission/scholarship provisions are 100% or more in the past three consecutive years; and
- the amount that can be transferred to the school fee remission/scholarship reserve is subject to EDB's approval.

# Special One-off Arrangement for Surplus in Excess of the Reserve Ceiling

---

- As a special one-off arrangement, DSS schools will be allowed to grandfather the part of the operating reserve in excess of the reserve ceiling accumulated before the implementation of the reserve ceiling. This notwithstanding, the grandfather arrangement is subject to the following conditions being complied with:
- schools submit to the EDB plans with detailed accounts of their reserves including their types, proposed usage and, where necessary, timeframe for deployment endorsed at SMC/IMC meetings; and
- the plans are approved by the EDB.

# Discussion

---

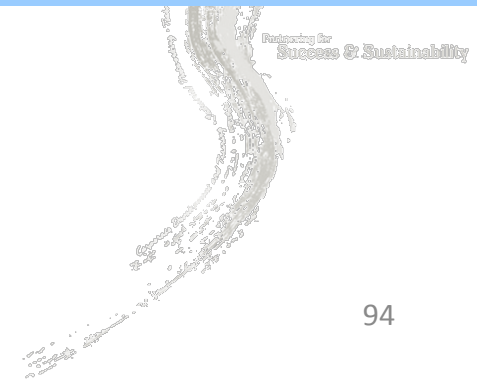
- Stock: Annex M2T3A2
- Petty Cash: Annex M2T3A3





## Topic 4

# Guidelines on Investment and Purchase of Property



# Investment

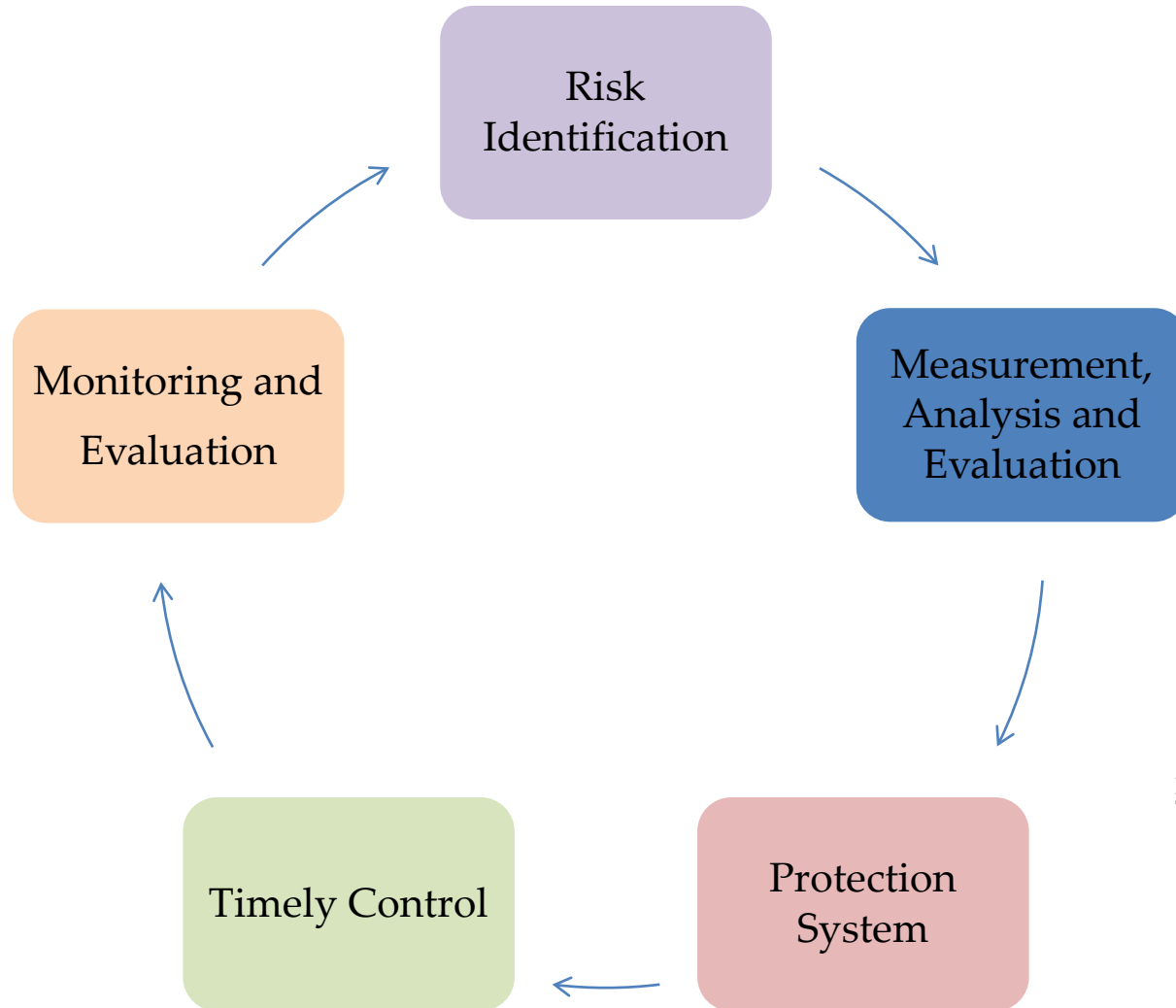
---

- Investment by DSS schools is not recommended.
- Nevertheless, DSS schools may still do so should they have compelling and well-justified reasons.



