

**Guide to Financial Management  
for Aided Schools Operated by  
Incorporated Management Committees**

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**Education Bureau**

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## **1. Introduction**

- 1.1 In accordance with sections 40AE(2) and 40AF(2) of the Education Ordinance, an Incorporated Management Committee (IMC) is endowed with the responsibility and autonomy in managing its own operations and resources for enhancing the quality of education to students. It has to handle funds and assets received from the Government in the capacity of a trustee.
- 1.2 An IMC should therefore establish proper and adequate financial management mechanism to ensure that the entrusted resources are properly spent and accounted for whereas relevant policies and guidelines as promulgated by the Education Bureau (EDB) are complied with.
- 1.3 This Guide to Financial Management (FM) is intended to highlight the principles and major points that warrant attention of the IMC for establishing a sound and effective FM mechanism.
- 1.4 It should be read in conjunction with Chapters 5 and 6 of the School Administration Guide which encompasses the relevant details for the day-to-day operations of the school.

## **2. Basic Concepts of FM for Aided Schools Operated by IMCs**

### **2.1 Guiding Principles**

- 2.1.1 The IMC is responsible to handle funds and assets received from the Government in the capacity of a trustee. It should also act as trustee for subscriptions collected from the students and for donations from the general public. As trustee, the IMC has full management and administration rights over the funds and assets but these rights must always be exercised 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.
- 2.1.2 Increased autonomy and funding flexibility are coupled with greater accountability of IMCs on the use of funds under school-based management. IMCs should put in place a control mechanism with proper checks and balances to safeguard the assets and the use of funds and to enhance the accountability and transparency of the FM. IMCs should establish proper procedures to require the school personnel, including IMC managers and staff, to declare and disclose any conflict of interest. IMCs should also ensure adequate participation of and consultation with the stakeholders, where appropriate, to take forward school-based management.
- 2.1.3 Resources should be managed to address the major concerns as set out in the School Development Plan and Annual School Plan as well as the operational needs of the schools for delivery of quality education.

### **2.2. Functions and Roles of IMC Managers**

- 2.2.1 In principle, there are 2 major functions and roles for the managers in an IMC,

namely steering and monitoring.

2.2.2 Building on the strength of the existing organizational structure of the school, the IMC should put in force relevant mechanism(s) with the participation of the IMC managers that play the steering and monitoring functions/roles in an efficient and effective manner.

2.2.3 Major steering roles, among others, include:

- Ensure the effective performance of the school in relation to the School Development Plan, Annual School Plan and annual budgets;
- Ensure the setting up of the control mechanism relating to the compliance of resolutions on FM (for example, internal control procedures and segregation of duties of personnel);
- Ensure the reporting of the updated financial situation to the IMC; and
- Ensure the school's preparation of annual accounts for external auditing.

2.2.4 Major monitoring roles, among others, include:

- Look into and ensure proper follow-up action be taken on the non-compliance/irregularity cases, for example, non-compliance with the procurement guidelines/procedures and significant variations to the approved budget;
- Recommend ways for improvement in the internal control procedures/mechanism including proper delegation of authority and segregation of duties;
- Set up and subsequently review the mechanism for budget variations/review to monitor the budgets and budgetary control (for example, proper approving levels for any deviation in the budget); and
- Review the annual accounts before submission to the IMC for endorsement and to the EDB.

### **3. Compliance and Flexibility of IMCs in the Use of Funds**

3.1 It is mandatory for IMCs to observe the Code of Aid for Aided Schools, ambits governing the use of funds and any other instructions as given by the Permanent Secretary for Education (PS(Ed)) from time to time.

3.2 For enhanced funding flexibility, the following grants will be disbursed to the IMC schools in the school year following the establishment of IMCs:

3.2.1 Expanded Operating Expenses Block Grant (EOEBG)

- (a) It is a recurrent block grant covering the ambits of all its constituent grants and there is no demarcation between General Domain and Special Domain except the Capacity Enhancement Grant (CEG) and some other grants, if specified. The IMC is given the flexibility in the use and deployment of the EOEBG to meet the operational and developmental needs of the school, and to use the surplus of this grant to top up expenses outside its constituents.

