

Manual for Change-over Arrangements

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Note

1. This Manual for Change-over Arrangements is written for aided schools operated and managed under Incorporated Management Committee (IMC). It is compiled primarily to assist IMCs in completing the procedures in taking over the assets and accounts from the SMC's school management in a smooth and efficient manner. IMCs should note that, apart from what is prescribed in this Manual, they should also comply with the terms as stipulated in the Code of Aid for Aided Schools and abide by such requirements as promulgated in circulars and instructions as issued by the Permanent Secretary for Education from time to time.
2. This Manual includes the recommended practices to all IMC schools. Individual IMC schools are free to modify or tailor-make their own change-over arrangements in tandem with their own circumstances and school-based needs.
3. Views and suggestions to improve this Manual are welcome. Updated version of this Manual will be published to incorporate suggestions.

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1 Advice on Change-over Arrangements

1.1 Executive Summary

On the date when the Incorporated Management Committee (IMC) is established (the Transition Date), it will become the owner of all books, accounts, receipts or other documents, assets and liabilities of the IMC school. However, in practice, it may not be possible to transfer the books of accounts, assets and liabilities of the School Management Committee (SMC) to the IMC on the Transition Date, as it may take time for such a change-over to be properly completed.

The objective of this manual is to set out our advice to enable SMC schools to plan and implement a smooth and proper change-over to the IMC. Our advice is summarized as follows:

- ♦ Establish a change-over team
- ♦ Formulate change-over strategy
- ♦ Prepare a change-over plan
- ♦ Implement the change-over plan
- ♦ Audit the last set of pre-IMC accounts and review the first set of IMC accounts

The change-over arrangements, with the approval of the IMC, could be extended after the Transition Date, but should be completed within six months from the Transition Date. The recommended change-over arrangements should be flexible and implemented progressively. It is expected that certain schools might encounter problems in following the plan, such as having insufficient personnel to form the change-over team or to carry out certain parts of the change-over arrangements. As such, these schools should adjust their progress accordingly and seek advice from professional advisers or even the EDB in case of doubt.

Full support from the IMC managers will ensure the success of the change-over and implementation of the new financial mechanism.

1.2 Methodology

This Manual details the necessary procedures in tackling the change-over arrangements in a smooth and efficient manner. It focuses on clarifying the role and responsibilities of the SMC and the IMC including cooperation amongst the change-over team members. This Manual is supplemented by flow charts and sample documents to assist the IMC in implementing the change-over successfully. Examples of different scenarios such as whether the change-over date is set before or after the end of the school year are

discussed in Section 3.5.6 (c) “Preparation of accounts after completion of change-over procedures”.

2 Interpretation, Definition and Abbreviation

- 1) Aided IMC School : an aided school with Incorporated Management Committee.
- 2) Annual Accounts : the statement of accounts includes an income and expenditure account and a balance sheet of the IMC.
- 3) Audit Committee : a sub-committee of the IMC set up to review the completeness, accuracy and fairness of financial statements, and to consider the nature and scope of audit reviews as well as the effectiveness of the internal control system.
- 4) Change-over : the process of transition from the SMC management to the IMC management in relation to the management of the IMC school.
- 5) Code of Aid (CoA) : “Code of Aid for Aided Schools” for the aided IMC schools.
- 6) Corporate Governance : the system through which enterprises, companies and organizations are directed and controlled.
- 7) Cut Off : the processes or procedures to differentiate the ownership of books, accounts, assets and liabilities in relation to the management of the IMC school. Before the cut off, the ownership belongs to the SMC, school sponsoring body or other parties and, as from the cut off, the ownership belongs to the IMC.
- 8) Date of Completion of Transition Period : the date upon completion of transfer of all books, accounts, receipts or other documents, assets and liabilities to IMC management.
- 9) Education Ordinance (EO) : the Education Ordinance, Cap. 279.
- 10) EDB : the Education Bureau of the Hong Kong SAR Government.
- 11) EDBC : the Education Bureau Circular.
- 12) EOEBG : the Expanded Operating Expenses Block Grant.
- 13) Financial Management : the most essential element of the major financial management and control system. In the context of this consultancy, it includes but is not limited to long term financial planning, annual budgeting and budgetary control, accounting, disclosure and reporting, internal control and external auditing requirements.

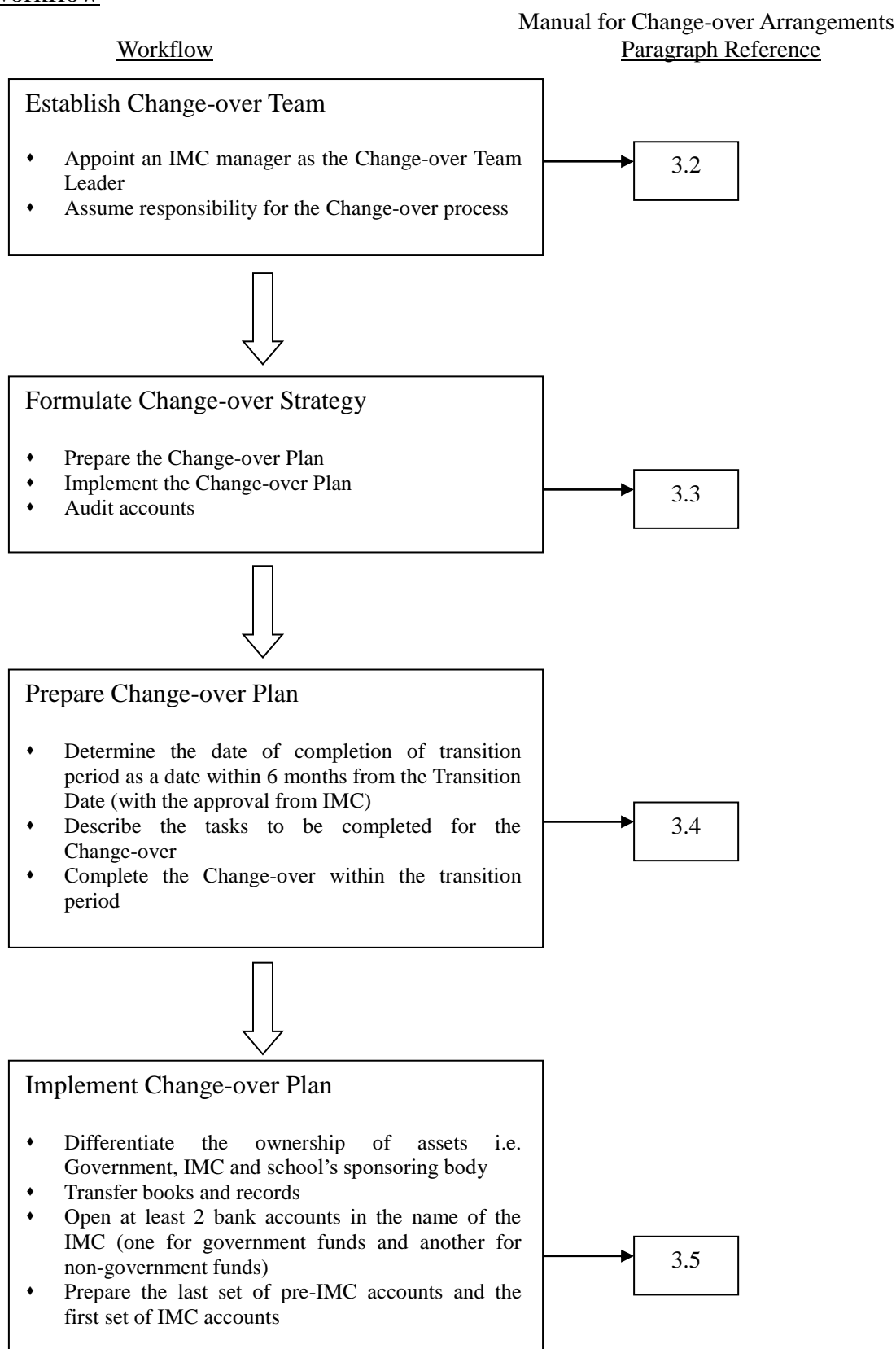
- 14) Grant : an individual or a designated item of subsidy of a specific type and use provided by the Government/EDB to meet the operational needs of an aided school.
- 15) IMC Accounts : the annual accounts prepared by the IMC.
- 16) IMC School : a school with an incorporated management committee established under Part IIIB of the Education Ordinance.
- 17) Incorporated Management Committee (IMC) : the incorporated management committee established under section 40BN or 40BX of the Education Ordinance in respect of the school.
- 18) IOU : I owe you but without any documentation to support the debt.
- 19) Manager : (a) a person who is registered as a manager of the school under section 29 or under either of the repealed Education Ordinance; and (b) subject to sections 40AL and 40AS of the Education Ordinance, an alternate manager within the meaning of section 40AB of the Education Ordinance.
- 20) Period End Date : the last date of the period for the purpose of preparing the accounts.
- 21) Permanent Secretary (PS(Ed)) : the Permanent Secretary for Education.
- 22) Pre-IMC Accounts : the accounts prepared by the SMC before the Transition Date.
- 23) SBM : School-based Management.
- 24) School Management Committee (SMC) : the management committee of the school in relation to a school without the IMC.
- 25) Segregation of Duties : an internal control function intended to prevent or decrease the occurrence of human errors or intentional fraud. This is done by ensuring that no single individual has controlled more than one phase (e.g. initiation, preparation, authorizing, recording and custody of assets) of a transaction.
- 26) Sponsoring Body : a society, organization or body (whether incorporated or not) which is approved in writing by the Permanent Secretary to be the sponsoring body of the school.
- 27) Supervisor : a manager who is appointed by the sponsoring body of the school, or elected by the managers of the IMC in accordance with the constitution of the IMC (Please refer to Section 40AJ(2) of the Education