# Risk Management in Finance

---



Endorsing the  
Success & Sustainability



# Points to Note

---

- Due to the changing internal and external environment, schools should adjust their financial risk management system according to changes in the status of financial risk timely.



# Financial Risk Management Programme

---

## Risk identification

- Qualitative judgment of risks
- Risk identification tools, information collection, identification, risk summaries, classification, risk trend monitoring

## Risk measurement

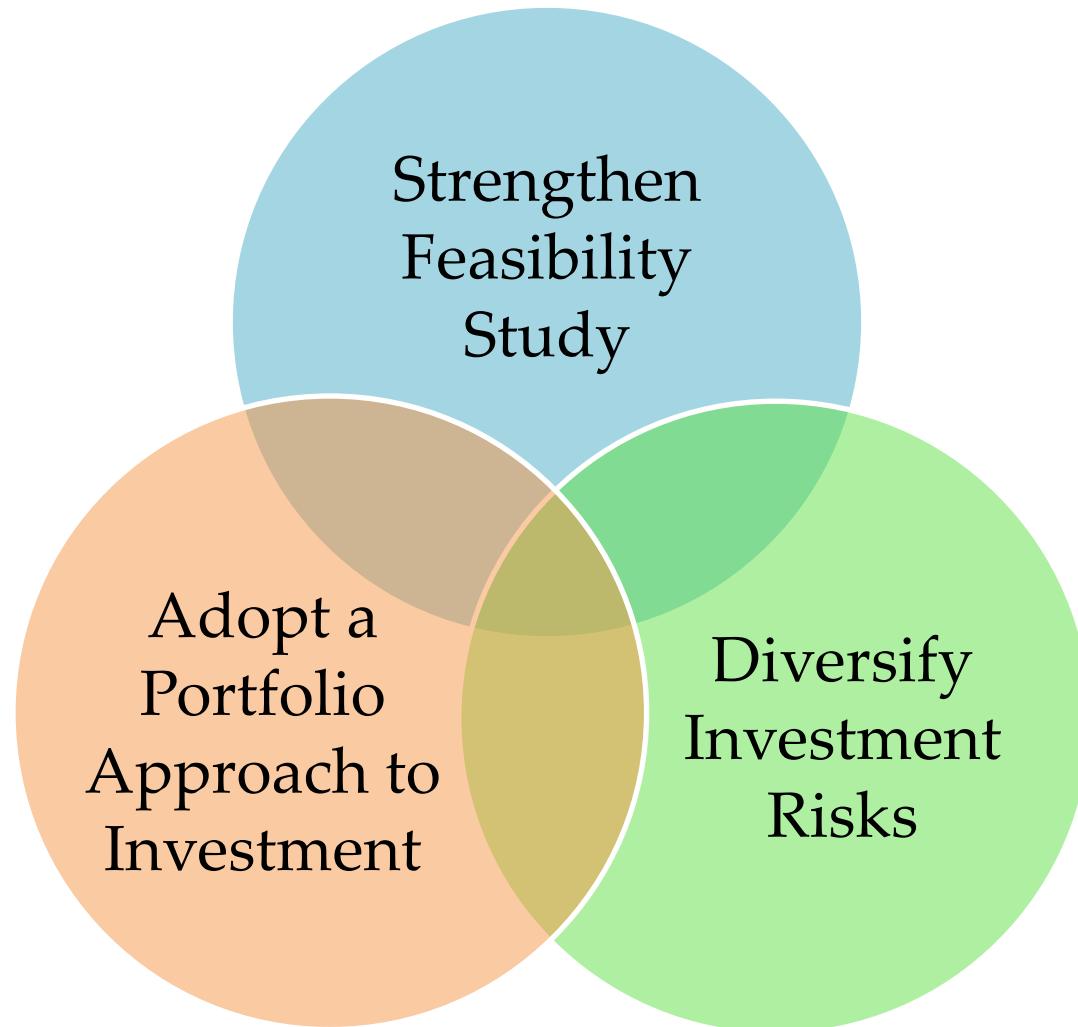
- To measure the risk. Possible time and locations that loss may arise, the risk and the extent of the loss in such areas. How to manage and accurately measure the degree of risk and discrepancies.

