**Task One**

*You are a Governance Review Sub-committee (GRSC) member of Sunshine College. The GRSC is now having a meeting to review the budgeting and accounting practices of the school based on the findings and information previously gathered. Please discuss among yourselves on each of the review items and write down in the “Recommendations” column on the checklist below the recommendations for improvement, if any, you would make to the School Management Committee (SMC). Recommendations for some items have been provided for illustration.*

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# Audit Checklist with Summary of Findings, Recommendations and References

# Budgeting and Accounting Practices

| **No.** | **Review Items** | **Findings/Information gathered** | **Recommendations** | **Sources/References** |
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| 1. | Financial documents (including annual school budgets and annual audited accounts) should be discussed and approved by School Management Committee/ Incorporated Management Committee (SMC/IMC). | The annual school budgets were approved by the Principal, without consulting SMC. |  | Direct Subsidy Scheme (DSS) Self-evaluation checklist (Formal) - Part One: Major Policies on School Governance and Administration – Item #4(a)Para. 15(b) of Education Bureau (EDB) Circular No.7/2012 |
| 2. | The Fixed Assets Register clearly states description of items, source of funding, date of purchase, quantity, location, date and reasons of write-off, the approval signature of write off. | Three notebook computers recorded in the Fixed Assets Register could not be located during inspection. | It is recommended that fixed assets register should be updated if some fixed assets items have been written off. | DSS Self-evaluation checklist (Formal) - Part Three: Financial/ Resources Management Matters – Item #11Para. 9 of Annex 4 of EDB Circular No. 17/2012 |
| The write-off of fixed assets was approved by the Principal but not passed to the SMC for information. | It is recommended that write-off reports should be endorsed by the Principal and passed to the SMC for information. | Reference Documents on Management and Administration (RDMA) of DSS Schools – Appendix on Safekeeping School Assets and Other Valuables |
| 3. | 1. Stocktaking of valuable items such as notebook computers should be conducted on a yearly basis.
2. Physical stocktaking of other assets should be conducted on a regular basis (at least once every three years).
3. Discrepancies found during physical stocktaking of assets are investigated and reported to the SMC/IMC.
 | The school conducted stocktaking of assets at least once every three years and stocktaking of valuable items on a yearly basis. However, results and records of the checking were not available for inspection.  | The results and records of the checking should be retained. Any discrepancies found should be investigated and reported to the SMC. | DSS Self-evaluation checklist (Formal) - Part Three: Financial/ Resources Management Matters – Item #12Reference items on the Administration and Management of DSS Schools – Part Two: Financial/ Resources Management Matters - Item #27Para. 11 of Annex 4 of EDB Circular No. 17/2012RDMA of DSS Schools – Appendix on Safekeeping School Assets and Other Valuables |
| 4. | The operating reserve and the four designated reserves are set up and operated in accordance with the EDB’s prevailing requirements (including usage, transfer in/out, reserve ceiling, investment, record-keeping). | The school had recorded donation income under the Reserve for Construction, Maintenance and Upgrading Above-standard Facilities in its audited accounts.  |  | DSS Self-evaluation checklist (Formal) - Part Three: Financial/ Resources Management Matters – Item #8-9Reference items on the Administration and Management of DSS Schools - Part Two: Financial/ Resources Management Matters – Item #15EDB Circular No. 16/2012 |
| 5. | Sufficient operating reserve is maintained to meet at least two months’ operating expenses. | The school’s accumulative operating reserve was below two months’ operating expenses. |  | Reference items on the Administration and Management of DSS Schools – Part Two: Financial/ Resources Management Matters – Item #16School Sponsoring Body Service AgreementItem 20/22 of Section 2 of DSS Explanatory Notes for Primary/Secondary Schools  |
| 6. | Separate bank accounts maintained for government and non-government funds are in the name of the school. | The school only had one bank account for both government funds and non-government funds.Bank accounts were not maintained in the name of the school. | To follow the requirement. | Reference items on the Administration and Management of DSS Schools – Part Two: Financial/ Resources Management Matters – Item #21Para. 1 of Annex 4 of EDB Circular No. 17/2012 |
| 7. | Are the accounts in respect of transactions (income and expenditure) relating to the government funds, i.e. DSS subsidy and other separate grants, and transactions (income and expenditure) relating to non-government funds recorded and kept separately?  | Noted from the bank statement that a time deposit was placed in the government fund bank account and the interest generated from the time deposit was recorded as the income of non-government fund.  | To follow the requirement. | Para. 3 of Annex 4 of EDB Circular No. 17/2012 |
| 8. | School has kept separate accounts for non-school operation such as boarding facilities. | Expenses related to boarding facilities were charged to the school accounts. |  | Reference items on the Administration and Management of DSS Schools – Part Two: Financial/ Resources Management Matters – Item #22Para. 34 of EDB Circular No. 17/2012 |