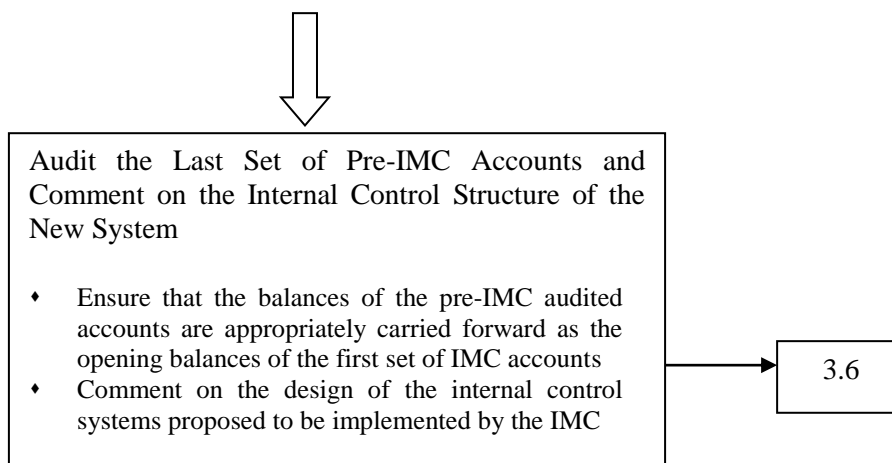
Ordinance for more details).

- 28) Surprise Cash Count : the counting of cash in hand irregularly by an independent person other than the person in custodian of the cash.
- 29) Team Leader : a person who is given full delegation to act on behalf of the IMC as the leader of the change-over arrangements.
- 30) Transition Date : the date of incorporation of the IMC.
- 31) Transition Period : the period between Transition Date and date of completion of transition period.

3 Change-over Arrangements

3.1 Workflow





Note: The above workflow indicates a series of work processes recommended for the change-over arrangements. The entire arrangements must be completed within 6 months from the Transition Date while the exact timing and duration for each process may vary among IMCs depending on their history, size, complexity and availability of resources.

3.2 Establish Change-over Team

3.2.1) The change-over team:

- ♦ should be established by the IMC
- ♦ comprises 5 to 8 members (depending on the size of the school) including but not limited to:
 - Team Leader (nominated by the IMC or elected among the IMC managers)
 - Supervisor
 - Principal
 - School Accounting Staff
 - Internal Auditor (if any)
 - Current SMC members
 - Other supporting personnel (such as professional consultants, IMC managers and other clerical staff)
- ♦ should be familiar with the operation of the school
- ♦ should consist of members with some accounting experience
- ♦ should have overall responsibility for the implementation of the change-over plan

3.2.2) The Team Leader will be responsible for briefing the team members with the objectives, procedures and logistics of the change-over arrangements.

3.2.3) It is advisable that the Principal does not become the Team Leader, as

he/she may be accountable for the assets being transferred under the SMC. An authorized IMC manager not involved in the SMC management of the school should take responsibility for the receipt of assets to enhance segregation of duties and to avoid any possible conflict of interest.

Monitoring from external auditor/attendance of external auditor as witness in the asset counting process would also enhance proper transfer of assets and records.

3.3 Formulate Change-over Strategy

The objective of the change-over arrangements is to enable schools to change from the management of SMC to the management of IMC in a smooth, systematic and appropriate manner.

To achieve this objective, the change-over team should formulate a strategy to determine the timing, role and responsibilities of individual team members, approach and detailed procedures of the change-over arrangement.

3.4 Prepare Change-over Plan

3.4.1) Details of the Plan:

The change-over team should:

- 3.4.1.1 Determine the date of completion for the transition period and obtain approval from the IMC.
- 3.4.1.2 Determine the assets and liabilities to be transferred on the Transition Date (see paragraph 3.5.5.2).
- 3.4.1.3 Prepare the transfer list (assets, liabilities, books, accounts, receipts or other documents) with the assistance of the SMC and the IMC management (see paragraph 3.5.5.5).
- 3.4.1.4 Determine the time frame for completion.
- 3.4.1.5 Obtain approval from the IMC for the change-over plan.
- 3.4.1.6 Invite external auditors to monitor/attend the asset counting process. This will include requesting the auditors to confirm the transfer list of fixed assets, stocks, cash and other assets of the school (see paragraph 3.5.5.6).
- 3.4.1.7 Report the progress and discrepancies, if any, to the IMC and

the IMC should report any exceptions (e.g. theft, cash loss, fraud and fictitious documents etc.) to the EDB (see paragraph 3.5.5.19).

Please refer to Appendix 1 for the sample change-over plan and Appendix 2 for the matters to be reported to the EDB in relation to the change-over arrangements. Only exceptions (e.g. theft, cash loss, fraud and fictitious documents etc.) are required to report to the EDB by the IMC. Under normal circumstances, the IMC may only need to file a minute to indicate its completion of the smooth change-over arrangements.

- 3.4.2) The change-over plan should be prepared and approved by the Principal and the IMC respectively.
- 3.4.3) Depending on the size and complexity of the IMC school, the lead time required for a school to complete the entire change-over arrangements should be within 6 months from the Transition Date.
- 3.4.4) The following items should be included in the change-over plan and performed by the SMC:
 - 3.4.4.1 Identify assets and their locations and confirm the accuracy of the asset register.
 - 3.4.4.2 Close old books and accounts up to the day before the Transition Date (see paragraph 3.5.5.1).
 - 3.4.4.3 Identify any discrepancies of assets, liabilities, books and accounts, receipts or other documents and report to the Principal and the Supervisor to take appropriate actions.
 - 3.4.4.4 Transfer assets, liabilities, books, accounts, receipts or other documents to the IMC (see paragraph 3.5.5.7).
 - 3.4.4.5 Prepare the last set of accounts up to the day before the Transition Date.
 - 3.4.4.6 Submit the last set of audited accounts to the EDB within 6 months as from the date of incorporation of the IMC (i.e. the Transition Date).
 - 3.4.4.7 The period covered in the last set of audited accounts could be less than 12 months or longer than 12 months but up to a maximum of 18 months as determined by the SMC.

- 3.4.4.8 In case of the school management company, dissolution of the school management company under section 40BQ of the Education Ordinance should be carried out immediately after the completion of the change-over arrangements.
- 3.4.4.9 After the change-over, the old bank accounts under the name of the SMC should be closed and all the payments in relation to the school operation should be borne by the IMC.
- 3.4.5) The IMC should be responsible for the following:
 - 3.4.5.1 Approve the change-over plan and the date of completion of the transition period.
 - 3.4.5.2 Open 2 bank accounts: one for government funds and one for non-government funds (see paragraph 3.5.1).
 - 3.4.5.3 During the asset counting process, verify the assets, liabilities, books, accounts, receipts or other documents being transferred and check whether there are any discrepancies (see paragraph 3.5.5.8).
 - 3.4.5.4 Ascertain all liabilities incurred to be transferred (see paragraph 3.5.5.10).
 - 3.4.5.5 Ensure proper cut off, i.e. all transactions occurring before the Transition Date should be recorded in the SMC books and all transactions occurring on and after the Transition Date should be recorded in the IMC books (see paragraph 3.5.5.11).
 - 3.4.5.6 Acknowledge receipt and assume responsibilities (see paragraph 3.5.5.12).
 - 3.4.5.7 Prepare the first set of accounts from the Transition Date to ensure the opening balances of the IMC school accounts are properly carried forward.
 - 3.4.5.8 Invite the external auditors to review the opening balances of the first IMC accounts to see if there are any discrepancies between the balances carried forward from the last set of the audited SMC accounts up to the day prior to the Transition Date.
 - 3.4.5.9 Set up the necessary internal controls and audit committee to enhance corporate governance.

3.5 Implement Change-over Plan

3.5.1) Open new bank accounts and inform the EDB to credit government subventions to the IMC bank accounts (see paragraph 3.4.5.2).

3.5.2) Differentiation of School Funds and Assets

The Team Leader (or his/her delegates) should ensure the SMC has already identified ownership of the assets, which were funded by either the Government or a sponsoring body. The IMC being a separate legal entity should have full custody of these assets.

In differentiating the ownership of assets in respect of the Government, the IMC and the school's sponsoring body, the IMC is advised to refer to the "Guidelines on Differentiation of School Funds and Assets" as set out in Appendix 3. Attention may be required, as some set-up funds might include contribution from government subventions. In such cases, the IMC should determine the ownership of these assets with due care.