## Risk management

- System management
- Technical management: dispersion, transference and evasion

# Prevention and Control of Investment Risk


---




Endorsing the  
Success & Sustainability

# Strengthening Risk Management in Schools

---

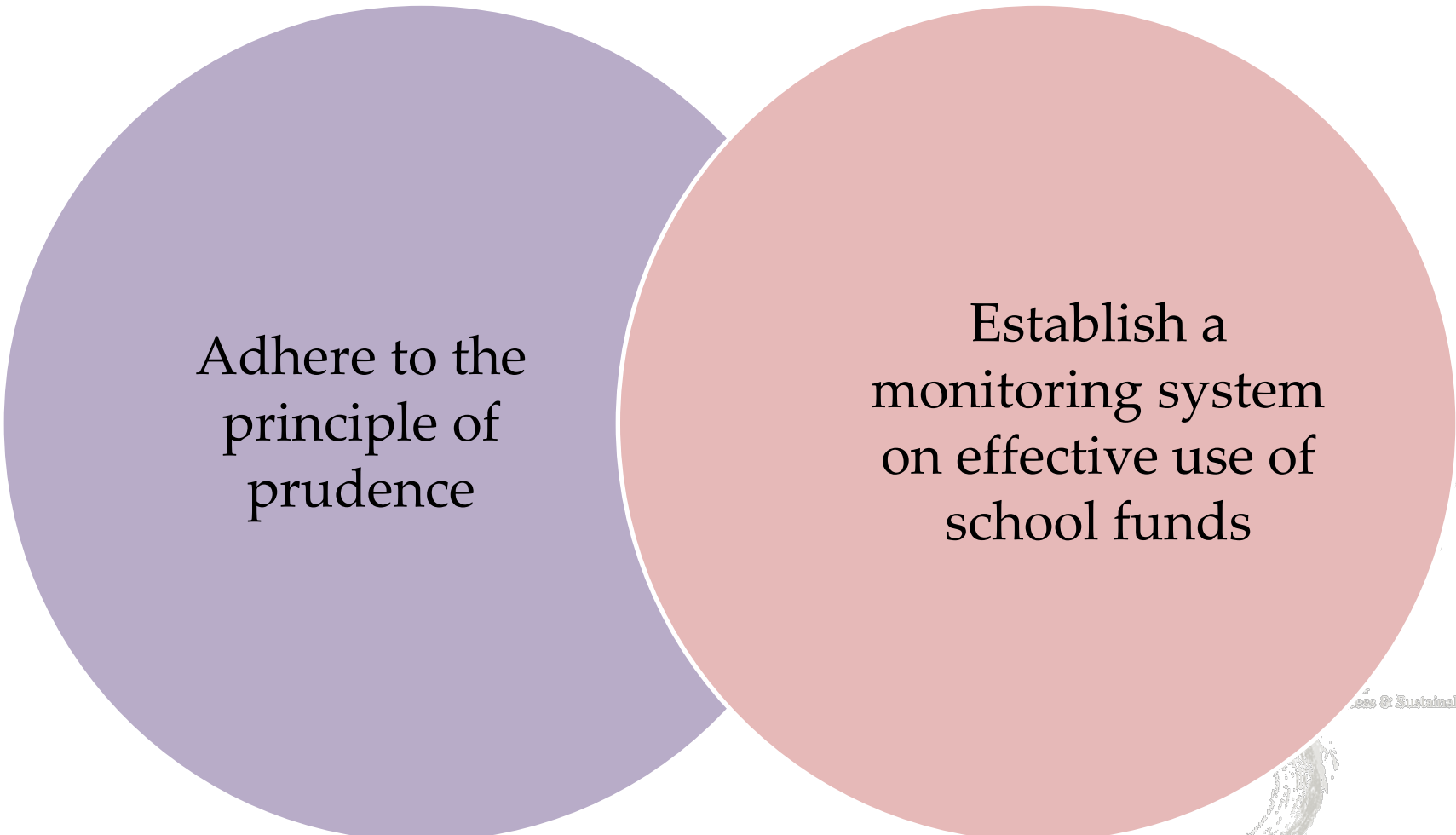
- 
- **Improve schools' capacity to adapt to the financial management environment and to meet the contingency**
  - Continuous improvement on the financial management system

- 
- **Raise awareness of risk management**
  - Through adoption of accounting policies in schools that cover all financial activities in schools

- 
- **Improve financial decisions**
  - Financial decisions made based on quantitative analysis as far as possible

# Control the Financial Risk

---



Adhere to the  
principle of  
prudence

Establish a  
monitoring system  
on effective use of  
school funds

# Investment

---

- To ensure that school financial situation remains sound and healthy after the investment, schools will have to observe closely the following guidelines when making any investment as from the 2012/13 school year:

Schools are not allowed to use the funds in the operating reserve or the fee remission/scholarship reserve for investment;

Schools have to seek their SMC/IMC's approval before making investment decisions and such approval and factors for consideration must be clearly documented;

The only funds that may be used for investment are the long service payment reserve, the reserve for donations with specific purposes and the reserve for construction, maintenance and upgrading of above-standard facilities;

Schools are only allowed to invest in (i) Hong Kong (HK) dollar bonds; or (ii) HK dollar certificates of deposits.

# Points to Note

---

Type of Investment	Investment Criteria/Conditions
<p>HK dollar bonds or certificates of deposits:</p> <p>➤ short to medium term with a maturity period of one to five years.</p>	<p>➤ The credit rating of the issuer must not be lower than the rating of <b>A3</b> given by Moody's Investors Service Inc. or <b>A-</b> given by Standard &amp; Poor's Corporation.</p> <p>➤ The bank must be licensed under the Banking Ordinance.</p>

Bonds and certificates of deposit have potential risk

# Moody's long-term credit rating and its definition

---

**Aaa** Top rating. Very good credit quality, level of risk is very low

**Aa** Credit quality is fine, but there may be some elements that makes the long-term risk slightly higher

**A** Good credit, but there may be some elements that may damage credit quality in the long run

**Baa** Credit quality is satisfactory, but there may be lack of some protective elements, or the credit quality is not reliable in the long run

**Ba** Credit quality is undesirable. Debt repayment on schedule is not confirmed, there is no guarantee on the credit quality in the future



# Points to Note

---

**B** Poor credit quality



**Caa** Very poor credit quality



**Ca** Regular arrears



**C** The minimum rating. Regular debt, low potential value of debt

# Points to Note

---

“Aaa” 、 “Aa” 、 “A” and “Baa” rating categories are considered “Investment Grade”