(b) The surplus under the EOEBG may be used to top up no more than:

- 50% of recurrent cost arising from government-funded projects; and
- 25% of recurrent cost arising from furniture and equipment and other facilities or educational services acquired through private donations or other fund-raising schemes.

In this connection, IMCs should establish proper procedures, objective criteria and clear approving authority for transferring the surplus out of EOEBG.

For details concerning the EOEBG / CEG, please refer to Reference Materials on EOEBG and CFEG or CEG and the relevant circular on EOEBG and CFEG.

### 3.2.2 Teacher Relief Grant (TRG)

The TRG consists of 2 components as follows:

- a basic component for the appointment of supply teachers vice teachers on leave less than 30 days; and
- an optional cash component by permanent or temporary freezing up to 10% of the approved teaching establishment.

For details concerning the TRG, please refer to reference materials of TRG for Schools with an IMC.

### 3.3 Trading Operations

When processing trading operations, all procurement guidelines/procedures have to be observed. IMCs may approve trading operations, which have to be discussed and passed in the IMC meetings and properly recorded in the IMC meeting notes. According to section 99B of the Education Regulations, the profits and net income arising from all trading operations shall be applied for purposes directly benefiting the pupils of the school, unless approved by PS(Ed) otherwise.

### 3.4 Collection of Fines, Charges and Fees for Specific Purposes Exceeding the Ceilings under the Blanket Approval Given by PS(Ed)

Instead of seeking PS(Ed)'s approval, IMCs may approve the collection of fines, charges and fees for specific purposes exceeding the ceilings under the blanket approval given by PS(Ed) if such collection is used for educational purposes and has the express consent of the majority of parents.

## 4. Planning and Annual Budgeting

4.1 The IMC should develop long-term strategic plans (covering 3 to 5 years) in its school development plan as well as formulate the annual school plan and the annual school budget taking into account the vision and mission set by the school sponsoring body, and the current education policies.

- 4.2 In essence, the resources should be so allocated as to be in line with the developmental and operational needs of the school.
- 4.3 The IMC should set up formal and systematic procedures for assigning priorities, allocating resources and evaluating results to the effect of providing quality education and maximizing the value of funds, both government and non-government, in the use of resources.

#### 4.4 Annual Budgeting

Budget can be regarded as a monetary manifestation of the school plan and so the IMC should ensure that:

- 4.4.1 A mechanism for annual budget preparation/revision, budgetary control and evaluation should be properly established. Views from the teachers concerned should be solicited and duly considered during the budget preparation process.
- 4.4.2 The budget should closely tie in with the Annual School Plan, the School Development Plan as well as the operational needs of the schools. It should be well-planned and make full use of funds available in a cost-effective manner. Deficit budget should be avoided. The annual school budget should be approved by the IMC.
- 4.4.3 Subsequent financial transactions should be monitored against the approved budget. Any significant variation (i.e. underspending/overspending) for the budget amount should be promptly investigated, explained and properly rectified as well as reported to the IMC.
- 4.4.4 The approved budget may be reviewed at such appropriate time as deemed fit by the IMC during the school year to cater for the changed circumstances. The revised budget, if any, should be approved/endorsed by the IMC.
- 4.4.5 Performance indicators or success criteria should be worked out during the planning stage to evaluate the outcome/effectiveness of the activities/programmes for which funds/resources have been allocated.

#### 4.5 Borrowing and Investment

When deliberating the proposals concerned, the IMC should duly assess the risk and the liabilities arising from borrowing and investment with special attention drawn to section 40BD of the Education Ordinance.

##### 4.5.1 Borrowing

- (a) In normal circumstances, an IMC should not borrow money. However, an IMC may consider borrowing money when such exceptional circumstances as financing projects that are not entitled to government funding but convinced to be educationally desirable and beneficial to students arise.

- (b) Any intended borrowing has to be approved by the IMC by observing the guidelines of the sponsoring body (if any) before it can really take place. (Reference may also be made to section 7.2 in this regard.)
- (c) Details of the discussion on intended borrowing, the decision, the rationale and the repayment strategy and source of repayment should all be recorded in IMC meeting minutes for scrutiny by the stakeholders and the EDB. Each case of borrowing has to be disclosed in the Annual School Plan as well as the School Report.
- (d) An IMC:
  - (i) should **not** charge any interest incurred to government subvention, boarding fees and Capital Reserve Fund except donations without specific purposes (In case the IMC wishes to charge the interest to donations without specific purposes, the consent of the donors involved should be secured. In this connection, IMCs are reminded that they should follow the EDB guidelines/circulars on the use of school income.); and
  - (ii) should **not** use the government subvention for repayment of loans.

#### 4.5.2 Investment

- (a) All income derived by schools should be kept in a manner that involves the minimum risk. Surplus funds which are not immediately required for use by schools may be placed in time deposits or saving accounts with licensed banks. Schools should reduce risk by spreading the deposits with several licensed banks. Schools are recommended to deposit to any one bank not exceeding, for example, 50% of the funds. For fund size of over HK\$5 million, deposits with any one bank should be subject to a maximum exposure equivalent to 20% of the total funds under management.<sup>1</sup>
- (b) An IMC should **not** invest its funds (including government funds) in high risk investments, for instance, to invest in quoted or unquoted investments, and derivatives.
- (c) For intended investment, details of the discussion (including the risk management policy, rationale behind, investment strategy, control procedures, professional opinion (if any) and contingency plan) together with the decision have to be recorded in the IMC meeting notes. The liability for investment loss shall strictly fall on the IMC responsible for incurring such a loss.
- (d) While all proceeds arising from investment activities should be credited into the respective government or non-government funds accounts as appropriate, it is not allowed to charge any loss to government subvention, boarding fees and Capital Reserve Fund except donations without specific purposes. (In case the IMC wishes to cover investment loss by donations without specific purposes, the consent of the donors involved should be secured. In this connection, IMCs are reminded that they should follow the EDB

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<sup>1</sup> This is based on the guidance on the choice of banks for use by government bureaux / departments provided by the Hong Kong Monetary Authority.

guidelines/circulars on the use of school income.)

- (e) The performance of the investment activities should be closely monitored by the IMC and reported in the Annual School Plan as well as the School Report.

## 5. Checks and Balances

The IMC should ensure that sufficient checks and balances are in force in the FM mechanism to safeguard the use of funds. Accounting, internal and external control systems should be formally established to bring all income and expenditure into proper account. There should also be a mechanism for reporting to the IMC and various stakeholders on the use of funds.

### 5.1 Accounting and Disclosure

5.1.1 The IMC should maintain proper books of accounts and financial records (for example, quotation/tender documents, payment vouchers, invoices, etc.).

5.1.2 All entries in the general ledger should be validated by vouchers with supporting documents.

5.1.3 An annual income and expenditure account and balance sheet should be prepared for external auditing.

5.1.4 The accounting system should be transparent to facilitate internal and external control.

#### 5.1.5 Declaration/Disclosure of Interests

(a) IMCs should put in place proper procedures to require the school personnel, including IMC managers and staff, to declare and disclose any conflict of interests that might influence, or appear to influence, their judgement in the performance of their duties. This requirement on conflict of interests should be strictly observed when IMCs handle any procurements and trading operations.

(b) A declaration of interests should be made in writing. An IMC manager shall, at least once in every 12 months, make to the IMC a written declaration which states the particulars of any pecuniary or other personal interests. If there is no such interest, the manager has to state so. A Sample Form for Declaration of Interests is available on the School-based Management Information Online website.

(c) An IMC manager shall disclose any interest in any matter under the consideration by the IMC or in any company or organization which has or likely to have business dealings with the school. Such disclosures shall also be made in writing.

(d) IMCs shall keep separate registers of all written declarations and disclosures which shall be made available for inspection by the inspectors of schools of the EDB.



- (e) IMCs' attention is drawn to sections 40BF to 40BH of the Education Ordinance and relevant section of School Administration Guide on Conflict of Interest.

