



Guidance Note on Internal Financial Controls for Charitable Fund-raising Activities

Introduction

This guidance note proposes some basic controls to be considered by charitable fund-raising organisations with a view to ensuring that the income generated from charitable fund-raising activities is spent for the designated purpose and that such income and expenditure is properly documented. In the long run, charitable organisations are encouraged to establish internal audit systems as a good practice where resources permit. Any organisation which wishes to seek further advice on internal financial control matters may contact the Advisory Services Group of the Independent Commission Against Corruption on 2526 6363.

Well-defined Organisational Structure is Essential

2. Charitable fund-raising organisations are expected to have a well-defined organisational structure clearly showing:

- demarcation of responsibility;
- lines of authorities for
 - approving payments of different financial limits,
 - issuing cheques of different amounts,
 - holding the petty cash, and
 - authorizing reimbursements from the petty cash account; and
- lines of reporting.

Right Person for the Right Job

3. Charitable fund-raising organisations should ensure that their staff members are competent, properly trained and qualified for the tasks in relation to fund-raising activities. They should have access to professional advice from accountants and auditors or other professional bodies for proper practice.

Prevention is Better than Cure

4. Segregation of duties reduces significantly the scope for errors and oversights, as well as deliberate manipulation or abuse in processing a complete transaction. The duties of income collection, preparation of receipt vouchers/official receipts, accounts recording, etc. should be carried out by different officers in order to minimize dishonest acts or accounting mistakes.

Collection of Donations

5. Charitable fund-raising organisations are expected to ensure that official receipts are issued for all donations received, where applicable. Donors should be advised to make their cheques payable to the organisation instead of individuals in the organisation. Attention should be paid to the following:

- Official receipts should be dated and issued immediately upon receiving the donations. They should be serially numbered and issued in sequence.
- Incoming post should be opened at the earliest opportunity. Cheques received by post should be recorded immediately and entries verified by someone other than the person who has made the entry.
- Spoiled/obsolete official receipts should be immediately cancelled and retained in the official receipt books.
- An official receipts register should be maintained to control the stock and issue of different types of official receipts. Unused official receipt books should be kept under lock the key to which is held by a designated staff member.
- A daily collection summary should be prepared to record daily collections. This summary should include details of the date of receipt, serial numbers of official receipts issued, the nature of donations, the name of donors (if applicable), the amount collected and the date of banking.
- All donations collected should be banked at least once a week or whenever a prescribed limit has been reached. Any money received but not yet banked should be kept under lock by designated staff members of an appropriate rank. Uncrossed cheques received should be immediately crossed in favour of the agency.

Income Records

6. Charitable fund-raising organisations should make regular checks and surprise inspections to ensure that records are being accurately maintained (so that money and other assets received can be traced through the accounting system), and that there are no discrepancies in the accounting records. These checks are to be made by someone other than the person concerned with the original recording of the transactions. Both the checks and inspections should be documented. Particular attention should be drawn to the following:

- records of cash and cheques received agree with bank paying-in slips;
- the paying-in slips equate with the bank statements, both in terms of amount banked and date of credit;
- all transfers or other direct payments into the bank can be identified and verified against paper work;
- care should also be taken to identify and administer separately any funds received where the donor has placed restrictions upon their use, and to ensure that they are only used in accordance with these restrictions.

Bank Account Transactions

7. All bank accounts should be opened in the name of the agency. Each bank account should be operated by at least 2 authorized signatories, one of which must be a member of the

management committee/board of directors and the other signatory should be either a committee/board member or a designated senior staff member according to authorized limits. More signatories should be required for large payments and the committee/board chairman should be involved in case of a very substantial amount of payment to be specified by the organisation. Unused cheque books should be kept under lock and no more than one cheque book for each bank account should be kept by the accounting staff. Obsolete or spoiled cheques should be effectively cancelled by stamping 'CANCELLED' and the cancelled cheques should be attached to the cheque book stubs. Cheques should not be pre-signed. They should only be signed upon presentation of properly authorized documents.

8. A bank reconciliation statement should be prepared monthly on each bank account and it should be verified against the pay-in slips, cheque book stubs, official receipts registry, daily collection summary, etc. to detect possible discrepancies. Follow-up actions should be promptly taken on the outstanding items on the bank reconciliation statement.

Control Measure over Payments

9. All payments must be supported by original invoices or debit notes and should be attached to payment vouchers. These payment vouchers should contain the following information:

- serially assigned voucher number;
- date;
- ledger accounts to be entered;
- description of the payment;
- amount; and
- signature of preparing officer, checking officer and approving officer.