“Ba” 、 “B” 、 “Caa” 、 “Ca” and “C” rating categories are considered “Speculative Grade” ◦

“Aa” to “Caa”

1: Rating highest ;

2: Rating medium ;

3: Rating minimum ◦



# S&P's long-term credit rating and its definition

---

**AAA** Capacity to fulfill its financial commitments is very strong

**AA** Capacity to meet its financial commitments is very strong

**A** Capacity to meet its financial commitments stronger, but has the potential to be affected by environmental and deterioration in economic

**BBB** Has adequate capacity to meet its financial commitments, but the capacity may be affected due to poor economic conditions

**BB** Short term economic difficulties as less likely, but is facing a number of significant uncertainty, resulting in the debtor does not have sufficient capacity to meet its financial commitment

# Points to Note

---

**B and BB** Economic difficulties are more likely to occur, this level of debtors are able to meet its financial commitments at this stage. But if the financial situation turns bad it may weaken the debtor's ability to meet its financial commitment

**CCC** Present situation of insolvency may occur, the debtors have to rely on a favorable business environment, good financial situation and good the economic situation in order to meet its financial commitment

**CC** Very unlikely to pay debt

**D** Unable to meet its financial commitment

# Points to Note

---

- “AAA”、“AA”、“A” and “BBB” rating categories are considered as “Investment Grade” ; “BB”、“B”、“CCC”及“CC” rating categories are considered as “Speculative Grade”
- “AA” to “CCC” can be combined with the “+” or “-” to show the relative location within the major rating categories



# Points to Note

---

Ratings demonstrated the financial position and ability of an organization to payback the debt, (not individual investment products)

## Example

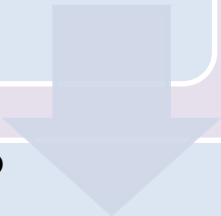
- Moody's rated The Hong Kong Government's bond to "Aa1", looking for positive



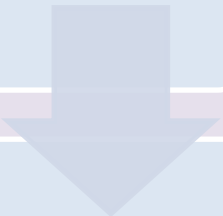
# Points to Note

---

Schools should pay special attention to the liquidity constraints of the certificates of deposits and corporate bonds in the secondary markets and are advised to make allowance for contingencies in projecting the use of their designated reserves.



Existing investment products held by schools which do not comply with the new investment guidelines above should be disposed of in a manner most beneficial to the schools. Realised loss, which is computed on a yearly basis irrespective of the type of investment, must not be charged to any of the school's accounts.



Schools are also reminded to refer to other requirements in respect of the choice of banks and investment as detailed in the prevailing [EDB circular on The Choice of Bank Counterparties in the Investment of Public Assets](#)

# Purchase of Properties

---

- All along, **purchase of properties by schools is discouraged** as it carries substantial financial implications and the risk of financial loss.
- Nevertheless, if schools have compelling and well-justified reasons for purchasing properties by using their non-government funds, they may still do so.





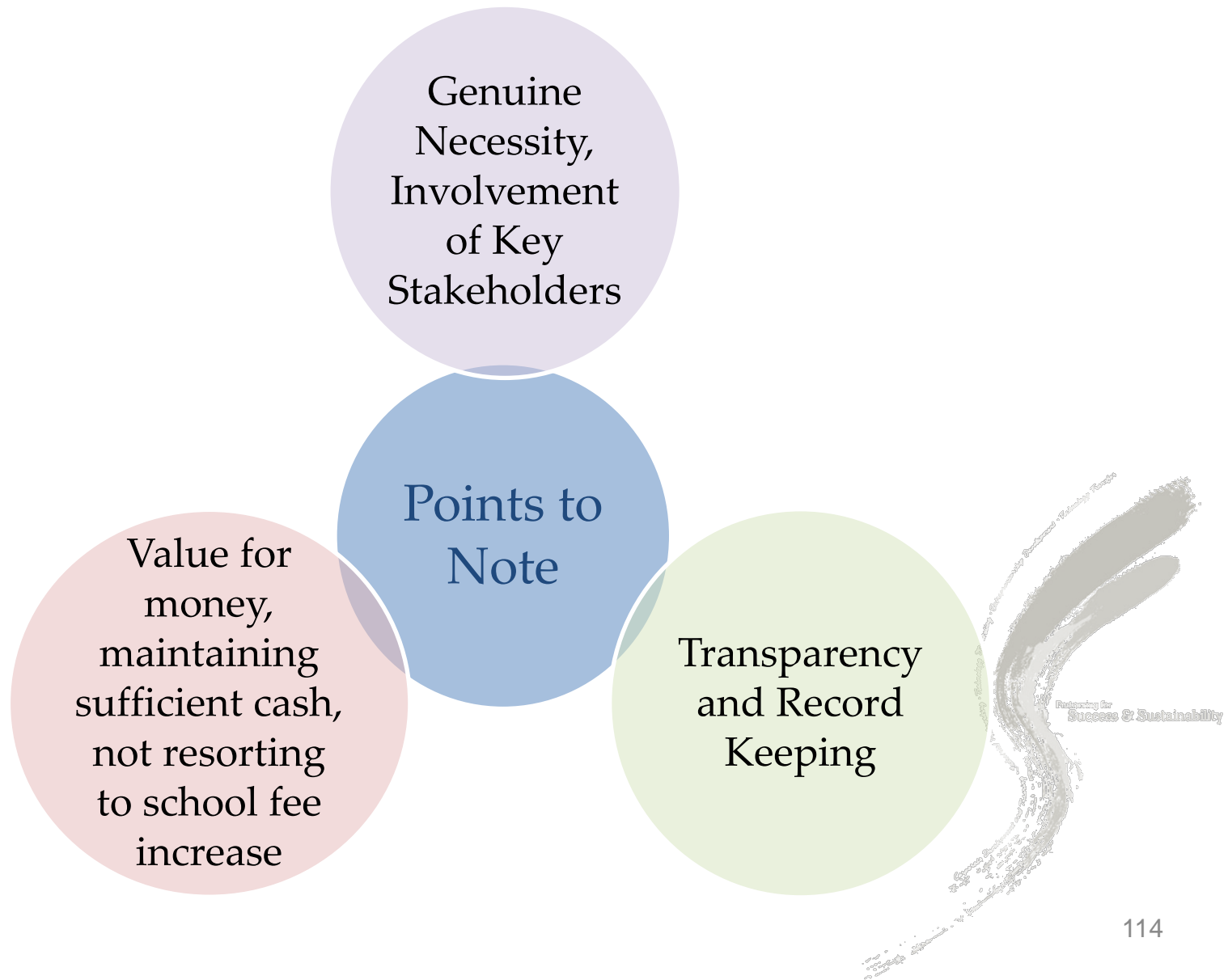
## Schools will have to observe the following two new requirements on top of the existing guidelines as from the 2012/13 school year:

- Schools are required to keep at least an amount equivalent to six months' operating expenditure in cash after the purchase of properties;
- Schools are not allowed to purchase properties through mortgages or any other borrowing arrangements.



# Points to Note

---



# Case Study

---

A school has recruited a native English-speaking teacher from overseas. Should the school purchase a property as a staff quarter?



# Risk on Purchase of Properties

---

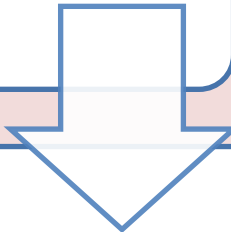
- Please suggest the risk management procedures for the purchase of property

Note: For schools, purchase of property should be for meeting schools' actual needs rather than for investment purposes.

# Formulation of Policy

---

The SMC/IMC should formulate a school-based policy on purchase of properties. The policy should set out the principles, considerations including risk assessment and procedures to be observed in the purchase of properties, and the management and sale of properties thereafter.



A contingency plan (e.g. selling the properties) for dealing with situations such as stringent financial situations, low utilisation rate of the properties or other situations which warrant selling of the properties.



The policy has to be approved by the SSB as well as the SMC/IMC with proper deliberation and documentation.

# Implementation of Policy

---

The SMC/IMC should deliberate on the purchase or sale of properties in accordance with the principles, considerations and procedures as set out in the school-based policy. The purchase or sale of the properties has to be approved by the SSB and the SMC/IMC with proper documentation.

The SMC/IMC should formally consult stakeholders, parents in particular, about the purchase or sale of the properties and address their concerns and ensure that the purchase or sale of the properties is justified and publicly defensible.


Members of the SMC/IMC and the school should be required to report any situations where they or their immediate family or personal friends have an interest, financial or otherwise, in the purchase of the properties.

The legal and beneficial ownership of any property purchased must vest in the SMC/IMC of the school.

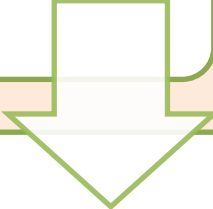
# Management of Properties

---

Ensure that the contingency plan as set out in the school-based policy is implemented at all times and monitor its proper implementation.



Conduct continuous assessment on the cost-effectiveness of the properties purchased, for instance, whether the utilisation rate of the properties is well justified.

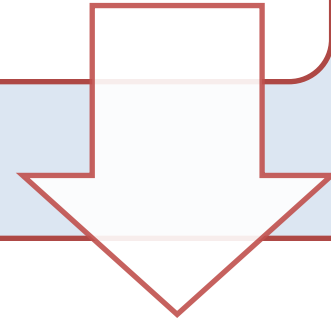


There should be no cross-subsidisation from government subsidy on the properties purchased.

# Accounting Arrangement

---

The gain or loss on revaluation of the property, if any, should be reflected in the school's non-government funds account.



The loss arising from the sale of properties should not be charged to any of the school's accounts and should not be borne by the school.





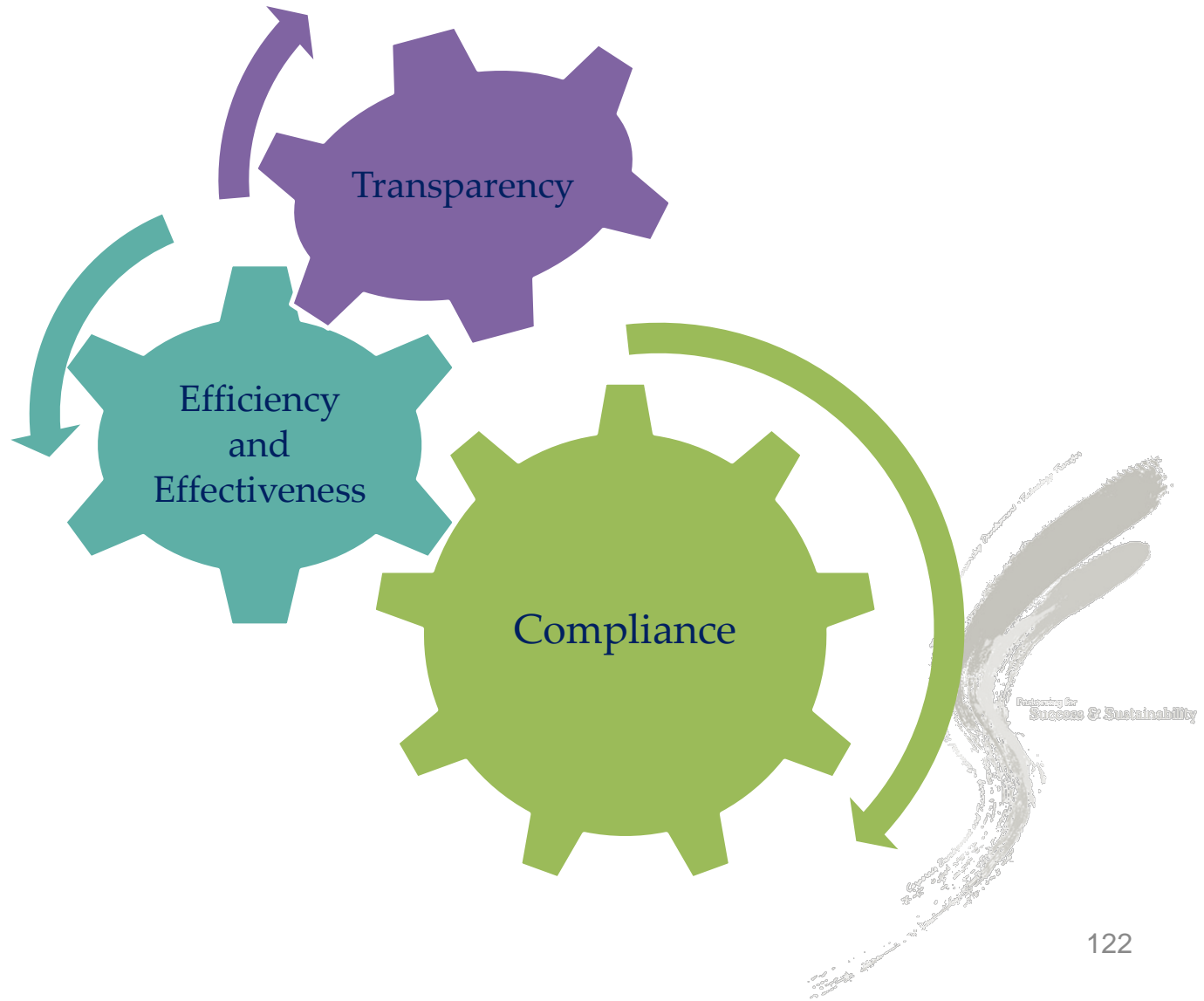
# Topic 5

## Monitoring and Internal Control



# Internal Control of COSO

---



# Control Environment

---

- It is the **foundation** of all other components of internal control, providing discipline and structure;



# Risk Assessment

---

- Consists of identifying, analyzing, and managing risks that could negatively impact the organization.



# Four Steps to Prepare Risk Assessment:

---

Determining what needs to be achieved?  
(objectives/goals),

Identifying what may go wrong (risks),

Listing possible risks in the order of their gravity  
(risk ranking),

Formulating a mechanism that will reduce the  
chance of things going wrong (control activities)  
and the associated negative impact

# Applying the Butterfly Tool

Risk	External sources	Internal sources	Risk factors	Risk indicators	Consequences
Decrease in the satisfaction level of parents/students.	<p>Schools have failed to act appropriately in response to the changing trend in education and public expectation.</p> <p>Competitors have provided new services at a faster pace</p>	<p>Delays in delivering services.</p> <p>Insufficient awareness of staff and training for service delivery.</p> <p>Lack of expertise which affects the students satisfaction.</p>	<p>A large number of students with different learning needs.</p> <p>Parents are demanding.</p>	Increase in number of parent complaints	<p>Decrease in number of classes</p> <p>Negative impact on image/school reputation</p> <p>Increase in number of complaints</p>

# Control Activities

---

Policies and procedures that help ensure management directives are carried out;

Taking necessary actions to address risks to ensure achievement of objectives;

They should be implemented throughout the organization, at all levels and in all functions;

Including approval at different levels, authorizations, verifications, reconciliations, reviews of operating performance, security of assets and segregation of duties.

# Information and Communication

---

Pertinent information must be communicated to staff in a regular and timely manner to enable them to carry out their responsibilities;

Effective communication must occur in broader sense, flowing down, across and up the organization;

All personnel must receive a clear message from top management that control responsibilities must be taken seriously;

Staff must understand their own role in the internal control system, as well as how individual activities relate to the work of others;

Job descriptions, accounting manuals, policy and procedures manuals are means for effective communication.



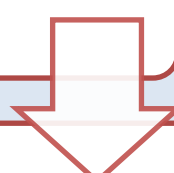
# Monitoring

---

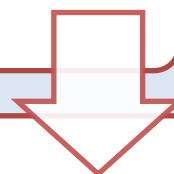
Internal control systems need to be monitored – a process that assesses the quality of the system's performance over time.



