

30 July 2012

Education Bureau Circular No. 7/2012

Improvement Measures to Strengthen the Governance and Internal Control of Direct Subsidy Scheme (DSS) Schools

[Note: This circular should be read by –

- (a) Supervisors and Heads of Direct Subsidy Scheme Schools – for action; and
- (b) Heads of Sections – for information.]

SUMMARY

Good governance and sound internal control are the cornerstones of the success of a DSS school. This circular sets out the implementation details of the improvement measures on strengthening the governance and internal control of DSS schools as recommended by the Working Group on DSS¹ (Working Group).

DETAILS

2. The Working Group is of the view that DSS schools have added much desired diversity to the school system. Their diversity and flexibility should be respected and the Education Bureau (EDB) should continue to refrain from micro-managing DSS schools. That notwithstanding, the EDB definitely has a custodian role to play in safeguarding the interest of the public money, parents of DSS schools and the community at large. The Working Group hence comes to a view that EDB's monitoring and oversight should be complemented by DSS schools' own governance and internal accountability. The Working Group has therefore put forward recommendations² that focus mainly on setting parameters and creating an enabling environment for sound governance and internal control to take root in DSS schools. In operational terms, the emphasis is put on

¹ In response to the recommendations in the Director of Audit's Report No.55 by the Audit Commission and the Public Accounts Committee (PAC) Report No.55 by the PAC of the Legislative Council about DSS schools, the EDB set up the Working Group on DSS in February 2011 to review the administration of the DSS as well as the governance and administration systems of DSS schools. The Working Group submitted its recommendations to the Secretary for Education in December 2011, and the Secretary for Education accepted all the recommendations on 17 February 2012.

² Details of the relevant recommendations in respect of governance and internal control of DSS schools are set out in Chapter 4 of the Report of the Working Group on DSS, which can be accessed via the following link:

http://www.edb.gov.hk/FileManager/EN/Content_175/dss%20report_full.pdf.

enhancing the transparency of important management information to key stakeholders; and building a healthy management structure and culture with proper checks and balances to ensure accountability. Premised on these guiding principles, we have worked out the implementation details of the Working Group's recommendations in consultation with the DSS schools sector. Details are set out in the ensuing paragraphs.

Enhancing transparency of school governing bodies

3. The community especially parents of prospective and current students of DSS schools have expectations of greater transparency of school governing bodies. DSS schools with Incorporated Management Committee (IMC) are obliged to disclose the manager's name, tenure of office and category of manager under the Education Ordinance³. As for DSS schools with School Management Committee (SMC), the EDB will, after seeking the consent of their managers, upload the manager information including the name, tenure of office/date of registration and category of manager onto the EDB's website **as from the 2012/13 school year** for public reference. For schools with managers who have not given consent to the disclosure of their information, the EDB will add a remark indicating the number of managers concerned and the respective categories, if applicable, of these managers on the relevant part of the EDB's homepage.

Enhancing internal control mechanism

4. To facilitate enhancement of internal governance while respecting the diversity of DSS schools and obviating the need for the EDB to micro-manage DSS schools' day-to-day operation, we will work in collaboration with DSS schools to put in place a framework that comprises three inter-related aspects, viz. a self-evaluation checklist, the setting up of a functional mechanism under the SMC/IMC to assist the governing body in ensuring the integrity and faithful implementation of various key management and financial systems, and a list of essential items to be discussed at SMC/IMC meetings. Training will be provided for DSS schools in the 2012/13 school year to support their school personnel to implement the framework.

³ Section 8 of the Education Ordinance (Cap. 279) provides that the Permanent Secretary shall maintain a register of incorporated management committees, in which shall be entered -

- (a) the name of every incorporated management committee; and
- (b) in respect of each incorporated management committee, the name and tenure of office of each manager and the category of manager specified in section 40AL(2) to which he belongs.

The entries shall be made available in such manner as the Permanent Secretary thinks fit for public inspection to -

- (a) enable any member of the public to ascertain whether he is dealing with a manager; and
- (b) ensure transparency and accountability of the incorporated management committee.