3.5.3) Ownership and Titles of Assets

Schedules 1 and 2 of the Education Ordinance set out the provisions in relation to the ownership and title of assets upon the establishment of the IMC. The IMC should make reference to these two schedules and assume responsibility for any contracts or agreements signed between the school and third parties accordingly. The IMC should clearly record details of such contracts or agreements.

3.5.4) Donations to School

The IMC should assume donations (if any) to the school and seek to amend any documents to reflect the new ownership.

3.5.5) Transfer of Books and Records

3.5.5.1 The Team Leader (or his/her delegates) should ensure that all school books and records are properly closed up to the day before the Transition Date (see paragraph 3.4.4.2).

3.5.5.2 The Team Leader (or his/her delegates) should conduct a physical count of all assets belonging to the school including fixed assets, stocks and cash. Any discrepancies should be immediately reported to the IMC (see paragraph 3.4.1.2).

- 3.5.5.3 The Team Leader (or his/her delegates) should ascertain whether there are any unrecorded liabilities in the books of the SMC school at the date of closing its books. In order to achieve this, the Team Leader (or his/her delegates) should review the invoices, utility bills, bank statements, etc. received after the Transition Date to see whether any of them are related to the period before the Transition Date.
- 3.5.5.4 The Team Leader (or his/her delegates) should inform utility providers such as electricity, water and telephone companies
- a) of any changes that need to be made for new bills.
 - b) that any holding deposits should be transferred to the IMC.
- 3.5.5.5 The Team Leader (or his/her delegates) should prepare a transfer list of assets and liabilities for the Transition Date. IMC schools can refer to its latest balance sheet to determine what assets and liabilities to be transferred. The list should be categorized in cash assets, non-cash assets, cash liabilities and non-cash liabilities and should also be supported by a detailed breakdown of individual items with reference to their nature and value (see paragraph 3.4.1.3).
- 3.5.5.6 Internal/external auditors may be required to confirm the transfer list (see paragraph 3.4.1.6).
- 3.5.5.7 The SMC should transfer assets, liabilities, books, accounts, receipts or other documents to the IMC in accordance with the provisions of Schedules 1 and 2 of the Education Ordinance (see paragraph 3.4.4.4).
- 3.5.5.8 The IMC should verify the assets, liabilities, books, accounts, receipts or other documents being transferred and check whether there are any discrepancies (see paragraph 3.4.5.3).
- 3.5.5.9 If discrepancies are found, the IMC should discuss with the SMC to ascertain reasons and to mutually agree their treatment thereof. Any mutually agreed treatment must be documented and signed off by both the SMC and the IMC. This may be one of the exceptions (e.g. theft, cash loss, fraud and fictitious documents etc.) to be reported to the EDB.
- 3.5.5.10 The IMC should ascertain all liabilities incurred and being transferred (see paragraph 3.4.5.4).

- 3.5.5.11 The IMC should also ensure a proper cut off, i.e. only transactions that occur on and after the Transition Date should be recorded in the IMC books (see paragraph 3.4.5.5).
- 3.5.5.12 The IMC should acknowledge receipt of books and accounts, assets and liabilities (see paragraph 3.4.5.6).
- 3.5.5.13 The IMC should ensure that the SMC transfers all balances in the SMC bank accounts to the IMC bank accounts.
- 3.5.5.14 The IMC will reflect the above-said transfer in the IMC balance sheets.
- 3.5.5.15 The IMC will open new books and accounts for the IMC school.
- 3.5.5.16 The school accounting staff will carry forward the balances on the books and accounts of the SMC school to the books and accounts of the IMC school.
- 3.5.5.17 The IMC will set up a new accounting and internal control system for the IMC school.
- 3.5.5.18 The IMC should introduce a solid internal control mechanism to safeguard the assets of the IMC school including control on the operation of bank accounts and cash. Advice on internal control procedures in respect of custody of assets is set out in paragraph 3.5.6 below. Such internal control structures should be commented by the external auditors or other professional consultants (e.g. internal auditors) if appropriate.
- 3.5.5.19 The Team Leader (or his/her delegates) should then report the implementation progress of the change-over to the IMC. The IMC should report any exceptions (e.g. theft, cash loss, fraud and fictitious documents etc.) to the EDB (see paragraph 3.4.1.7).

3.5.6) Custody of Assets

a) Safeguarding of Assets

The IMC should implement the following controls wherever possible to maintain proper accounting and internal control systems:

- 3.5.6.1 A fixed asset register showing the date of acquisition, location, cost, accumulated impairment loss, disposal, etc. for all valuable fixed assets should be maintained.
- 3.5.6.2 Each item of assets or group of similar assets should be tagged or assigned with a serial number.
- 3.5.6.3 An appropriate person to take responsibility for the preparation and control of the fixed asset register should be assigned.
- 3.5.6.4 An independent member of staff e.g. internal auditor or any non-accounting staff, who is not responsible for the preparation and control of the fixed asset register should conduct a physical count of assets at least once every year. He/she will be responsible for investigating and reporting any discrepancies to the IMC.
- 3.5.6.5 Writing-off of fixed assets from the fixed asset register cannot be performed without the approval from the IMC. A report on written-off items, including cost, quantity and reasons for writing-off should be passed on to the IMC for approval and disclosed in the note to accounts.
- 3.5.6.6 Stock records should be kept and continuously updated. Physical stock counts should be conducted regularly (at least once every year) and any discrepancies should be investigated and reported to the IMC.
- 3.5.6.7 All cash and other valuables/important documents such as deposit receipts and title deeds must be kept under lock and in a fireproof cabinet.
- 3.5.6.8 Internal auditors who are not responsible for the custody of cash and other valuables should perform surprise cash count at least once every quarter to detect and determine any loss/misappropriation of cash. The internal auditors should report any discrepancies to the IMC.
- 3.5.6.9 In case of loss of assets, the IMC should ask for a full report on such loss prepared by the Principal.
- 3.5.6.10 A loan register should be kept by the accounting staff when equipment is on loan to staff/students.
- 3.5.6.11 Do not allow for “IOU” or unsupported/unapproved

fund transfers.

- 3.5.6.12 Ensure that the school has adequate insurance cover on the IMC assets against damage or loss of such assets caused by theft, burglary or fire and any loss of cash in transit.

b) Control and Operation of Bank Accounts

The IMC should also ensure the following cash management controls to prevent any misappropriation of funds:

- 3.5.6.13 All bank accounts should be operated by jointly authorized signatories. Cheques should be jointly signed by any 2 of the registered IMC managers (bank authorized signatories) designated for this purpose e.g. the Supervisor and one registered IMC manager (preferably other than the Principal).

In the approval for payment and cheque signing, the IMC has to ensure that the principle of segregation of duties is duly complied with.

- 3.5.6.14 The IMC should determine an authorized list of signatories in accordance with its own needs.
- 3.5.6.15 Cheques should never be pre-signed. They should only be signed upon presentation of properly authorized documents. Use of cash cheques should be avoided except for the purpose of replenishing the petty cash float.
- 3.5.6.16 Unused cheque books should be kept under lock with the keys to be kept by an IMC manager other than the authorized signatories or a designated staff member in a separate fireproof cabinet.
- 3.5.6.17 Bank statements will be handled by the Supervisor or the Principal. The personnel (e.g. accounting staff) who is responsible for recording bank transactions will prepare the bank reconciliation statements.
- 3.5.6.18 The Principal should review the monthly bank reconciliation statements and initial them as an evidence of review.

c) Preparation of Accounts after Completion of Change-over Procedures

The SMC and IMC should prepare the last set of pre-IMC accounts and the first set of IMC accounts respectively in accordance with the reporting requirements as announced by the EDB from time to time. The IMC should also make reference to the guidelines on accounting and financial control as set out in Appendix 4 and the EDB Circular Memorandum on Submission of Annual Accounts for Aided Schools managed by IMCs.

Flexibility is allowed for an IMC school to adopt different scenarios when preparing its audited accounts for the year of change-over to IMC. For instance, if an IMC was incorporated on 1 July 2008, its last set of pre-IMC accounts should be from 1 September 2007 to 30 June 2008. The period covered in the accounts was 10 months. For its first set of IMC accounts, the period covered could be either 2 months (from 1 July 2008 to 31 August 2008) or extended to 14 months to cover the following school year (from 1 July 2008 to 31 August 2008 and from 1 September 2008 to 31 August 2009, with balances at 31 August 2008 and 31 August 2009 separately shown).

If another IMC was established with its incorporation date on 1 November 2008, its last set of pre-IMC accounts could cover either 2 months (from 1 September 2008 to 31 October 2008) or be extended to 14 months to cover the preceding year (from 1 September 2007 to 31 August 2008 and from 1 September 2008 to 31 October 2008, with balances at 31 August 2008 and 31 October 2008 separately). For its first set of IMC accounts, the period covered was 10 months (from 1 November 2008 to 31 August 2009).

In any case, the extended account must not exceed 18 months.

