



# **Sharing of Common Findings in Accounting Inspections for Subvented NGOs**

**Social Welfare Department  
Subvention Inspection Unit / Finance Branch  
6 May 2022**



# AGENDA

- ▶ Financial Reporting Requirements
- ▶ Procurement Procedures
- ▶ Internal Control



# Financial Reporting Requirements

LSG Manual	Requirements
Para. 3.3	NGOs must ensure proper books of account and other accounting records are kept for all transactions, <b>separately identified into Funding and Service Agreement (FSA)</b> activities and support services, and non-FSA activities.
Para. 3.4 (c)	A separate <b>Operating Income and Expenditure Account</b> must be kept for <b>each subvented service unit</b> and be separated into FSA and non-FSA.



# Financial Reporting Requirements

LSG Manual	Requirements
Para. 3.7	The basic financial reporting requirement is the submission of the <b>Annual Financial Report (AFR)</b> together with a review report thereon issued by the external auditors in respect of all FSA activities (including their support services to FSA activities), and the <b>audited financial statements of the NGO as a whole.</b>
Para. 6.1(b) of Annex 8	Programme income and expenses should be separated. Expenses should not be paid out (or <b>netted off</b> ) the programme income.



# Financial Reporting Requirements

## Common Findings

Findings	Example
Incorrect reporting under LSG in the AFR	<ul style="list-style-type: none"><li>• Income &amp; expenditure for non-target groups</li><li>• Designated subsidies (e.g. funding for anti-COVID 19)</li><li>• Block Grant, Social Welfare Development Fund</li></ul>
Unrecognised expenditure charged to LSG	<ul style="list-style-type: none"><li>• Penalty or surcharge for late payment of MPF contribution</li><li>• Bank charges for bank overdrafts</li><li>• Entertainment expenses (e.g. celebration gift and dinner)</li></ul>
Omission of FSA/FSA-related items	<ul style="list-style-type: none"><li>• Production income and expenses of sheltered workshops</li></ul>



# Financial Reporting Requirements Common Findings

Findings	Example
Unauthorised deployment of LSG Reserve	<ul style="list-style-type: none"><li>• LSG Reserve was found used for settling payments for projects funded by Lotteries Fund (LF), resulting in the <b>shortfall of cash and bank balance</b></li></ul>
Investment of LSG Reserve	<ul style="list-style-type: none"><li>• LSG Reserve were found placing with other funds in the same bank account instead of kept in a <b>separate interest-bearing bank account</b></li><li>• Total value of fixed deposit with any one bank shall not exceed \$500,000 or 20%/50% of the balance of the LSG Reserve prevailing at the time of investment, whichever is the greater <i>(Note: 20% if the LSG Reserve is \$100 million or above and 50% if the LSG Reserve is under \$100 million)</i></li></ul>



# Financial Reporting Requirements Common Findings

Findings	Example
<ul style="list-style-type: none"><li>• Incorrect basis in preparation for AFR</li></ul>	<ul style="list-style-type: none"><li>• Incorrectly applied accrual basis instead of cash basis in preparing the AFR</li><li>• Expenses were <b>netted off</b> against income, instead of presented in gross</li></ul>



# Procurement Procedures

LSG Manual	Requirements
Para. 3.24	<b>NGOs should be accountable</b> to the public for the use of public resources and should always be prepared to account for their purchase decisions. Hence, NGOs are obligated to achieve the <b>best value of money</b> for their procurements.
Para. 3.25	<ul style="list-style-type: none"><li>• To ensure <b>transparency, open and fair competition</b>, all requirements and specifications of the intended procurement should be clear and made known to all the possible suppliers and contractors. All tenderers and suppliers should be treated on equal footing.</li><li>• To achieve the above, NGOs should draw up procurement guidelines of their own <b>in line with those of the prevailing LF Manual</b>.</li></ul>





# Procurement Procedures

## ► LF Manual (Jan 2022)

### 6.2 Quotation and Tender Ceilings

6.2.1 Except as provided in paragraphs 6.3.2 and 6.7.10 below, the quotation/ tender ceilings are as follows –

<b>Value of a single procurement / contract</b>	<b>Quotation / tender requirement</b>
(a) Not exceeding \$5,000	Quotations or tenders may be dispensed with.
(b) Exceeding \$5,000 and not exceeding \$20,000	NGOs should obtain quotations from at least two contractors or suppliers. All verbal quotations should be properly documented or confirmed in writing. Written quotations are however required for the appointment of APs/ Consultants.
(c) Exceeding \$20,000 and not exceeding \$50,000	NGOs should obtain written quotations from at least two contractors or suppliers.