Through on-going monitoring activities or separate evaluations or a combination of the two.



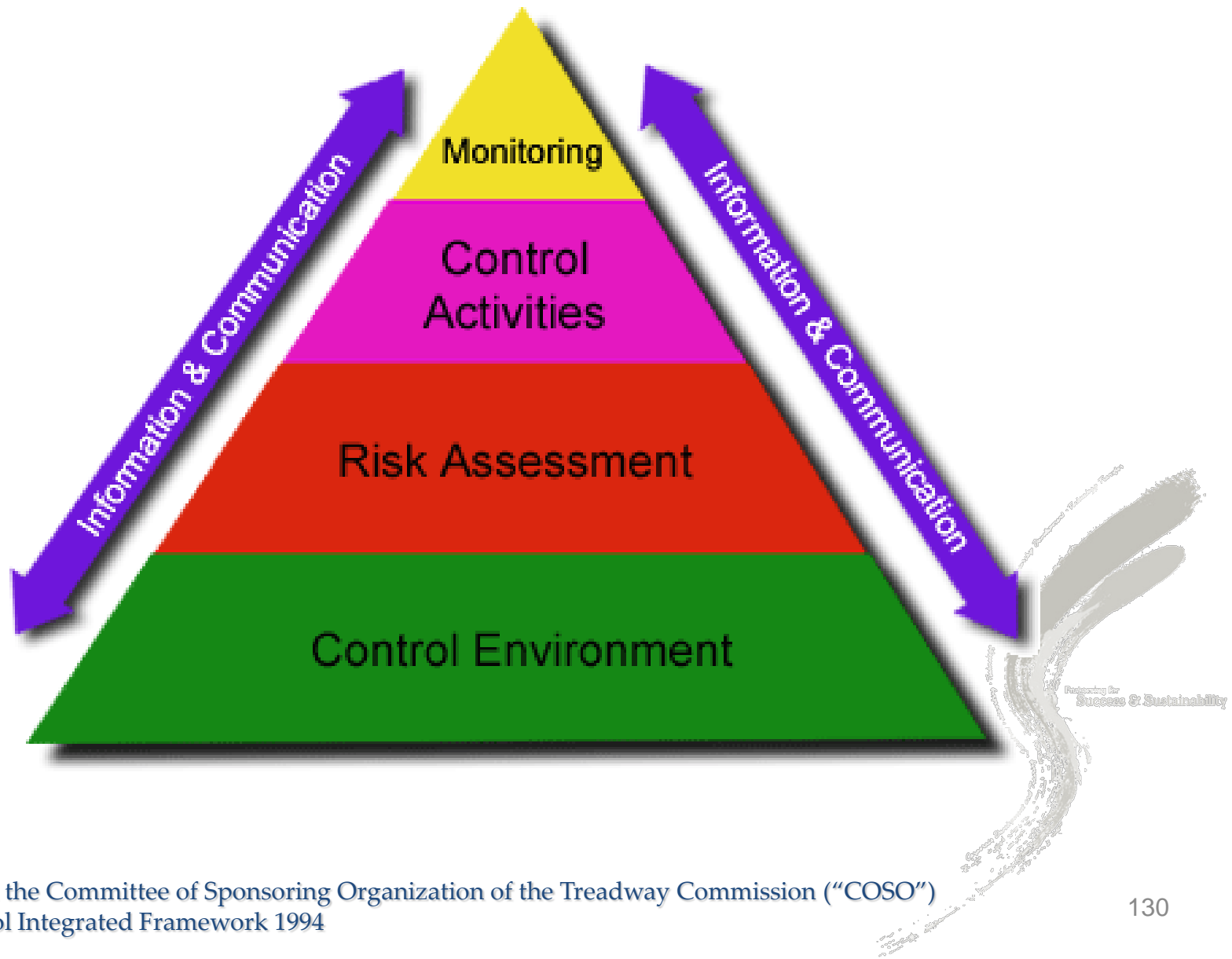
On-going monitoring occurs in the course of operations. It includes regular management and supervisory activities, and other actions personnel take in performing their duties.



Evaluations will depend primarily on an assessment of risks and the effectiveness of ongoing monitoring procedures.

# Notes

---



# Functions of Internal Control

---

- Internal control is a process that permeates an organization's operating activities and it is an integral part of basic management activities.

Internal controls perform 3 important functions:

Functions	Sample: Payment
Preventive controls - prevent problems from arising.	stamped 'PAID' with dates on all paid invoices.
Detective controls - discover problems quickly when they arise.	late invoices (over 60 days) need justification and endorsement from supervisor
Corrective controls - remedy problems that have occurred.	Reviewing expenditure analysis through general ledger

# What Internal Control Can Do

---

Help an entity achieve its performance and targets, and **prevent** abuse of resources;

Serve as a **tool** that help management to **discharge** responsibilities and be effective and efficient in achieving organizational objectives;

Serve as an **early warning system** to avoid serious loss/risks such as overspending, operational failures and other pitfalls;

Help ensure that the organization **complies** with laws and regulations, avoiding damage to its reputation and other consequences;

Provides **reasonable**, rather than absolute assurance, because complete assurance is difficult or impossible to achieve.

# What Internal Control Cannot Do

---

Internal control cannot provide absolute assurance;

It cannot change a poor performing staff into a good one;

It cannot prevent human errors and wrong decisions.