3.6 Audit the Last Set of Pre-IMC Accounts and Review the First Set of IMC Accounts

The IMC can negotiate with the external auditors for the following tasks:

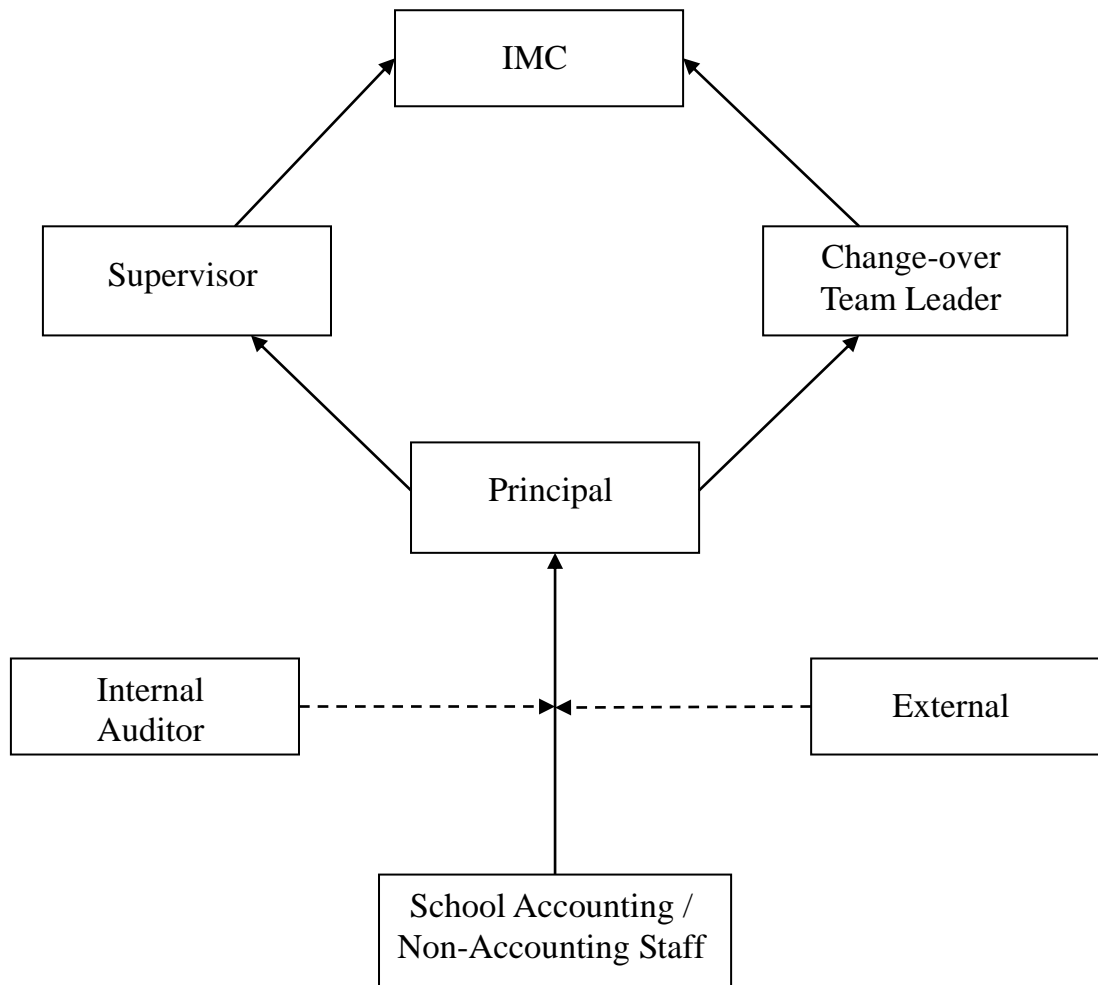
- i) Audit the last set of pre-IMC accounts.
- ii) Ensure that the balances of the pre-IMC audited accounts be properly carried forward to the first set of IMC accounts (Please refer to the EDB Circular Memorandum on Submission of Annual Accounts for Aided

Schools managed by IMCs).

- iii) Provide the same level of assurance on the last set of pre-IMC accounts as the existing system.
- iv) Comment on the design of the internal control system being proposed and implemented by the IMC and suggest any improvement measures to strengthen the internal control system.
- v) Report any exceptions (e.g. theft, cash loss, fraud and fictitious documents etc.) discovered to the EDB.
- vi) Ensure that the various tasks required by the external auditor are to be stated in the engagement letter. A sample audit engagement letter is available at EDB's homepage (www.edb.gov.hk → [School Administration and Management](#) → [School-based Management](#) → [Corner for IMC Schools](#) → [Financial Management](#) → [Audited Accounts](#)).

4 Roles and Responsibilities of Key Personnel and Financial Supporting Staff in the Change-over Arrangements

Key Personnel and Supporting Staff Involved



4.1) IMC

- ♦ Approve the change-over plan and date of completion of transition period
- ♦ Give overall advice and guidance to the change-over arrangements
- ♦ Suggest necessary improvements to the change-over arrangements and design of the internal control structure of the IMC system
- ♦ Assume ultimate responsibility for the successful completion of the change-over
- ♦ Authorize one IMC manager to co-sign the first set of IMC accounts with the Supervisor

4.2) Change-over Team Leader

- ♦ Nominated by the IMC or elected among the IMC managers

- ♦ Act as the leader of the change-over process
- ♦ Accept full responsibility to act on behalf of the IMC
- ♦ Endorse the change-over plan for the IMC approval
- ♦ Report to the IMC

4.3) Supervisor

- ♦ Sign the last set of pre-IMC accounts (if he/she was also the Supervisor of the SMC in the pre-IMC period)
- ♦ Sign the first set of the IMC Accounts
- ♦ Report to the IMC
- ♦ Authorize the transfer of balances from the SMC bank accounts to the IMC bank accounts

4.4) Principal

- ♦ Prepare the change-over plan
- ♦ Implement the change-over plan
- ♦ Supervise the school accounting staff and other supporting personnel to carry out the change-over arrangements

4.5) External Auditor

- ♦ Audit the last set of pre-IMC accounts
- ♦ Review the opening balances of the first set of IMC accounts
- ♦ Monitor the asset counting process to act as an independent check to ensure the process has been properly carried out e.g. spot check, verify the fixed asset register etc.
- ♦ Report to the IMC any recommendations on the change-over arrangements and the design of the internal control structure of the new system under the IMC management

4.6) Internal Auditor (if any)

- ♦ Give advice and monitor the change-over arrangements
- ♦ Report any recommendations to the IMC

4.7) School Accounting/Non Accounting Staff

- ♦ Assist the Principal in implementing the change-over arrangements
- ♦ Report to the Principal

4.8) The Supervisor of the pre-IMC era and the Change-over Team Leader are primarily responsible for any operational matters under the SMC and the IMC controls respectively. Any disputes concerning the operating issues during the change-over should be firstly addressed by the Supervisor and

Team Leader and, if necessary, subsequently resolved at the IMC meetings.

Further guidance of the functions of the sponsoring body and the IMC can be referenced from section 40AE of the Education Ordinance.

5 Risk Areas in Respect of the Change-over Arrangements and Implementation of a New Financial Management Mechanism

5.1 Control

- 5.1.1) The IMC is responsible for handling funds and assets received from the Government in the capacity of a trustee. The same role will apply to subscriptions collected from students and for donations from the general public.

Provided that the IMC fully complies with the terms in EO, CoA, other policies, rules, regulations and circulars, the IMC has full management rights and control over the funds and assets of the IMC school. However, some IMC managers may not have adequate experience in school financial management, and therefore the security of the funds and school assets might sometimes be at risk.

The IMCs are not allowed to invest government funds in high risk investments, for instance, to invest in quoted and unquoted investments, derivative or held-to-maturity financial instruments.

The IMC should not finance projects or activities not for the benefits of students. It is not allowed to charge any loss arising from investment activities to the government funds and/or non-government funds. For investment of the IMC funds, please also refer to the relevant circulars issued by the EDB.

- 5.1.2) The security of the funds and assets might also be at risk if an IMC manager:
- ♦ Acts dishonestly
 - ♦ Is ignorant of the management/operation of the IMC school
 - ♦ Causes situations whereby his/her duties as an IMC manager conflicts with his/her personal interests
 - ♦ Divulges insider information kept by the IMC in confidence
 - ♦ Abuses the usage of the properties of the IMC capitalized on any business opportunities for his/her personal interest
 - ♦ Is influenced by others or follows others' instructions in voting
 - ♦ Serves without due care and skill

5.2 Liquidity

As laid out in section 40AF of the Education Ordinance, the IMC may open and operate bank accounts and invest its funds in such a manner and to such an

extent as it sees fit; borrow money in such a manner and on such security or terms as may be expedient. If these powers are used improperly, it might result in the IMC school over-borrowing and falling into liquidity problems.

The IMC is subject to the provisions of the Education Ordinance, any other law, the Code of Aid, Chapter 6 of School Administration Guide (SAG) and relevant circulars in the preparation of guidelines for raising funds and entering into contracts, agreements or arrangement, which do not involve government funds.

5.3 Loss of Assets

In respect of the change-over, the most probable risk is the loss of assets.

