

Sharing of Audit Experience (DSS Schools)

**Victor HO
School Audit Section
Education Bureau
November 2014**



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 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 (cont'd)

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

Common Audit Findings

A. Procurement (cont'd)

- ◆ Splitting orders to evade financial limits.
- ◆ No supervisory checks.
- ◆ 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 (cont'd)

- ◆ 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 (cont'd)

- ◆ 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 (cont'd): Case Study (1)

Name of school: Fresh Air Primary School

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 (cont'd): Case Study (1) (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

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

Name of school:	Advance Secondary School
Items to be purchased:	Supply & installation of LCD projectors
Total amount:	\$40,000
Quotation date:	25 August 2014
Quotation approval date:	30 August 2014
Invoice date:	20 August 2014

Any problem?

Common Audit Findings

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

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

Common Audit Findings

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

Name of school:	People's College
Goods to be procured:	Supply & installation of a sound system in school hall
Total amount:	\$300,000
TOVC :	Teacher A & Teacher B
Tender recommendation:	Teacher A
TAC :	Principal (Chairperson), Teacher B & other members

Any problem?

Common Audit Findings

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

- ◆ **Problem:** No segregation of duties –
Teacher A opened the tender and recommended the tender.
Teacher B was one of the member of the Tender Approving Committee.
- ◆ **Proper Practice:** The staff who opened, recommending and approving the tender should be different persons.

Common Audit Findings

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

Name of school:	Skyline College
Items to be purchased:	30 computers in July 2014
Total amount:	\$250,000 from the same supplier (under 6 separate quotation exercises in 2 months)

Any problem?

Common Audit Findings

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

- ◆ **Problem:** School split an order to evade the financial limit of tender by dividing procurement requirements into instalments to avoid the tender procedures.
- ◆ **Proper Practice:** Items of the same category should be grouped in the same tender schedule before inviting suppliers to tender.

Common Audit Findings

B. Trading Operations

- ◆ Prior approval for trading operations were 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) were not sought from REO (for schools without IMC) or IMC.

(EDBC No.24/2008)

Common Audit Findings

B. Trading Operations (cont'd)

- ◆ 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 (cont'd)

- ◆ No quotation and tender exercises were conducted. *(Conduct quotation/tender exercises at appropriate intervals, preferably not exceeding 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.

(EDBC No.24/2008)

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 (cont'd)

Payments (cont'd)

- ◆ No segregation of duties e.g. the preparation and authorisation of payment vouchers were conducted by the same person.
- ◆ Leave records for teaching and non-teaching staff were not properly and timely maintained, which may result in incorrect payment of salaries.

Common Audit Findings

C. Payments and Collections (cont'd)

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 (cont'd)

Collections (cont'd)

- ◆ Daily Collection Summary (DCS) was not prepared.
- ◆ DCS was prepared without required 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 (cont'd)

Collections (cont'd)

- ◆ 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.
- ◆ Money received were not banked promptly.

Common Audit Findings

C. Payments and Collections (cont'd)

Collections (cont'd)

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

(EDBC No.14/2003)

Common Audit Findings

C. Payment and collections : Case Study (1)

Name of school: Wishful College

Case:

Old library books were sold with revenue of \$300 credited to non-government funds. (The books were previously bought by use of government subsidies.)

Any problem?

Common Audit Findings

C. Payment and collections: Case Study (1) (cont'd)

- ◆ **Problem:** Revenue should belong to government funds.
- ◆ **Proper Practice:** Transfer the revenue from non-government funds to government funds.

Common Audit Findings

D. Operation of Bank Accounts

- ◆ Cheques were pre-signed.
- ◆ 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 by the school head.

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 (cont'd)

- ◆ 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. (*Para. 11*)
- ◆ Only approved expenditure items of educational nature as stipulated in the List of Approved Items of Expenditure for the Direct Subsidy Scheme (DSS) Government Subsidy can be charged to the government fund account. (*Annex 2*)

(EDBC No. 17/2012)

Common Audit Findings

F. Use of Subsidies: Case Study (1)

Name of school: Joyful Secondary School

Case:

Gratuities (紅封包) totalling \$5,000 were given to staff out of government funds. The gratuities were not stipulated in the relevant staff's employment contracts.

Any problem?

Common Audit Findings

F. Use of Subsidies : Case Study (1) (cont'd)

- ◆ **Problem:** Fringe benefits for staff not included in the remuneration packages should not be charged against the government funds.
- ◆ **Proper Practice:** Use non-government funds to cover the fringe benefits.



Other Audit Findings

Other Audit Findings

- 1) No separate bank accounts were opened for government and non-government funds.
- 2) 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-)
- 3) Private bank accounts were used to keep revenues from students paid for school activities.

Other Audit Findings

Case Study

Name of school: Greenery Primary School

Case:

The teacher received camp fees from students totalling \$7,000, deposited the sum into his bank account and then paid it to the camp organisation.

Any problem?

Other Audit Findings

Case Study (cont'd)

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



THANK YOU

End