

Sharing of Audit Experience (DSS Schools)

**School Audit Section
Education Bureau
September 2017**



Common Audit Findings

Common Audit Findings

Common Audit Findings by functional areas:

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

Common Audit Findings

A. Procurement – main points

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

Common Audit Findings

A. Procurement

- ◆ No tender/quotation exercises conducted for procurement of goods and services e.g. photocopying machine leasing, security guard services, broadband internet services.
- ◆ No tender/quotation exercises conducted for renewal of contracts.

Common Audit Findings

A. Procurement

- ◆ No prevention of bribery clause in the terms of quotations and tenders and in the contract.
- ◆ Not requiring staff to declare any conflict of interest.
- ◆ No requirements for security of information.

Common Audit Findings

A. Procurement

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

Common Audit Findings

A. Procurement

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

Common Audit Findings

A. Procurement

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

Common Audit Findings

A. Procurement: Case Study (1)

Name of school:	Satisfactory Secondary School
Item to be purchased:	Supply of computers
Suppliers' tender price:	Supplier A - \$275,000 Supplier B - \$290,000 Supplier C - \$270,000 Supplier D - \$300,000 Supplier E - no reply
Arrangement:	Tender Approving Committee
approved to select Supplier A's tender, but the reason for such selection was not recorded.	

Any problem?

Common Audit Findings

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

- ◆ **Problem:** The reason for rejecting the lower offer was not provided.
- ◆ **Proper Practice:** Normally, the lowest offer to specification should be selected. If this is not the case, reasons for rejecting the lower offer should be provided.

Common Audit Findings

A. Procurement: Case Study (2)

Name of school:	Advance Primary School
Items to be purchased:	Library books
Total amount:	\$10,000
Quotation date:	20 September 2017
Quotation approval date:	22 September 2017
Invoice date:	21 September 2017

Any problem?

Common Audit Findings

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

- ◆ **Problem:** Order was made before the quotation was approved.
- ◆ **Proper Practice:** School should place order on approval by the Principal.

Common Audit Findings

A. Procurement: Case Study (3)

Name of school:	Excellent College
Service description in: tender specification	IT support service from September 2017 to August 2018
Estimated amount:	\$240,000
TOVC :	Ms Chan, Mr Wong
Tender recommendation:	Ms Chan
TAC :	Principal (Chairperson), Mr Wong & other members
Contract period signed:	September 2017 to August 2019

Any problem?

Common Audit Findings

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

- ◆ **Problem (1):** No segregation of duties –
Ms Chan opened the tender and recommended the tender.
Mr Wong was a member of both the Tender Opening and Vetting Committee (TOVC) and the Tender Approving Committee (TAC).
- ◆ **Proper Practice:** The staff who opened, recommended and approved the tender should be different persons.

Common Audit Findings

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

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

Common Audit Findings

A. Procurement: Case Study (4)

Name of school: Decent College

Items to be purchased: 30 student desks with different colours

Total amount: ~\$26,000

Arrangement: By quotation exercise. Only specify quantity and material required without specifying colour. Successful supplier quoted \$790 per desk. After school's enquiry, the prices were then \$790 for an orange desk, but \$890 for a yellow, blue or green desk.

Any problem?

Common Audit Findings

A. Procurement: Case Study (4) (cont'd)

- ◆ **Problem:**
 - Not clearly specify the quantity required for each colour.
 - Obtaining quotation twice may affect fairness.

- ◆ **Proper Practice :** School should specify the quantity required for different colours.

Common Audit Findings

B. Trading Operations

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

Common Audit Findings

B. Trading Operations

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

Common Audit Findings

B. Trading Operations

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

Common Audit Findings

C. Payments and Collections

Payments

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

Common Audit Findings

C. Payments and Collections

Payments

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

Common Audit Findings

C. Payments and Collections

Collections

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

Common Audit Findings

C. Payments and Collections

Collections

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

Common Audit Findings

C. Payments and Collections

Collections

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

Common Audit Findings

C. Payments and Collections

Collections

- ◆ Policy on acceptance of donation was not formulated.
- ◆ No SMC/IMC's prior approval for accepting donations.
- ◆ Register of Donations Received by Schools was not prepared.

Common Audit Findings

C. Payment and collections : Case Study

Name of school: Million Day College

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

Any problem?

Common Audit Findings

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

◆**Problem:** Expenditure should not be charged to government funds.

◆**Proper Practice:** The expenditure should be charged to non- government funds.

Common Audit Findings

D. Operation of Bank Accounts

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

Common Audit Findings

D. Operation of Bank Accounts

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

Common Audit Findings

D. Operation of Bank Accounts

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

Common Audit Findings

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

Name of school: Amazing School

Case: Mr Chan was a registered manager and was included as an authorised signatory for school's bank accounts. Mr Chan resigned from the position of registered manager with effective from 1 September 2016. However, he remained as a bank account authorised signer after his resignation.

Any problem?

Common Audit Findings

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

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

Common Audit Findings

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

Name of school: Cheerful College

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

Any problem?

Common Audit Findings

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

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

Common Audit Findings

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

Name of school: Wonderful School

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

Any problem?

Common Audit Findings

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

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

Common Audit Findings

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

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

Common Audit Findings

E. Safe Keeping of Assets

- ◆ Fixed Assets Register was not prepared/was not kept properly and up-to-date.
- ◆ Physical checking of assets was not conducted.
- ◆ Write-off of assets was done without the approval of the school head.

Common Audit Findings

E. Safe Keeping of Assets

- ◆ The report on the write-off was not passed to the SMC/IMC for information.
- ◆ Loan Register (for equipment on loan to staff and students) was not maintained.

Common Audit Findings

F. Use of Subsidies

- ◆ Fringe benefit not included in remuneration package was charged to government funds.
- ◆ Only approved expenditure items of educational nature as stipulated in the List of Approved Items of Expenditure for the Direct Subsidy Scheme Government Subsidy can be charged to the government funds account. (*Annex 2 of EDBC No. 17/2012*)



Other Audit Findings

Other Audit Findings

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



THANK YOU

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