To avoid or minimize this risk, the IMC should implement sound internal control procedures to safeguard its assets, such as periodically performing physical counts of assets and by maintaining asset registers by another member of staff who is not involved in the custody of these assets.

5.4 Checklist for Change-over Arrangements

In order to facilitate the IMC school in preparing for the change-over arrangements, a checklist has been developed in Appendix 5 to assist the IMC management to ensure that none of the key procedures would be missed out or neglected. This list is by no means exhaustive and many of these procedures could be implemented even before the establishment of the IMC. In addition, alternative procedures can be applied in accordance with actual circumstances to allow flexibility to the IMC to manage its own change-over arrangements.

6 List of DOs and DON'Ts

6(a) List of DOs for Financial Management

	Reference
Accounts of Incorporated Management Committee	EO 40BB
Accounting and Auditing	CoA 14.5
Statutory requirements	
6.1 Maintain proper books of account and other financial and accounting records as stipulated in:	EO 40BB(1)(a) CoA 14.5(a)
- the Code of Aid; and	
- instructions from the PS(Ed).	
6.2 Cause to prepare the accounts of the IMC for each accounting year.	EO 40BB(1)(b)
6.3 Prepare and submit the accounts to the PS(Ed) as specified.	EO 40BB(1)(c) CoA 14.5(c)
6.4 Include an income and expenditure account and a balance sheet in the accounts.	EO 40BB(2)(a) CoA 14.5(d)
6.5 Have the accounts signed by the Supervisor and one other manager authorized by the IMC.	EO 40BB(2)(b) CoA 14.5(d)
6.6 Include detailed guidelines on accounting procedures in the control and reporting system set out in the Guide to Financial Management for Aided Schools Operated by Incorporated Management Committee and School Administration Guide.	CoA 14.5(b)
6.7 Make the accounts and vouchers for inspection by the PS(Ed) or any inspector of school.	
6.8 Retain the accounts and vouchers for a period of not less than seven years.	

Accounting and Financial Control

Recommended Practices

Books of accounts

- 6.9 Keep proper accounts in respect of all income and expenditure, comprising:
- ~ cash books for bank accounts and petty cash;
 - ~ an attendance register and register of fees/subscriptions/other charges;
 - ~ revenue receipt counterfoils and the Daily Collection Summary;
 - ~ payment vouchers in respect of all expenditure;
 - ~ a register of fixed assets;

- ~ a register of non-recurrent grants received for building, furniture and equipment;
 - ~ a general ledger and subsidiary ledgers for all items of recurrent income and expenditure;
 - ~ an Attendance Register for teaching staff, non-teaching staff and supply teachers;
 - ~ provident fund/mandatory provident fund records for individual staff;
 - ~ a register of hire of school accommodation;
 - ~ a register of donation;
 - ~ stock and sales records for exercise books, stationery, etc., if necessary; and
 - ~ Accession Record for library books.
- 6.10 Maintain separate bank accounts for government funds and non-government funds.
- 6.11 Maintain a separate ledger account for each of the government grants and keep them up-to-date.

Claw back arrangement

- 6.12 Pay attention to “Points for special attention and year-end surplus treatment” attached to EDB circular memoranda on “Annual Accounts of Aided Schools” and follow the guidelines for clawback of individual grants stipulated in relevant EDB documents/circulars.

Use of bank accounts

- 6.13 Submit details on IMC bank accounts to the EDB to facilitate EDB's crediting government subventions to the IMC.
- 6.14 Notify the EDB promptly of any change in supervisorship and to the bank signatories.
- 6.15 Keep an updated certified bank mandate of the authorized bank signatories in the school.

Fund-raising activities

Raising funds for school purposes:

- 6.16 Keep a list of donations exceeding \$5,000.
- 6.17 Compile a financial statement for each fund-raising activity, display it on the school's notice board and retain it for audit purposes.

Raising funds for outside organizations:

- 6.18 Keep proper records of funds collected, obtain official receipts from charitable organizations concerned, display the documents on the school's notice board and retain them for record purposes.

- 6.19 Compile and display a financial statement if the fund-raising activities incur expenditure, and retain it for audit purposes.

Trading operations

- 6.20 Reflect the proceeds from trading operations in the school account, usually the Subscriptions (Tong Fai) Account, General Funds Account or Capital Reserve Fund Account, or dealt with in any other manner approved by the EDB.

Internal Control

Certain property not to vest in incorporated management committee

EO 40AH

- 6.21 Hold any subsidy received from the Government in accordance with the applicable Code of Aid as trustee. EO 40AH(2)

Supervisor

EO 40AJ

- 6.22 Notify in writing the assumption of office of the first supervisor to the PS(Ed) within 14 days after the establishment of the IMC. EO 40AJ(5)(a)

- 6.23 Give written notice of the assumption of office of any subsequent supervisor to the PS(Ed) within 14 days after his election or appointment. EO 40AJ(5)(b)

- 6.24 Ensure that the notice contains the English and Chinese names of the supervisor and such other information as the PS(Ed) may specify. EO 40AJ(6)

- 6.25 Handle funds and assets received from the Government in the capacity of a trustee. EO 40 AF (2)(e)
CoA 14.1(a)

- 6.26 Act as trustee for subscriptions collected from the students and for donations from the general public. CoA 14.1(a)

- 6.27 Exercise management and administration rights over the funds and assets in accordance with the purposes for which the IMC is entrusted with such funds and to the full advantage of the students and the school. CoA 14.1(a)

- 6.28 Ensure that all profits earned from the funds and assets should be credited to the accounts of the school. CoA 14.1(a)

- 6.29 Ensure that adequate and regular internal controls are put in place, including: CoA 14.1(f)

- ~ its school is managed in an orderly, efficient and effective manner;
- ~ adheres to management policies;
- ~ safeguard assets; and
- ~ secures the completeness and accuracy of records.

- 6.30 Take appropriate steps to develop internal audit activities and, if appropriate, to form audit committee in accordance with school's need and circumstance. CoA 14.1(g)

Guiding principles

- 6.31 Determine the extent of the accounting and internal control system appropriate to the circumstances.
- 6.32 Ensure that the school is managed and run in accordance with the Education Ordinance, the Education Regulations, the Code of Aid and the circulars issued by the EDB.
- 6.33 Follow the internal control procedures recommended by the PS(Ed) or their auditors.
- 6.34 Consider the following aspects in setting up the school's internal control system:
 - ~ organization, terms of reference, responsibilities and extent of authority at each responsibility level within the organizational structure;
 - ~ code of ethics for staff involved;
 - ~ authorization and supervision;
 - ~ documentation, including the:
 - accounting system;
 - operating procedures; and
 - record keeping of major financial decisions in the minutes of meetings; and
 - ~ review mechanism.

Allocation of accounting duties

- 6.35 Separate the duties of calculating, checking and recording sums due to or from the school from the duties of collecting or disbursing those sums.
- 6.36 Ensure that every transfer of moneys is evidenced in an appropriate record by the signature of the receiving employee and retained for a period similar to that of cash records.
- 6.37 Authorize and approve all transactions by an appropriate responsible person.
- 6.38 Establish procedures to ensure that personnel have capabilities commensurate with their responsibilities.
- 6.39 Ensure that the school has a plan of its organization, defining and allocating responsibilities and identifying lines of reporting for all aspects of the school's operation.
- 6.40 Consider the relevance of best value principles to the expenditure of funds under their control.

Handling of school income

- 6.41 Keep all income or other sources in a manner that involves the minimum risk.

- 6.42 Keep school income intact and utilize them for approved educational purposes and facilities of the school.
- 6.43 Place the surplus funds in time deposits or savings accounts with licensed banks.
- 6.44 Reduce risk by spreading the deposits with several licensed banks.
- 6.45 Retain interests earned from government subventions in the account concerned and utilize it in accordance with the intended purpose of the grant.
- 6.46 Decide on their levels of cash holding.
- 6.47 Cross the uncrossed cheques received immediately and make them payable to “A/C Payee Only”.
- 6.48 Mark off the spoiled cheques as “Cancelled” immediately and attach them to the cheque stub to prevent from re-use.
- 6.49 Issue official receipts with counterfoils or duplicate copies for every sum of money received.
- 6.50 Ensure that the official receipts are in prescribed form, serially numbered, issued in sequence, dated and stamped with the school chop.
- 6.51 Ensure that the receipts bear the name of the payee and the amount collected.
- 6.52 Ensure that the internal control system of the school is sound and effective to prevent fraud/misappropriation of funds.
- 6.53 Bank in all collections promptly and properly account for all collections.
- 6.54 Mark the spoiled/obsolete official receipts as “Cancelled” immediately.
- 6.55 Have the destruction of the above receipts at the end of the retention period verified and witnessed by the Principal.
- 6.56 Maintain an official receipt register.
- 6.57 Keep unused or partly used official receipt books under lock.
- 6.58 Pay all school income into the appropriate bank accounts maintained in the name of the school.
- 6.59 Promptly bank in money received.
- 6.60 Prepare a Daily Collection Summary to record the date of receipt, serial numbers of official receipts issued, the nature of the income, the amount collected and the date of banking.
- 6.61 Make collections and payments as far as possible through bank accounts.
- 6.62 Liaise with the banks of the school for appropriate arrangements.

- 6.63 Review and strengthen existing system of internal control and security measures for the safe custody of cash.
- 6.64 Apply for tax exemption applicable to non-profit making organizations under section 88 of the Inland Revenue Ordinance.

Making payments

- 6.65 Properly authorize all expenses before payments are made.
- 6.66 Ensure that all payments are supported by payment vouchers.
- 6.67 Attach to payment vouchers the original invoices with full details of goods and services provided.
- 6.68 Ensure that goods or services have been received or are due for advance payment.
- 6.69 Ensure that approval for payments has been obtained and there is no previous payment on the same invoice.
- 6.70 Ensure that all paid vouchers and invoices are stamped with the word “PAID” and dated by the paying staff to prevent duplicate payment.
- 6.71 Make payment by crossed cheque as far as possible.

Safe keeping school assets and other valuables

- 6.72 Record capital assets in the provision of services for a period of time longer than one year as fixed assets.
- 6.73 Keep a Fixed Assets Register to record the existing items of fixed assets under their control.
- 6.74 Make proper arrangements for the safe custody of buildings, cash and other valuables in accordance with the following guidelines:
 - ~ nominate a member of staff to be responsible for the preparation and control of the Fixed Assets Register.
 - ~ conduct physical checking of assets at least once a year.
 - ~ retain the results and records of the checking.
 - ~ any discrepancies found should be investigated and reported to the IMC.
 - ~ all cash and other valuables and important documents must be kept under lock.
 - ~ surprise cash counts should be conducted by the Principal to detect and deter loss/misappropriation of cash.
 - ~ the surprise check should be carried out by a staff member at irregular intervals in a year, e.g. at least three times a year.

- ~ the staff member should sign, date and record the result of the checking in a log book.
 - ~ report any discrepancies found to the IMC.
- 6.75 Ensure that any write-off or adjustment to the register of capital assets and other valuables is approved by the IMC.
- 6.76 Inform IMC by a report on the write-off or adjustment.
- 6.77 Take out insurance to protect schools against damage or loss of above-standard or non-standard items caused by theft and burglary and loss of cash (non-government funds) in transit.
- 6.78 Maintain a Loan Register when equipment is on loan to staff/students.

Operating bank accounts and signing cheques

- 6.79 Control and operate the bank accounts.
- 6.80 Ensure that bank accounts are in the name of the IMC and one is kept solely in respect of money received from the Government.
- 6.81 Ensure that bank accounts (including Fixed/Time Deposits and cheques) are signed jointly by any two of the bank authorized signatories e.g. the Supervisor and one registered IMC manager (preferably other than the Principal).
- 6.82 Keep only a reasonable cash balance from time to time to meet small payments.
- 6.83 Sign cheques only upon presentation of properly authorized documents.
- 6.84 Record cheque books received in a register.
- 6.85 Control the issue of cheques by recording the recipient's name, signature and date.
- 6.86 Keep unused cheque books under lock by an IMC manager other than the authorized signatories or a designated staff member.
- 6.87 Have the inward mail from the bank handled by the Supervisor or the Principal personally. For example, bank statements should be opened by the Supervisor or the Principal.
- 6.88 Have the bank statements examined and initialed by the Supervisor or the Principal before being passed to the staff for preparing bank reconciliation statements.
- 6.89 Ensure that the Principal reviews the bank reconciliation statements and investigates any unusual items and cheques which have been outstanding for over one month.
- 6.90 Ensure that the Principal initials and dates the bank reconciliation statements after checking.

External Auditing

Accounts of Incorporated Management Committee EO 40BB

Accounting and Auditing CoA 14.5

Annual audited accounts

- 6.91 Appoint an accountant as the auditor [“Accountant” (會計師) means a certified public accountant (practising) as defined in the Professional Accountants Ordinance (Cap 50)]. EO 40BB(3)&(6)
CoA 14.5(e)
- 6.92 Submit the auditor’s report, together with the audited accounts, to the PS(Ed) at such time as the Permanent Secretary may specify or within 6 months after the year end date of the school. EO 40BB(4)(c)
CoA 14.5(g)
- 6.93 Permit the PS(Ed), any inspector of schools and the auditor to inspect the books of account and all vouchers, receipts, invoices, documents and records in the committee’s control which are relevant to the financial transactions of the committee. EO 40BB(5)
- 6.94 Observe the guidelines on the appointment of auditors and audit engagement letter as set out in EDBC No. 5/2014 or its update. A sample audit engagement letter is available at the EDB website (www.edb.gov.hk → [School Administration and Management](#) → [School-based Management](#) → [Corner for IMC Schools](#) → [Financial Management](#) → [Audited Accounts](#)) for reference.
- 6.95 Check that the audit fee is chargeable to the School and Class Grant.
- 6.96 Make the accounts available for inspection by inspectors of schools, pursuant to Regulation 64 of the Education Regulations.
- ### **Retention of accounting records**
- 6.97 Retain the following for at least 7 years:
~ books of accounts, i.e. cash books, ledgers, etc.; and
~ all types of vouchers and bank statements.
- 6.98 Retain the following for at least 2 years:
~ quarterly returns (duplicates), paysheets (duplicates);
~ school attendance registers; and
~ register of hire of school accommodation.
- 6.99 Ensure adequate and appropriate controls on retention, storage and destruction of accounting records.
- 6.100 Ensure that the records are systematically stored to facilitate efficient retrieval when required.

Sundry Matters

	Handling of Income and Expenditure	CoA 14.2
6.101	Use income solely on educational purposes.	CoA 14.2(a)
6.102	Establish a proper framework and procedural guides for school to use its fund.	CoA 14.2(b)
6.103	Keep and record all income from non-government sources in bank account(s) separately from those holding government subventions.	CoA 14.2(c)
6.104	Ensure that the rental or profit from letting of its premises be credited to the school's accounts. Schools are required to follow guidelines stipulated in EDBC No. 5/2011 “Hire of Accommodation in Aided Schools”.	CoA 14.2(d)
	Collection of Fees and Charges	CoA 14.3
	<i>Boarding Fee and Tong Fai</i>	
6.105	Seek approval from PS(Ed) for collection of Tong Fai and collect it on an equal monthly instalment basis.	CoA 14.3(c)
6.106	Collect boarding fees on or after the first school day of each month during which the student is a resident in the school.	CoA 14.3(b)
	<i>Other Fees and Charges</i>	
6.107	Approve the collection of other fees and charges if it has the express agreement of the majority of parents.	CoA 14.3(d)
6.108	Waive the charges or make sufficient provision of assistance to cater for the needs of the students in financial difficulties.	CoA 14.3(d)
6.109	Keep all such income in the school’s non-government funds account named “Capital Reserve Fund” account to be used to meet educational and school needs.	CoA 14.3(e)
6.110	Consider requiring the school to draw up a list of items to be charged to the “Capital Reserve Fund” account and providing procedural guides for using the funds.	CoA 14.3(e)
	Acceptance of Donations	CoA 14.4
6.111	Accept donations, both in cash and in kind, made to school if prior approval from the PS(Ed) is obtained when the donations will incur additional recurrent government expenditure.	CoA 14.4(a)
6.112	Properly reflect all income and charge the expenditure so incurred from it (except that specified at item 6.111) to school’s own fund accounts.	
6.113	Ensure the following have been satisfied before donations are accepted:	CoA 14.4(b)

- ~ relevant requirements under the Prevention of Bribery Ordinance have been observed;
- ~ there is no connection between the donation and any student's standing or possible future standing in the school;
- ~ offers of donations from commercial concerns cannot be interpreted in any way as inducements; and
- ~ the acceptance of school donation or outside contribution will benefit the students.

6(b) List of DON'Ts for Financial Management

Internal Control

Certain property not to vest in incorporated management committee EO 40 AH

- 6.114 Do not own any property belonging to others by reason only of its establishment. EO 40 AH(1)
- 6.115 Use government funds in accordance with the specified purpose of individual grants (for instance, please refer to the "Reminder List for using EOEBG" when using EOEBG).

Allocation of accounting duties

- 6.116 Do not allow the checking and reconciliation of any bank account and cash balances to be carried out by employees who handle those accounts.

Handling of school income

- 6.117 Do not keep large sums of cash in school.
- 6.118 Do not accept post-dated cheques.
- 6.119 Do not destroy the spoiled cheques before the retention period.

Making payments

- 6.120 Do not conduct the preparation and authorization of payment vouchers by the same person.
- 6.121 Do not make advance payment as far as possible.

Operating bank accounts and signing cheques

- 6.122 Do not pre-sign cheques.
- 6.123 Do not use cash cheques except for the purpose of replenishing the petty cash float.

External Auditing

Retention of accounting records

- 6.124 Do not destroy records of a permanent nature without the prior approval of the PS(Ed), including:
- ~ annual accounts;
 - ~ inventories;
 - ~ records of capital expenditure and government non-recurrent subsidies; and
 - ~ records in connection with school building funds/donations, etc.