## 5.2 Internal Control Mechanism

- 5.2.1 The IMC should set up internal processes and procedures to minimize fraud and negligence and to ensure the use of funds complying with the resolutions of the IMC and relevant EDB requirements. The principles of openness, fairness and competitiveness should be applied in all procurements while the circular(s) in respect of procurement guidelines/procedures should be observed.
- 5.2.2 To tie in with section 2.2, the IMC should properly delegate authority to its managers to perform the steering and monitoring roles. In this connection, the IMC would consider to form committee(s) or task group(s) comprising IMC managers and other school personnel to undertake the duties of vetting/approving/monitoring the proposals (e.g. budget, procurements) where appropriate and necessary.
- 5.2.3 The principle of segregation/rotation of duties should be observed when assigning duties in respect of FM. For example, the person(s) who invite(s) the suppliers for bidding tenders for procurements should not approve the corresponding tenders.
- 5.2.4 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. An IMC school shall only deposit moneys into the bank account maintained in the name of the IMC. If internet banking is used for managing and operating bank accounts, the procedures for approving payments through internet banking as well as personnel authorizing modification of access control and transaction limits should remain the same as the arrangements for cheque payments, i.e. should be jointly approved by any 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.
- 5.2.5 As one of the key stakeholders, teachers, especially those at middle management levels (for example, deputy heads, subject chairs and committee co-ordinators), should be involved in planning and monitoring the use of funds to enhance participation, accountability and transparency. The IMC should also ensure that sufficient channel is available for the teachers concerned to reflect their views on allocation of resources, particularly during the planning stage.

## 5.3 External Control Mechanism

- 5.3.1 The IMC should appoint a certified public accountant (practising) to audit the

annual school account in accordance with section 40BB(3) and (4) of the Education Ordinance.

5.3.2 The external auditors would comment whether the internal control and accounting systems are adequate for effective and efficient operations of the schools.

5.3.3 The IMC should ensure the availability of all the accounting records and financial information for inspection by the inspectors of schools of the EDB and other Government Bureaux/Departments (for example, Audit Commission and Independent Commission Against Corruption).

## 5.4 Reporting

### 5.4.1 Internal Reporting

- (a) The IMC should be kept posted of the financial situation regularly (for example, on quarterly basis). Significant variations (i.e. underspending/overspending) from the budgeted amounts, once occur, should be promptly brought to the attention of IMC (the percentage/amount of variance to be determined by the IMC). Explanations as well as proposed rectifications, if necessary, should also be available for IMC consideration.
- (b) To tie in with sections 4.4.3 and 4.4.4, an internal mechanism for budget variations/review should be set up. As a result of periodic reviews of the budget during the school year, the revised budget (if any) should be reported to the IMC for approval or endorsement as appropriate.
- (c) Any abnormal or exceptional school incidents (such as cash loss, fraud and fictitious documents, etc.) should be promptly reported to the IMC.
- (d) Recommendations as contained in the management letters issued by the external auditors or the EDB should be reported to and duly considered by the IMC. It is advised that follow-up actions, if any, be incorporated into the Annual School Plan and/or annual budget.
- (e) Items (a) to (d), if occur, should be discussed and approved/endorsed in the IMC meetings.

### 5.4.2 External Reporting

- (a) Aided IMC schools are advised to give a financial summary in their annual school reports released to the stakeholders according to the EDB guidelines of compiling a school report. They are encouraged to adopt the good practice of uploading their annual audited accounts to the school website to enhance transparency.
- (b) The IMC should report abnormal or exceptional school incidents (for example, cash loss, fraud, fictitious documents, etc.) to the police promptly and the Senior School Development Officer concerned in writing as soon as possible (for example, within 7 days).

(c) The IMC is required to submit the following to the EDB within 6 months as from the end of the school/accounting year:

- External auditor’s report;
- Audited annual account; and
- Management letter issued by the auditor, if any.

## 6. Points to Note

6.1 The recommendations in this Guide to FM are not meant to be exhaustive and IMCs may build on their existing structure to ensure that a sound and proper FM mechanism is in place having regard to their own circumstances.