(I) Completion of the Self-evaluation Checklist

5. To facilitate DSS schools' internal monitoring and help them avoid omissions of important processes in school operations occasionally associated with turnover of school managers, principals and other supporting staff, the EDB is devising a self-evaluation checklist (Checklist) covering the following four areas of school operations in collaboration with the Hong Kong DSS Schools Council for use by DSS schools:

- (a) general administration of the school governing body;
- (b) operation of school fee remission/scholarship schemes;
- (c) human resources management matters; and
- (d) financial management matters.

6. The Checklist will be put to trial use by DSS schools **in the 2012/13 school year**. DSS schools will be informed separately when the Checklist is ready for use.

7. Feedback will be collected from DSS schools on the use of the Checklist. Where necessary, refinement will be made having regard to the experience gained. It is expected that the Checklist will be put to formal use by DSS schools **as from the 2013/14 school year**. DSS schools may adapt the Checklist to suit their own needs. Nevertheless, any variation from the Checklist should be approved by the SMC/IMC and documented. All DSS schools will have to forward a completed Checklist of a certain school year to their respective governance review sub-committees for review in the following school year. Details of the governance review sub-committee are given in paragraphs 8-14 below.

(II) A Functional Mechanism under the SMC/IMC for System Review

8. DSS schools will have to set up a governance review sub-committee (or any other name the SMC/IMC sees fit) to assist their SMC/IMC in reviewing various key management and financial control systems and procedures including whether the various checks and balances are working as intended. DSS schools are required to form their respective sub-committees **before or by the end of the 2013/14 school year**. The first review should be completed by **the end of the 2016/17 school year at the latest**.

9. The guidelines on the operation of the governance review sub-committee are set out at the Appendix, which have also been uploaded to the EDB's website at the address below:

<http://www.edb.gov.hk/index.aspx?nodeID=173&langno=1>

10. To facilitate the smooth operation of the governance review sub-

committee, we have planned to devise tools and templates for the sub-committees' reference and/or use. When the tools and templates are ready for use, we will upload them to the above website. The guidelines, tools and templates will be updated as and when required.

11. A list of volunteers from the Hong Kong Institute of Certified Public Accountants who are willing to serve on the governance review sub-committee is being drawn up. Should DSS schools wish to enlist a suitable candidate with accounting or financial management background to serve on their governance review sub-committee, they may approach the School Administration 1 Section of the EDB at 3509 7459.

12. After setting up the governance review sub-committee, DSS schools are requested to inform the School Administration 1 Section of the EDB in writing at the following address:

School Administration 1 Section
Education Bureau
5/F, East Wing, Central Government Offices
2 Tim Mei Avenue, Tamar, Hong Kong

13. For DSS schools with their school sponsoring bodies having already set up a similar functional committee or with an independent audit department to carry out similar duties, they may apply to the EDB for exemption from setting up a governance review sub-committee. Applications with details of the structure, composition, and functions of the relevant committee/audit department should be sent to the School Administration 1 Section of the EDB **by end of February 2013**.

14. Applications will be considered on individual merits with due regard to whether the relevant committee/audit department will have comparable composition and discharge the same functions of the governance review sub-committee as laid down at the Appendix.

(III) Essential Items to be Discussed at SMC/IMC Meetings

15. DSS schools will have to put up the following essential matters, where applicable, to their SMC/IMC for discussion and approval **as from the 2012/13 school year** to forestall the inadvertent oversight of important administrative and management matters:

- (a) the human resources policies for senior teaching and administrative posts such as the recruitment, appointment, promotion and remuneration packages;
- (b) annual school budgets and financial report/audited account including acceptance of donations and fund raising activities;
- (c) large-scale capital works (including the SMC/IMC's determination of

what constitutes “large-scale” works);

- (d) procurement of services or goods through tendering with significant financial implications (including the SMC/IMC’s determination of the thresholds for different modes of procurement);
- (e) operation of the fee remission/scholarship scheme including an annual operational summary and criteria for the schemes;
- (f) fee revision proposals;
- (g) investment policy and update;
- (h) advisory letter(s) specifying for the attention of the SMC/IMC and/or any warning letter(s) (e.g. the management letter from EDB’s School Audit Section); and
- (i) self-evaluation on schools’ academic as well as non-academic performance under the School Development and Accountability Framework, including the endorsement of School Development Plan, Annual School Plan and School Report.