Sundry Matters

Handling of Income and Expenditure

- 6.125 Do not transfer income to other schools. CoA 14.2
- 6.126 Do not spend government subventions on school's self-financing activities. CoA 14.2(a)
- 6.127 Do not use government subventions to cover additional insurance. CoA 14.2(c)

Collection of Fees and Charges other than Boarding Fee and Tong Fai

- 6.128 Do not transfer income arising from the approved collection of other fees and charges unless such transfer has been approved by the PS(Ed) in writing. CoA 14.3
- CoA 14.3(e)

Note: IMCs are advised to make reference to the EDB's "Tips on Handling Government Subventions for Aided Schools" (website: www.edb.gov.hk → [School Administration and Management](#) → [Financial Management](#) → [Information on Subsidy](#) → [Reference Materials on Handling Government Subventions for Aided Schools](#)).

Appendix 1

**ABC School
Change-over Plan (Sample)**

1. Change-over Team Composition

Name	Post	Responsibilities
Axx	Team Leader	
Bxx	Principal	
Cxx	Accounting Staff	

2. Important Dates

(a) Transition Date (Date of establishment of the IMC)	<u>27 July 2008</u>
(b) Date of completion of transition period (tentative)	<u>31 December 2008</u>
(c) Asset counting date (tentative)	<u>31 December 2008</u>
(d) Period covered in last set of pre-IMC accounts	<u>1 September 2007 to 26 July 2008</u>

3. Assets and Liabilities to be transferred on the Transition Date:

Assets	<u>\$</u>
Liabilities	<u>\$</u>

[For details of the assets and liabilities, please refer to the balance sheet in the last set of pre-IMC audited accounts.]

[Change-over Team is required to prepare its own transfer list. This may vary according to the different circumstances of each IMC school.]

4. Asset Counting Procedures

Cxx is responsible for carrying out the asset counting, which is supervised by Bxx, and reports to Axx. The external auditor will monitor (please specify the ways of monitoring as appropriate) the asset counting process on (date) (refer to paragraph 4.5).

5. Reporting to the IMC

The Change-over Team reports to the IMC the progress and discrepancies, if any, to the IMC. The IMC should report any exceptions (e.g. theft, cash loss, fraud and fictitious documents etc.) to the EDB.

6. Implementation of Change-over Plan

All the procedures as indicated in the checklist for the change-over arrangements have been discussed amongst the Change-over Team and no exception is foreseen. [Please report any exceptions to the EDB if required].

Note:

- (1) It is recommended the asset count to be performed on the Transition Date if applicable, otherwise, the asset count should be performed within the transition period.**
- (2) The SMC is responsible for any asset loss before the Transition Date while the IMC is accountable for any asset loss on or after the Transition Date.**

Appendix 2

Matters to be Reported to the EDB in relation to the Change-over Arrangements

Certain key aspects need to be reported by the IMC to the EDB immediately after the change-over arrangements **if exceptions or significant discrepancies are noted**. The IMC has the full discretion to determine whether or not, or what should be reported to the EDB. The following list is not an exhaustive one and the IMC should consider all such items in the appropriate context to be reported to the EDB to demonstrate its accountability.

The items to be reported to the EDB include, but are not limited to:

1. Any exceptions (e.g. theft, cash loss, fraud, fictitious documents etc.) in the change-over process;
2. Any reporting of matters/comments to the IMC initiated by external auditors in relation to the change-over arrangements;
3. Any follow-up action on items (1) to (2); and
4. Any other matters considered necessary to bring to the attention of the EDB.

Appendix 3

Guidelines on Differentiation of School Funds and Assets

Introduction

1. The following provisions of the Education Ordinance govern the funds and assets of a school:
 - i) Section 40AE(1)(a) and (c) provide that the sponsoring body of a school shall be responsible for meeting the cost of furnishing and equipping the new school premises of the school to, where applicable, standards as recommended by the Permanent Secretary; and (shall be responsible for) maintaining full control of the use of funds and assets owned by it.
 - ii) Section 40AF(2)(a), (d) and (e) stipulate that an incorporated management committee of a school may:
 - take on lease, purchase or otherwise acquire, and hold, manage and enjoy property of any description, and sell, let or otherwise dispose of the same
 - use and dispose of the funds and assets owned by it
 - handle funds and assets received from the Government in the capacity of a trustee
 - iii) Section 40AH stipulates that no property belonging to and provided by the Government, the sponsoring body or any other body for the operation of the school shall, by reason only of the establishment of the Incorporated Management Committee of the school, become property of the Committee. The Incorporated Management Committee of a school, in operating the school, shall hold any subsidy received from the Government as the trustee.
 - iv) Section 40BE(c)(i) and (ii) provide that on the cancellation of the registration or provisional registration of a school, the Permanent Secretary shall apply the properties (owned by the Incorporated Management Committee of the school before its dissolution) to settle the liabilities of the Committee in such manner as he considers fair. Where any property which does not belong to the Government remains, the Permanent Secretary shall return the property to the donor unless the donor indicated at the time of the donation that he did not wish to reclaim the property in the event of the dissolution of the Committee.

Appendix 3 (Continued)

2. For the purpose of clarity, operating schools and planned schools shall differentiate clearly the ownership of funds and assets in respect of the Government, the sponsoring body and the school before establishing an Incorporated Management Committee (IMC) to avoid any subsequent confusion.

Differentiation of Funds and Assets of a School

3. The description and ownership of the general funds and assets of a school are listed below. Funds and assets owned by the Government mainly include all subventions (including all recurrent, non-recurrent and capital grants provided by the Government and money paid out of independent funds established by the Government for specific purposes, e.g. Quality Education Fund, Language Fund), as well as furniture, equipment, books and teaching aids, etc. purchased with government subventions and money paid out of independent funds established by the Government for specific purposes. As for non-government funds and assets of a school, they may belong to the school or the sponsoring body or other donors. Before establishing an IMC, the school (be it an operating school or a planned school) should discuss with its sponsoring body to delineate clearly their respective ownership of school assets. Where the property is a donation, the school should ascertain whether the donor had, at the time of donation, indicated that he did not wish to reclaim the property in the event of the dissolution of the IMC to avoid any possible future disputes.
4. As there is no guarantee that the list of school funds and assets is exhaustive, the parties involved should examine carefully all the funds and assets of the school to avoid omission when delineating their ownership. Schools in need of advice or assistance may contact their respective Senior School Development Officers.

Appendix 3
(Continued)

Funds and Assets of a School

Source	Funds	Assets	SMC *Ownership	IMC *Ownership
Government	<ul style="list-style-type: none"> ♦ Recurrent and non-recurrent grants provided by the Government ♦ Capital grants ♦ Money paid out of independent funds established by the Government for specific purposes ♦ Quality Education Fund 	<ul style="list-style-type: none"> ♦ Schools premises built and the land owned by the Government, furniture, equipment, books and teaching aids purchased with government grants ♦ School facilities such as air-conditioners, computer equipment provided by the Government 	Government	Government

Appendix 3
(Continued)

Funds and Assets of a School

Source	Funds	Assets	SMC *Ownership	IMC *Ownership
Sponsoring body	<ul style="list-style-type: none"> ♦ Set-up fund ♦ Donation 	<ul style="list-style-type: none"> ♦ Furniture, equipment, books and teaching aids purchased with the set-up fund ♦ Furniture, equipment, books and teaching aids donated by the sponsoring body 	School	IMC
	<ul style="list-style-type: none"> ♦ Scholarship provided by the sponsoring body 	<ul style="list-style-type: none"> ♦ School premises built and the land owned by the sponsoring body ♦ Other non-government properties within the school premises, such as a church 	Sponsoring body or school (depending on the agreement between the sponsoring body and the school)	Sponsoring body or IMC (depending on the agreement between the sponsoring body and IMC)
Student / business undertaking / organization / others	<p><u>School income</u></p> <ul style="list-style-type: none"> ♦ Bank interest (derived from subventions provided by the Government) 		Government	Government

Appendix 3
(Continued)

Source	Funds	Assets	SMC *Ownership	IMC *Ownership
Student / business undertaking / organization / others	<p><u>School income</u></p> <ul style="list-style-type: none"> ◆ Subscriptions/general funds (including fines/fees collected for specific purposes such as fines for late return of library books and registration fees)/ Boarding fees ◆ Income from business undertakings such as sale of exercise books/school uniforms, operation of tuckshops and provision of school bus services ◆ Donations (including donations/grants from charitable organizations such as the Hong Kong Jockey Club Charities Trust) 	<ul style="list-style-type: none"> ◆ Furniture, equipment, books and teaching aids donated by other organizations 	School or donor ✧	IMC or donor ✧

Appendix 3
(Continued)

Source	Funds	Assets	SMC *Ownership	IMC *Ownership
Student / business undertaking / organization / others	<u>School income</u> ♦ Bank interest (derived from grants not provided by the Government)		School	IMC
	♦ Other incomes, such as dues from renting out school premises		Government or School For income from hire of accommodation: Government and School (Please refer to EDBC No. 5/2011 for the stipulated ratio and EDB homepage www.edb.gov.hk → Students and Parents Related → School Information → Fees & Charges in Schools → Aided Schools → Hire of Accommodation).	Government or IMC For income from hire of accommodation: Government and IMC (Please refer to EDBC No. 5/2011 for the stipulated ratio and EDB homepage www.edb.gov.hk → Students and Parents Related → School Information → Fees & Charges in Schools → Aided Schools → Hire of Accommodation).