6.2 This Guide, which aims at drawing IMCs’ attention to the principles and major points in FM, should be read in conjunction with Chapters 5 and 6 in the School Administration Guide for details covering day-to-day operations. IMCs should note the following operational arrangements:

- (i) \* Bank/cheque signatory – joint signatories of IMC managers (Supervisor is not mandatory)
- (ii) \* Trading operations – prior IMC (not PS(Ed)’s) approval required
- (iii) \* Collection of fines, charges and fees for specific purposes exceeding the ceilings under the blanket approval given by PS(Ed)
  - prior IMC (not PS(Ed)’s) approval required if the collection is for educational purposes and has secured express consent of the majority of parents
- (iv) Issuing receipts – official receipts should be issued by IMC schools upon request of students/parents (instead of issuing receipts for every sum of money)

\* To be effective commencing the beginning of the school year subsequent to the incorporation of IMCs.

6.3 Special topics for attention:

	Subject	Source	Gist of Source Documents	Remarks
(a)	Trading operations in schools	<u>EDBC 10/2016</u>	<ul style="list-style-type: none"> <li>• Trading operations in IMC schools should be approved by IMCs.</li> <li>• Schools should not accept donations and advantages from trading operators/suppliers unless with compelling reasons and approved by the SMCs/IMCs.</li> <li>• Any profits or net income arising from any trading operations shall</li> </ul>	<ul style="list-style-type: none"> <li>• Aided IMC schools should follow.</li> <li>• Trading operations have to be discussed and passed in IMC meetings and recorded in the minutes.</li> </ul>

	<b>Subject</b>	<b>Source</b>	<b>Gist of Source Documents</b>	<b>Remarks</b>
			<p>not be used for any purpose not directly benefiting their students without PS(Ed)'s prior written permission as stipulated in the Education Regulations.</p> <ul style="list-style-type: none"> <li>• Conflict of interests should be avoided.</li> </ul>	
(b)	Procurement procedures in aided schools	<u>EDBC 4/2013</u>	<ul style="list-style-type: none"> <li>• Aided schools should follow the Guidelines on Procurement Procedures in Aided Schools in the procurement of stores/ services.</li> <li>• SMCs/IMCs should ensure that their schools have put in place a fair, open and transparent system of procurement procedures and there are adequate checks and balances to prevent favouritism, corruption and malpractices.</li> <li>• The limit for single purchase by quotations is \$200,000. Tenders have to be arranged for purchase amount exceeding \$200,000.</li> <li>• Aided schools should not evade the financial limits by dividing procurement requirements into instalments or by reducing the usual duration of contracts.</li> <li>• Proper records of the quotations and tenders are available for inspection by EDB.</li> <li>• Declaration of interests by staff involved in procurement duties should be observed.</li> </ul>	Aided IMC schools should follow.
(c)	Fund raising activities in	<u>School Administration</u>	<ul style="list-style-type: none"> <li>• Schools are allowed to raise funds under certain</li> </ul>	<ul style="list-style-type: none"> <li>• Applicable to aided IMC schools.</li> </ul>

	<b>Subject</b>	<b>Source</b>	<b>Gist of Source Documents</b>	<b>Remarks</b>
	schools	<u>Guide</u>	<p>specified circumstances, e.g. to raise funds for approved charitable institutions or for own school purposes.</p> <ul style="list-style-type: none"> <li>Approved charitable institutions are allowed to appeal to pupils for subscriptions and/or make collection among pupils.</li> </ul>	<ul style="list-style-type: none"> <li>Such activities have to be discussed and passed in IMC meetings and recorded in the minutes.</li> </ul>
(d)	Collection of fines, charges and fees for specific purposes, and use of the Subscription (Tong Fai)/ General Funds/ Capital Reserve Fund Account	<u>EDBC 14/2012</u>	<ul style="list-style-type: none"> <li>PS(Ed) has given blanket approval for schools to collect fines, charges and fees for specific purposes in ways detailed in and subject to the conditions of the Annex.</li> <li>Collections not in accordance with the Annex by schools without IMC still require approval of PS(Ed).</li> <li>Schools are given the discretion to use the Subscription (Tong Fai)/General Funds/ Capital Reserve Fund Account to meet educational and school needs.</li> </ul>	<ul style="list-style-type: none"> <li>The Annex is applicable to aided IMC schools.</li> <li>Collections not in accordance with the Annex by aided IMC schools require approval from the IMC. IMC may approve the collection of fines, charges and fees for specific purposes exceeding the ceilings under the blanket approval given by PS(Ed) if such collection is for educational purposes and has the express consent of the majority of parents.</li> <li>Applicable to aided IMC schools.</li> </ul>