Strengthening the monitoring of school performance

16. Enhancing the governance and internal control of DSS schools and strengthening macro external oversight by the EDB are complementary measures, which should go hand in hand to ensure proper management and administration of DSS schools. Details of the measures to strengthen the monitoring of school performance are laid down in paragraphs 17 to 19 below.

Management and Financial Audit

17. Conducted on a test-checking basis, the objectives of EDB’s existing audit inspection are to evaluate whether the DSS schools have put in place adequate internal controls, proper financial management and procurement arrangements and staff remuneration policy. In order to have a more comprehensive review of the performance of DSS schools in resources management, the existing audit inspection of DSS schools will be replaced by a more comprehensive management and financial audit **starting from the 2014/15 school year**.

18. Details of the management and financial audit will be announced separately in due course. Relevant training will be provided for DSS schools before the commencement of the management and financial audit.

Measures to Ensure Compliance of Requirements

19. To enhance the existing mechanism to ensure compliance of requirements and rectification of malpractice in a timely manner, we will implement the following measures **as from the 2012/13 school year**:

- (a) If a school fails to comply with a rule or rectify a malpractice within a

given time-frame after the school is served an advisory/warning letter, the EDB will bring the non-compliance or malpractice to the attention of the school's supervisor and/or the SMC/IMC members at the earliest opportunity; and

- (b) If the non-compliance or malpractice persists after exhaustion of the steps in (a) above, the EDB will, depending on the nature of the case and the school's financial situation, post the non-compliance or malpractice of the school concerned onto the EDB's website and/or withhold part of the DSS subsidy of the school until rectification is made. Before withholding the school's DSS subsidy, the EDB will carefully assess its financial situation in order to ensure that the interests of its students will not be affected.

ENQUIRY

20. For enquiries about applications for exemption from setting up the governance review sub-committee, please contact the School Administration 1 Section of the EDB at 3509 7459. For enquiries about the implementation details of other measures, please contact the respective Senior School Development Officers.

Miss Alice YU
for Permanent Secretary for Education

**Guidelines on the Operation of the
Governance Review Sub-committee**

Composition

1. The governance review sub-committee (GRSC) will comprise at least three members appointed by the SMC/IMC, including
 - (a) one member being a manager of the school; and
 - (b) one member preferably with experience and qualification in accounting/financial management.
2. The Chairperson of the GRSC may either be elected among committee members or selected by the SMC/IMC subject to the school-based arrangement. Appointment of the Chairperson and members should be endorsed by the SMC/IMC with proper documentation.
3. To maintain the independence and credibility of the GRSC, members will serve the GRSC on a voluntary basis. As the sub-committee is formed under the SMC/IMC and reports to the SMC/IMC, members, like members of the SMC/IMC, will serve on a non-remunerated basis as well.
4. For avoiding conflict of interests, parents of students studying in the school should not be invited as a member of the sub-committee. Also, for avoiding of conflict of interests, all the members should not be among the paid staff of the school, including the principal and senior teachers/heads of functional committees of the school. The SMC/IMC of DSS schools are encouraged to enlist an independent member⁴ to serve on the GRSC to offer independent views on the school's policies and procedures. The GRSC members and school staff participating in GRSC meetings are reminded to keep confidentiality of what has been discussed and decided at GRSC meetings.
5. The GRSC may invite paid staff of a DSS school including the principal and senior teachers/heads of functional committees to attend meetings or serve as resource persons to facilitate the internal review. Restricted session(s) should be arranged for the official members of the GRSC to finalise its reports / findings for submission to the SMC/IMC.

Functions / Terms of Reference

6. In advising the SMC/IMC, the GRSC will, with the assistance of the principal and the senior teachers / heads of functional committees –

⁴ The independent manager of the SMC/IMC is also regarded as an independent member.