# Procurement Procedures

- (d) (i) For works projects exceeding \$50,000 and not exceeding \$2,000,000
  - (ii) For services exceeding \$50,000 and not exceeding \$700,000
  - (iii) For stores exceeding \$50,000 and not exceeding \$300,000
- NGOs should obtain written quotations from at least five contractors or suppliers, although some form of tendering (open or restricted where justified) is generally preferred, especially for higher value contracts.
- 
- (e) (i) For works projects exceeding \$2,000,000
  - (ii) For services exceeding \$700,000
  - (iii) For stores exceeding \$300,000
- NGOs must conduct tendering<sup>4</sup> with tender documents containing all requirements and specifications. Where a marking scheme is adopted for assessment of tenders, this should be drawn up before inviting tenders.

<sup>4</sup> NGO should ensure the number of returned tenders should not be less than five in general.



# Procurement Procedures Common Findings

- ▶ Procurement procedures were found **less stringent** than those set out in LF Manual
- ▶ **No or insufficient quotations** were obtained for procurements; and no proper documentation of the justification for exercising of exceptional approval by the Board or its delegate
- ▶ To procure similar / same items within a short period to **bypass the procurement threshold limit** (i.e. split order)



# Internal Control

LSG Manual	Requirements
Para. 3.23	<ul style="list-style-type: none"><li>• Internal control is fundamental to sound and prudent financial management. NGOs should always ensure that <b>adequate internal controls</b> are in place having regard to the nature and size of their organisation and the services provided.</li><li>• Advice on internal control procedures in respect of important financial activities has been provided and is set out in Annex 8 of LSG Manual.</li></ul>



# Internal Control

Annex 8 of LSG Manual

1. Revenue Collection and Receipt
2. Safe Custody of Cash, Cheque and Valuables
3. Bank Account and Cheque
4. Petty Cash
5. Payment
6. Programme Income and Expenses
7. Fixed Assets



# Internal Control Common Findings

## 1. Revenue Collection and Receipt Official receipt book registers (ORBR)

- ▶ ORBR were found **not maintained** to control the stock and issue of different types of official receipt book
- ▶ Custodian and issuing officer did not **sign and date** upon receipt of / issue of / return of official receipt books
- ▶ Custodian / issuing officer signed on the wrong column in the Register

Register of Official Receipt Book

New receipt books							Completed/ obsolete receipt books	
Received			Issued				Date of Return	Signature of custodian
Date	Serial Number		Date	Serial Number		Signature of issuing officer		
	From	To		From	To			



# Internal Control Common Findings

## 1. Revenue Collection and Receipt

### Official Receipts

- Official receipts were **not** issued in **sequential order**
- Manual official receipts issued were **not signed** and **dated**, and **without the Centre's / NGO's chop**
- Obsolete / cancelled official receipts were not stamped with the word **"CANCELLED"**









# Internal Control Common Findings

2. Safe Custody of Cash, Cheque and Valuables
  - Cash / cheques received were **not banked once a week** or whenever a **pre-approved limit** has been **reached**
  - Loss of assets were **not immediately reported** to the Management



# Internal Control Common Findings

## 3. Bank Account and Cheque

- Bank reconciliation statement (BRS) was **not prepared and reviewed monthly**
- BRS were not properly **signed and dated** by the preparing officer and the reviewing officer to evidence the review
- Long outstanding items on BRS were **not followed up promptly**
- Spoiled or obsolete cheques were not stamped with **“CANCELLED”**. In some cases, the cancelled cheques were not attached to the cheque stubs



# Internal Control Common Findings

## 3. Bank Account and Cheque Cheque Book Register

- Custodian and issuing officer did not **sign and date** in the Cheque Book Register upon receipt of / issue of / return of cheque books
- Custodian / issuing officer signed on the **wrong column** in the Register

Cheque Book Register

Received			Issued				Returned Cheque Stubs		
Date	Cheque Number		Signature of custodian	Date	Cheque Number		Signature of issuing officer	Date of Return	Signature of custodian
	From	To			From	To			



# Internal Control Common Findings

## 4. Petty Cash

- