

Requirements in Financial Reporting under Lump Sum Grant Subvention System

**Subvention Finance Section
Social Welfare Department**

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Reporting Requirements

Governed by

**Lump Sum Grant Manual
&
Lotteries Fund Manual**



**Annual Financial
Report (“AFR”)**

**Audited Financial
Statements of the
agency as a whole**

**Auditors' Review
Report according
to Practice Note
851 issued by
HKICPA**

**Auditors'
Management
Letter**

Submission Deadline

- No later than 31 October following the end of the financial year

AFR Basis of preparation

- Cash Basis

Objectives of Review of AFR

To ensure:

- 1. LSG reported in AFR = Subventions released by SWD during the year**
- 2. Correct balances of various Reserves are brought forward from last year**
- 3. Reasonable explanations are obtained for significant increase of expenditure items**

To assess the clawback, if any

Common Errors

Errors	Points to Note
<i>Incorrect amount of subvention Income</i>	Subventions for LSG and PF reported in AFR should <u>tally</u> with the SWD's actual allocations during the year
<i>Inclusion of accrual items</i>	Items of <u>non-cash</u> nature, like depreciation, accrued leaves, should <u>not</u> be charged to AFRs
<i>Missing of Required Adjustments</i>	Adjustments relating to previous years recommended by SWD during accounting inspection / review of AFR should be made

Common Errors

Errors	Points to Note
<i>Error relating to investment of Reserves</i>	The accumulated reserves should be deposited in <u>separate</u> interest-bearing bank accounts
<i>Error relating to apportionment of expenses</i>	Expenditure (e.g. central administration) should be apportioned <u>between</u> subvented and non-subvented activities on a reasonable basis
<i>Capital items wrongly charged to LSG</i>	Expenditure of capital items covered by grants from Lotteries Fund should <u>not</u> be charged to AFRs

LSG Clawback

- The LSG Reserve at the financial year end will be capped at 25% of the NGO's operating expenditure (excluding Provident Fund expenditure) for that year.
- Any amount above this cap needs to be refunded to the Government.

Holding Account

Calculation of LSG Clawback with Holding Account

- (i) The cumulative LSG Reserve as at 31.3.2007 will continue to be carried forward to the next year and this amount of cumulative reserve will be utilized to offset any LSG deficit incurred in subsequent years.
- (ii) For calculation of clawback, the brought forward balance of the LSG Reserve as at 1.4.2007 will be taken as zero.

Illustration of Clawback Calculation Case I

Assumptions:

Balance of Holding Account	X
Deficit for the year	X
Particulars	\$
Balance of Holding Account as at 31.3.2007	-
Lump Sum Grant including interest as at 31.3.2010	1,000,000
Operating Expenditure for 2009/10	600,000
Provident Fund paid for 2009/10	100,000

Case I

Calculation of Clawback Amount for LSG Reserve for 2009-10

			\$
Closing balance of LSG Reserve			1,000,000.00
<u>Less</u> : Balance of Holding Account			-
Clawback amount not yet reflected			-
	(A)		<u>1,000,000.00</u>
			\$
Total Expenditure for the year			600,000.00
<u>Less</u> : Provident Fund Paid for the year			<u>(100,000.00)</u>
Operating Expenditure for the year			<u>500,000.00</u>
25% on operating expenditure for the year	(B)		<u>125,000.00</u>
Amount of LSG Reserve above 25% Cap subject to Clawback	(C) = (A)-(B)		<u><u>875,000.00</u></u>

Illustration of Clawback Calculation Case 2

Assumptions:

Balance of Holding Account

✓

Deficit for the year

X

Particulars

\$

Balance of Holding Account as at 31.3.2007

900,000

Lump Sum Grant including interest as at 31.3.2010

1,000,000

Operating Expenditure for 2009/10

600,000

Provident Fund paid for 2009/10

100,000

Case 2

Calculation of Clawback Amount for LSG Reserve for 2009-10

		\$
Closing balance of LSG Reserve		1,000,000.00
<u>Less:</u> Balance of Holding Account		(900,000.00)
Clawback amount not yet reflected		-
	(A)	<hr/> 100,000.00

	\$
Total Expenditure for the year	600,000.00
<u>Less :</u> Provident Fund Paid for the year	<u>(100,000.00)</u>
Operating Expenditure for the year	<u>500,000.00</u>

25% on operating expenditure for the year (B) 125,000.00

Amount of LSG Reserve above 25% Cap subject
to Clawback (C) = (A)-(B)

-

(If (C) is smaller than 0, no clawback)

Illustration of Clawback Calculation Case 3

Assumptions:

Balance of Holding Account	✓
Deficit for the year	✓
Particulars	\$
Balance of Holding Account as at 31.3.2007	900,000
Lump Sum Grant including interest as at 31.3.2010	700,000
Operating Expenditure for 2009/10	600,000
Provident Fund paid for 2009/10	100,000

Case 3

Calculation of Clawback Amount for LSG Reserve for 2009-10

		\$
Closing balance of LSG Reserve		700,000.00
<u>Less:</u> Balance of Holding Account		(900,000.00)
Clawback amount not yet reflected		-
	(A)	<u>(200,000.00)</u>

	\$
Total Expenditure for the year	600,000.00
<u>Less :</u> Provident Fund Paid for the year	<u>(100,000.00)</u>
Operating Expenditure for the year	<u>500,000.00</u>

25% on operating expenditure for the year (B) 125,000.00

Amount of LSG Reserve above 25% Cap subject to Clawback (C) = (A)-(B) -

(If (C) is smaller than 0, no clawback)

Case 3

Closing Balance of Holding Account

	\$
Balance of Holding Account as at 1.4.2009	900,000
<u>Less: Deficit for the year</u>	<u>(200,000)</u>
Balance of Holding Account as at 31.3.2010	<u>700,000</u>

Q & A

-End-

THANK YOU

You may obtain softcopy of AFR on SWD Webpage. The link is :

<http://www.swd.gov.hk/doc/ngo/2010-11-AFR.doc>