Appendix 3
(Continued)

- * For funds and assets owned by the school, they may be owned, used and disposed of by the Incorporated Management Committee upon its establishment.
- ✧ For the items and money that are donations, the ownership of them has to be determined as to whether they should go back to the respective donors when the school dissolves unless the donors have at the time of donation indicated in writing that the school/IMC does not need to return the items or unspent money to them when the school closes down.

Guidelines on Accounting and Financial Control

The following guidelines are substantially reproduced from the School Administration Guide (section 6.5: Accounting and Financial Control) issued by the EDB.

Statutory Requirements

The IMC of every school shall:

- Keep proper accounts
- Make the accounts and any vouchers relating to the accounts available at all reasonable times for inspection by PS(Ed) or any inspector of school
- Retain the accounts and vouchers for a period of not less than seven years

Recommended Practices

a) Books of Accounts

Proper accounts must be kept in respect of all income and expenditure. Separate bank accounts should be maintained for government funds and school funds. The IMC is also strongly advised to maintain a separate ledger account for each of the government grants and to keep them up-to-date so as to avoid overspending. A set of proper books of accounts should comprise the following:

- Cash books for bank accounts and petty cash
- An attendance register and register of fees/subscriptions/other charges showing inter alia receipt numbers and the amount of subscriptions and other charges, if any, against the name of each student
- Revenue receipt counterfoils and the Daily Collection Summary in respect of subscriptions, donations, other charges and any other income
- Payment vouchers in respect of all expenditure
- A register of fixed assets
- A register of non-recurrent grants received for building, furniture and equipment
- A general ledger and subsidiary ledgers showing accounts in respect of all items of recurrent income and expenditure
- An Attendance Register for teaching staff, non-teaching staff and supply teachers
- Provident fund and MPF records for individual staff
- A register of hire of school accommodation
- Stock and sales records for exercise books, stationery, etc., if necessary
- Accession Record for library books

b) Use of Bank Accounts

The IMC should open and maintain, in its name (for example, The Incorporated Management Committee of XXX School), at least 2 accounts (one for government funds and the other for non-government funds). All bank accounts should be operated by jointly authorized signatories. Cheques should be jointly signed by any 2 of the registered managers designated for this purpose. In addition, the issue whether the Supervisor would be one of the authorized signatories should be discussed and decided in an IMC meeting in which the Supervisor presides.

An undertaking duly completed by the authorized signatories to school bank accounts should be submitted to the EDB to effect payment. The IMC should notify the EDB promptly of any changes in supervisorship and subsequent changes to the bank signatories. An updated certified bank mandate of the authorized bank signatories should be kept in the school for audit purposes.

c) Fund-Raising Activities

- Raising funds for school purposes
 - Prenumbered receipts/ tickets should be used for the collection of funds
 - The funds so collected as well as all expenditure, must also be properly reflected in the school's accounts
 - A list of donations exceeding \$5,000 each should be kept for record purposes
 - A financial statement for each fund-raising activity should be properly compiled. It should be displayed for a reasonable period of time on the school's notice board for the information of teachers, parents and students, after which it shall be retained for audit purposes

- Raising funds for outside organizations
 - Schools should keep proper records of funds collected and obtain official receipts from charitable organizations concerned. The documents should be displayed for a reasonable period of time on the school's notice board for the information of teachers, parents and students, after which it shall be retained for record purposes
 - If the fund-raising activities incur expenditure from the funds collected, a financial statement should also be compiled, displayed and retained for audit purposes

d) Trading Operations

For trading operations carried out by schools on the school premises, proceeds derived therefrom should be properly reflected in the school account, usually the Subscriptions (Tong Fai) Account, General Funds Account or Capital Reserve Fund Account, or dealt with in any other manner approved by the EDB.

Checklist for Change-over Arrangements

The following checklist should be completed by the Team Leader or his/her delegates. Please put a tick (✓) in the “Yes” column if the procedure has been completed and in the “No” column if not yet completed.	<u>Yes</u>	<u>No</u>	<u>Remark</u>
<p>1. Establish Change-over Team</p> <ul style="list-style-type: none"> i) School management should establish the Change-over Team ii) The IMC should nominate one IMC manager or elect one among the IMC managers as Team Leader iii) The Team Leader should brief the team members about the objectives, procedures and logistics of the change-over arrangements iv) The Team Leader should ensure all the team members undertake overall responsibility for the implementation of the change-over plan 			
<p>2. Formulate Change-over Strategy</p> <ul style="list-style-type: none"> i) The Team Leader should formulate a change-over strategy ii) The change-over strategy should include procedures about: <ul style="list-style-type: none"> - Preparation of the change-over plan - Implementation of the change-over plan - Audit of Pre-IMC accounts 			
<p>3. Prepare Change-over Plan</p> <ul style="list-style-type: none"> i) The Change-over Team should: <ul style="list-style-type: none"> - Determine the Date of completion of the transition period - Determine the assets and liabilities on the Transition Date to be transferred - Prepare the transfer list - Determine the time frame to complete the change-over 			

Checklist for Change-over Arrangements

	<u>Yes</u>	<u>No</u>	<u>Remark</u>
<ul style="list-style-type: none"> - Obtain approval of the change-over plan by the IMC - Invite external auditors to the asset counting process - Report change-over progress to the IMC. The IMC should subsequently report any exceptions (e.g. theft, cash loss, fraud and fictitious documents etc.) to the EDB - Ensure the change-over plan has been prepared and approved by the Principal and the IMC respectively <p>ii) The SMC should:</p> <ul style="list-style-type: none"> - Identify physical assets and confirm inventory with the assets register - Close old books and accounts up to the day before the Transition Date - Identify any discrepancies of assets, liabilities, books and accounts, receipts or other documents - Report any discrepancies to the Principal and the Supervisor and to take necessary corrective actions - Transfer assets, liabilities, books, accounts, receipts or other documents to the IMC management - Prepare last set of accounts up to the day before Transition Date - Submit last set of audited accounts - Commence dissolution procedure in case of the school management company immediately after the change-over arrangements - Close all the old SMC bank accounts and all the payments related to the IMC school should be settled by the IMC 			

Checklist for Change-over Arrangements

	<u>Yes</u>	<u>No</u>	<u>Remark</u>
<p>iii) The IMC should:</p> <ul style="list-style-type: none"> - Open 2 bank accounts; one for government funds and one for non-government funds - Verify the assets, books, accounts, receipts or other documents being transferred, and check for discrepancies - Ascertain all liabilities incurred and being transferred - Ensure proper cut-off - Acknowledge receipt of school assets transferred from the SMC and assume responsibilities of all liabilities in relation to the IMC school - Prepare first set of accounts from the Transition Date to ensure the opening balances of the IMC school accounts are properly carried forward 			
<p>4. Implementation of Change-over Plan</p> <ul style="list-style-type: none"> i) The Change-over Team should inform the EDB to credit government subventions to the IMC bank accounts ii) The Change-over Team should differentiate the school funds and assets as of the Transition Date to ensure the IMC has received all the funds and assets being transferred iii) The IMC should assume responsibility for any contracts or agreements signed between the IMC school and third parties iv) The IMC should clearly record details of the contracts and agreements in (iii) above in accordance with the provisions set out in Schedule 1 and 2 of the Education Ordinance v) The IMC should assume donations (if any), to the school and change any documents that may be necessary to reflect the new ownership 			

Checklist for Change-over Arrangements

	<u>Yes</u>	<u>No</u>	<u>Remark</u>
<p>vi) Transfer of books and records</p> <p>The Change-over Team should:</p> <ul style="list-style-type: none"> - Ensure that all the school's books and records are properly closed up to the day before the Transition Date - Conduct a physical count of all assets of the school including fixed assets, stocks and cash - Report any discrepancies of the assets counted to the IMC - Ascertain any unrecorded liabilities in the SMC school at the day before the Transition Date and request the SMC to assume responsibilities - Inform the utility providers (including electricity, water, telephone) to amend the new bills and transfer any deposits to the IMC <p>The IMC should:</p> <ul style="list-style-type: none"> - Verify the assets, liabilities, books, accounts, receipts or other documents being transferred - Ascertain all liabilities incurred and being transferred - Ensure proper cut-off of all assets and liabilities transferred from the SMC - Acknowledge receipt of books and accounts, assets and liabilities; - Ensure the SMC transfers all balances in the SMC bank accounts to the IMC bank accounts - Reflect the above-said transfers in the IMC balance sheet as opening balances - Open new books and accounts for the IMC school 			

Checklist for Change-over Arrangements

	<u>Yes</u>	<u>No</u>	<u>Remark</u>
<ul style="list-style-type: none"> - Carry forward the balances on the books and accounts of the SMC school to the IMC books and accounts - Set up new accounting systems for the IMC - Introduce a solid internal control mechanism to safeguard the assets of the IMC, including control of the operation of bank accounts and cash 			

 Principal
 On behalf of SMC

 Team Leader
 On behalf of IMC