- (a) review school-based policies and procedures on human resources management matters including staff recruitment, promotion, remuneration, etc;
 - (b) review school-based policies and procedures on financial management matters including school budgeting, financial reporting, procurement, investment, transfer of funds from the operating reserve to designated reserves, etc; and
 - (c) review the operation of school fee remission/scholarship schemes.
7. Subject to their individual needs, the SMC/IMC may request the GRSC to assist in other management functions such as recommending persons for appointment as external auditors.
8. Specifically, key domains and areas to be reviewed are listed at Annex 1.

Implementation Timeframe and Details

9. DSS schools will have to set up the GRSC **before or by the end of the 2013/14 school year**. In principle, the GRSC is required to complete a review of all the school-based policies and procedures under the three domains as set out at Annex 1 within a three-year cycle. The number of meetings to be held by the GRSC each year will be determined by individual SMC/IMC on a need basis. The first review should be completed by **the end of the 2016/17 school year at the latest**.
10. Within the three-year cycle, the SMC/IMC should determine the areas to be reviewed each year and the GRSC should then submit a review report on studied areas to the SMC/IMC annually. The review report should contain recommendations for follow-up actions. Whether and how the review reports will be released to stakeholders of the school for information is a school-based decision to be deliberated and decided by the SMC/IMC. The EDB shall have access to such reports on a need basis, e.g. during External School Review, Management and Financial Audit, investigation of malpractices.
11. The GRSC is required to follow the above schedule in conducting the review in the first three-year cycle. As for the arrangements after the first three-year cycle, DSS schools are strongly encouraged to continue to spread the review over three years so that timely rectification or improvement can be made at the earliest possible time. Should the GRSC have justifications for a deviation from the above schedule, it may put up its proposed schedule having regard to the experience gained in the first cycle for deliberation and decision by its SMC/IMC. The decision made should be properly recorded.
12. A flowchart on the procedures on conducting the review on a specific

area is at Annex 2.

13. In case the GRSC encounters any unforeseeable difficulties beyond its ability or capacity to resolve during the course of work, it may seek the SMC/IMC's steer or recommend to the SMC/IMC for seeking external assistance, including approaching the EDB for advice or appointing external auditors or other professionals for support as appropriate.

14. Before submitting its review report to the SMC/IMC, the GRSC should give an advance copy of the review report to the principal and senior teachers/heads of functional committees of the school for information and/or comment. The school personnel may give its response to the GRSC direct. If considered necessary, the school personnel may also choose to submit a written response to the SMC/IMC so that the SMC/IMC will consider the GRSC report having regard to the written response of the school personnel concerned.

**Key Domains to be Reviewed
by the Governance Review Sub-committee**

Domain A: Human Resources Management

- Areas: (1) Staff Recruitment and Remuneration Policy
(2) Staff Performance Management System including Promotion/Demotion
(3) Complaints Mechanism (Staff and Public)
(4) Others

Domain B: Financial and Resources Management

- Areas: (1) Fees and Collections Policy
(2) Budgeting and Accounting Practices
(3) Tendering and Procurement Policy
(4) Trading Operation
(5) Investment Policy
(6) Acceptance of Advantages and Donations
(7) Fund Raising Activity
(8) Others

Domain C: School Fee Remission / Scholarship Scheme

- Areas: (1) Criteria for Awarding Fee Remission / Scholarship
(2) Application Procedures, Approving and Appeal Mechanisms
(3) Publicity of Fee Remission / Scholarship Scheme
(4) Others

Proposed Procedures on Conducting Review of School-based Policies

Step 1

CHECKING whether the school has put in place the relevant school-based policy with proper deliberation and approval of the SMC/IMC.



Step 2

EXAMINING whether

- the school-based policy is in compliance with the statutory and administrative requirements;
- the school-based policy is properly implemented; and
- there are sufficient control systems for the school-based policy and if yes, whether they are working as intended.



Step 3

RECOMMENDING improvements on the school-based policy, its implementation and control system as necessary.



Step 4

PROVIDING the principal and senior teachers/heads of functional committees of the school with an advance copy of the GRSC report for information and /or comment.



Step 5

REPORTING the findings to the SMC/IMC.