	<b>Subject</b>	<b>Source</b>	<b>Gist of Source Documents</b>	<b>Remarks</b>
(e)	Hire of accommodation in aided schools	<u>EDBC 5/2011</u>	<ul style="list-style-type: none"> <li>• The Circular sets out the guidelines and recommended charges.</li> <li>• In all cases, the hire charges should be credited to the Subscriptions (Tong Fai)/General Funds/Capital Reserve Fund Account in the first instance. Any related expenses should be charged to these accounts, and 40% of the net balance transferred to the School and Class Grant Account.</li> </ul>	<ul style="list-style-type: none"> <li>• Applicable to aided IMC schools.</li> <li>• 40% of the net balance should be transferred to the EOEBG Account which comprises School and Class Grant.</li> </ul>
(f)	Acceptance of advantages and donations by schools and their staff	<u>EDBC 3/2022</u>	<ul style="list-style-type: none"> <li>• SMCs should formulate policies and issue clear guidelines for their schools and staff on acceptance of advantages and donations by making reference to the Prevention of Bribery Ordinance.</li> <li>• The policies should include, among others, the requirement of declaration of interests by the SMC members and the staff.</li> <li>• The acceptance of donations by schools should not jeopardize the interest of students and should be approved by SMCs.</li> </ul>	Applicable to aided IMC schools.

	<b>Subject</b>	<b>Source</b>	<b>Gist of Source Documents</b>	<b>Remarks</b>
(g)	Food and drinks for staff	<u>User Guide on EOEBG para. 11 and Reminder List for using EOEBG item (g)</u>	<ul style="list-style-type: none"> <li>Souvenirs/fringe benefits to staff (including provision of food or food allowance), entertainment expenses such as lunch/dinner for staff not related to discharge of duties, administrative and management expenses of the headquarters or other service units of school sponsoring bodies, loans, donations and any other items announced via EDB circulars should not be charged to the EOEBG.</li> </ul>	Aided IMC schools should follow.
		<u>Guidelines and Forms Related to Codes of Aid for Aided Primary, Secondary and Special Schools III.5.b – Items chargeable to School and Class Grant (Item I.3)</u>	<ul style="list-style-type: none"> <li>Entertainment expenses such as lunch/dinner for staff not related to discharge of duties cannot be charged to the EOEBG or any other school funds account.</li> </ul>	Aided IMC schools should follow the ambit of the EOEBG, which comprises School and Class Grant, in the use of such grant.
(h)	Transfer of IMC income arising from the approved collection of fines, charges and fees for specific purposes to any other body and a fund separately kept by IMC	<u>Section 14.3(e) of Code of Aid for Aided Schools</u>	<ul style="list-style-type: none"> <li>Prior approval of PS(Ed) is required if an IMC wishes to transfer its income arising from the approved collection of fines, charges and fees for specific purposes to any other body or a fund separately kept by IMC.</li> </ul>	Unless approved by PS(Ed), transfer of IMC income arising from the approved collection of fines, charges and fees for specific purposes to any other body (including its sponsoring body) or to a fund separately kept by IMC is not allowed.

6.4 IMCs should observe Ordinances other than the Education Ordinance, where appropriate. For example, IMCs should take into account the Personal Data (Privacy) Ordinance when considering whether the audited accounts may be uploaded to the school website for enhancing transparency.

## **7. Other Useful FM Information for Aided IMC Schools**

- 7.1 “Tips on Handling Government Subventions for Aided Schools” — at <EDB homepage on web → School Administration and Management → Financial Management → Information on Subsidy → Reference materials on Handling Government Subventions for Aided Schools → Tips on Handling Government Subventions for Aided Schools>.

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