10. All expenses must be properly authorized before payments are made. The checking and approving officers should satisfy that the expenses are properly incurred with regard to its nature and amount before approval is given. Invoices and vouchers should be effectively cancelled with a 'PAID' chop to prevent duplicate payment.

Petty Cash Payment

11. The imprest system should be implemented. Under this system, the petty cash holder is advanced a fixed float of money out of which he will pay claims of petty cash expenses. The circumstances and the financial limit of payments that can be made out of the petty cash account should be set out, and the petty cash float should be of a reasonable amount not more than that adequate for normal daily use. When the amount of the float is almost used up, he will then claim for reimbursing the amount he has paid as supported by the invoices/claim forms. Therefore, the total amount of paid invoices kept by the petty cash holder not yet claimed for reimbursement plus the cash in hand should always be equal to the amount of the fixed float. All petty cash payments should be properly authorized before they are eligible for claiming from the petty cash float.

12. A petty cash book with analyses of different types of expenditures should be maintained and regularly updated. The officer who authorizes petty cash payment should not, at the same time,

be the petty cash holder. The claimants should sign on the invoices/vouchers to evidence their receipt of the claims. All invoices/claim forms should be immediately stamped with a 'PAID' chop upon settlement of the claim to prevent duplicate payment.

13. The management of the agency should arrange surprise checks to detect and deter loss/misappropriation of cash. The checking officer should sign, date and record the result of the checking on the petty cash book. In case of any discrepancy, he should report immediately to the management for investigation and follow-up action.

Expenditure Records

14. Regular and random spot checks should be made on expenditure records to verify that:

- records of payments made agree with cheque stubs, paid invoices or other authorizations;
- cheques have been presented for payment by the bank as shown by the statement;
- petty cash records have been properly maintained; and
- regular bank reconciliation takes place and all material discrepancies have been fully explored and resolved.

Suggestion for Small Charitable Fund-raising Organisations

15. Small charitable fund-raising organisations may be confined by resources that cannot fully adopt the above internal financial controls. Nevertheless, they are suggested to strengthen their control measures with regard to the above controls as far as possible.

Helpful Hints for Various Fund-raising Activities

16. In Hong Kong, the most common fund-raising activities include flag day, collection boxes placed in stationed counters, charity sales of commodities, charity walks, charity balls, concerts, variety show and film premiere, etc. The following suggestions may be useful:-

For Flag Day

- Collectors should be properly supervised.
- Collections should be carried out by a two-person team.
- Collection bags/boxes should be properly numbered and sealed.
- Collectors should make signature upon receipt and return of collection bags/ boxes.

For Collection Boxes Placed in Stationed Counters which are manned by Collectors

- Collection boxes should be regularly open and the contents should be counted and recorded in the presence of at least two people authorized by the agency management.
- Issue of official receipts signed by the collectors, if possible, upon the receipt of donations. These receipts may be issued in two copies, one to the donor and the other to be attached to the report addressed by the collectors to their supervisor.

For Charity Sale of Commodities (such as cookies and gift packs)

- The sale proceeds should be regularly counted and recorded in the presence of at least

two people authorized by the charitable fund-raising organisation.

- Issue of official receipts signed by the collectors, if possible, upon the receipt of donations. These receipts may be issued in two copies, one to the donor and the other to be attached to the report addressed by the collectors to their supervisor.
- Reconciliation should be made between the opening and closing balances and units sold.

For Charity Walk receiving donations after the event

- Incoming post should be opened at the earliest opportunity and in the presence of two responsible people. Rotation of post-opening staff should be considered where practical.
- All incoming cheques and cash should be recorded immediately and entries verified by someone other than the person who has made the entry.
- The security of unopened mail should be ensured.

For Charity Ball, Concert and Film Premiere

- Issue of official receipts signed by the collectors should be made for each transaction of ticket sale. These receipts may be issued in two copies, one to the purchaser and the other to be attached to the report addressed by the collectors to their supervisor.
- All tickets must be pre-numbered and their issue or delivery must be properly recorded.
- A record be kept of which tickets have been sold.
- A reconciliation be made of receipts against tickets sold.

For Charity Show Through the Mass Media

- The pledged donation made by donors should be properly recorded. Should cancellation of the pledged donation be required afterwards, it has to be verified by someone other than the person who has made the entry.
- The incoming cheques and cash from the donors should be recorded immediately and entries verified by someone other than the person who has made the entry.

For Appeal for Donations Through Advertisements, Telephone Calls, Letters and Leaflets

- Similar controls as charity walk.

Social Welfare Department
November 2004