| 9. | Only the approved expenditure items of educational nature as stipulated in the prevailing EDB Circular are charged to the government fund account. | Provision of medical benefits not included in the remuneration package was charged to the government fund account. |  | Reference items on the Administration and Management of DSS Schools – Part Two: Financial/ Resources Management Matters – Item #23Para. 11 and Annex 2 of EDB Circular No. 17/2012 |
| 10. | An updated certified bank mandate of the authorized bank signatories is kept. | Bank mandates of the school’s bank accounts were not available for inspection. Bank authorized signatories include persons other than registered manager. | Bank mandate should be reviewed and updated if necessary when there is any change to the registered manager.Bank accounts should be operated by jointly authorized signatories. Cheques should be jointly signed by any two of the registered managers designated for this purpose.  | Reference items on the Administration and Management of DSS Schools – Part Two: Financial/ Resources Management Matters – Item #24Para. 5-6 of Annex 4 of EDB Circular No. 17/2012 |
| 11. | 1. All expenses of the school are properly authorized and supported by vouchers and original invoices before payments are made.
 | 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. | To follow the requirement.  | Reference items on the Administration and Management of DSS Schools – Part Two: Financial/ Resources Management Matters – Item #25Point 7 of Annex 4 to EDB Circular No. 17/2012 |
| 1. Preparation and authorization of payment vouchers are conducted by different persons.
 | The preparation and authorization of payment vouchers were conducted by the same person. | To follow the requirement.  |
| 12. | Proper school-based arrangements are put in place for the safe custody of school assets, cash and other valuables under schools’ control. | No register of book coupons was kept.  | To follow the requirement.  | Reference items on the Administration and Management of DSS Schools – Part Two: Financial/ Resources Management Matters – Item #26Para. 10 of Annex 4 of EDB Circular No. 17/2012 |
| 13. | A statement stating, among others, whether the school has used the government subsidies in accordance with the rules promulgated for the DSS is included in its auditor’s reports. | The school’s auditor’s reports did not specify that the school had used the government subsidies in accordance with the rules promulgated for the DSS. | To follow the requirement. | Reference items on the Administration and Management of DSS Schools – Part Two: Financial/ Resources Management Matters – Item #28Annex 1 of annual EDB Circular Memorandum on Submission of Audited Accounts |
| 14. | The school’s annual audited accounts are submitted to the EDB before the deadline set by the EDB. | The school submitted the annual audited accounts after the end of March. | Schools are required to submit to the EDB their annual audited accounts, which should be prepared in the formats prescribed by the EDB, by the end of March in the following school year. | Reference items on the Administration and Management of DSS Schools – Part Two: Financial/ Resources Management Matters – Item #29EDB Circular Memorandum on Submission of Audited Accounts |
| 15. | The school has submitted the management letter of the EDB’s audit inspection as well as the school’s responses to the management letter to the SMC/IMC for discussion and endorsement, when required. | The school had not put up the management letter and the school’s response for SMC’s discussion and endorsement though the letter was signed by the School Supervisor. | According to para. 15(h) of EDB Circular No. 7/2012, advisory letter(s) specifying for the attention of the SMC/IMC and/or any warning letter(s) (e.g. the management letter from EDB’s School Audit Section) should be put up at SMC/IMC meetings for discussion and/or approval. | Reference items on the Administration and Management of DSS Schools – Part Two: Financial/ Resources Management Matters – Item #30Para. 15(h) of EDB Circular No.7/2012 |
| 16. | The school has sent the management letter of the EDB’s inspection to the school’s auditor for information, when required and copy the covering letter to the EDB. | The school did not send a copy of the management letter to the school’s auditor for information and copy the relevant covering letter to the EDB. | To follow the requirement. | Reference items on the Administration and Management of DSS Schools – Part Two: Financial/ Resources Management Matters – Item #31Management Letter issued to schools |
| 17. | Are essential accounting/ financial records of a permanent nature (e.g. annual accounts, inventories/ fixed asset register, records of government recurrent and non-recurrent subsidies, records in connection with donations, etc.) kept? | The school audited accounts before the 2007/08 school year were not available for inspection. | To follow the requirement.  | Item 12 of Appendix to EDB’s Circular Letter dated 21.11.2007 on Financial Management in DSS SchoolsPara. 8 of Annex 4 of EDB Circular No.17/2012 |
| 1 8. | Are the guidelines specified below on destroying different types of records after a certain period of retention followed? (a) Minimum period of retention – 7 years(i) Books of accounts, i.e. cash books, ledgers, etc. | All accounting records were kept for ten years. | N.A. | Item 12 of Appendix to EDB’s Circular Letter dated 21.11.2007 on Financial Management in DSS SchoolsPara. 8 of Annex 4 of EDB Circular No.17/2012 |
| (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 |