It cannot ensure success or even survival;

It can be circumvented by the collusion of two more people.

# Internal Control - System


---

- Providing reasonable assurance through policies, procedures and rules

- Proper authorization of transactions and activities;
- Segregation of duties;
- Design and use of adequate documents and records;
- Safeguarding of assets, records and data;
- Independent checks;

# Proper Authorization of Transactions and Activities

---

- 
- Establish policies and empower employees to perform activities within the policies;
  - Authorizations are made by signing, initializing or entering an authorization code;
  - Auditors should be given proper authorization to review transactions. Their absence may cause potential control risk.

# Segregation of Duties

---

- No single employee is given too much responsibility over transactions or processes;
- An employee should not be in a position to commit and conceal fraud or unintentional errors



# Segregation of Duties for Tendering and Procurement

---

(1) Setting up 2 Committees :

Tender Opening and Vetting Committee and

Tender Approval Committee

(2) Receipt of goods and services


(3) Confirmation of Payment



# Segregation of Accounting Duties

---

- Effective segregation of accounting duties is achieved when the following functions are separated:



- authorization – approving transactions and decisions;

- recording – preparing source documents; maintaining journals, ledgers, or other files; preparing reconciliations and other performance reports;


- custody – handling cash & receiving incoming checks, maintaining inventory system, preparing cheques;

- if any two of the preceding functions are the responsibility of one person, then potential risk may arise.

# Design and Use of Adequate Documents and Records


---

- ensure accurate and complete recording of all relevant transaction data
- the format and content should be kept as simple and precise as possible
- promote efficient record keeping
- avoid excess information
- facilitate review and verification
- source documents should be checked for arithmetical accuracy by a staff other than the one who prepares them
- avoid recording errors

- 
- 
- documents that initiate a transaction should contain a space for preparer, checker/reviewer and approval
  - transactions that transfer assets should have spaces for signatures by relevant parties, including staff who prepare/check/approve the transactions
  - where signatures are required on the accounting records or documents, they should be written in **manuscript** unless otherwise permitted
  - where manual records are kept, all pages of records should be consecutively numbered
  - issuance of photocopies should be sequentially pre-numbered
  - maintain systematic filing of documents and records.

# Safeguarding of Assets and Data

---

- 
- conduct physical stock taking of assets periodically and keep proper record
  - restrict access to assets
  - use restricted storage areas for inventories and equipment
  - use safes, lockboxes, and safe deposit boxes to limit access to cash, securities, and paper assets
  - protect records and documents
  - Use fireproof storage areas, locked filing cabinets, backup of files (including copies at off-site locations)
  - Limit access to blank checks and documents to authorized personnel

# Discussion

---

- Personal Emoluments: Annex M2T5A2
- Cheque & Cash Security: Annex M2T5A3
- Receipts: Annex M2T5A4





# Topic 6

## Transparency and Accountability



# Transparency and Accountability in the Public Sector

---

- Important work in governance was carried out in the late 1980's and early 1990's by, amongst others, the National Commission on Fraudulent Financial Reporting ("Treadway Commission") in the United States ("US"), and the Committee on the Financial Aspects of Corporate Governance ("Cadbury Committee") in the United Kingdom ("UK").
- Three commonly accepted fundamental principles of good corporate governance were identified in the report of the Cadbury Committee ("Cadbury Report").

These are – **Openness,**  
**Integrity and Accountability**



Preparing for  
Success & Sustainability



# Notes

---

In May 1995, The Nolan Committee identified key personal qualities, referred to as the Seven Principles of Public Life (“Personal Qualities”). These are **Selflessness, Integrity, Objectivity, Accountability, Openness, Honesty and Leadership.**



# Why should we enhance accountability and transparency?

---

- Meet public expectations
- Meet requirements of government departments ( EDB, the Audit Commission) and statutory bodies(ICAC, EOC)
- Meet parents/students ' expectations
- Maintain a good reputation
- Attract talented staff



# Organisational Structures and Processes

---

- Responsibility for compliance with laws and regulations
- Accountability for public monies
- Communication with stakeholders
- Roles and responsibilities
- SMC/IMC
- Staffs
- Administrative staff
- Human resources and remuneration policies
- Staff training



# Disclosure of Information by Schools

---

- Managers' information including their name, tenure of office and category of manager
- Financial situation
- School Fee Remission/Scholarship Reserve

Reference: EDB circular 17 / 2012



# Enhancing the Transparency of Schools' Financial Management

---

- To meet the public expectation of increased accountability and transparency in the operation of DSS schools especially on their major incomes and expenditures, DSS schools will have to report the following financial information in the School Report as from the 2012/13 school year:



# Points to Note

---

- Major expenditures (including staff remuneration; repair & maintenance; fee remission/scholarship; learning and teaching resources; and miscellaneous expenditures) in terms of percentages of their annual overall expenditures;
- The cumulative operating reserve in terms of equivalent months of operating expenditure.



# Points to Note

---

- Schools are required to upload the School Report onto the schools' websites three months after the end of a school year, the financial information for inclusion in the School Report should be that of the previous school year. School Report for the 2012/13 school year, the financial information should be compiled based on schools' audited accounts for the 2011/12 school year.



---

# Financial report samples

## Annex : M2T6A2





---

# Thank you.



Endorsing the  
Success & Sustainability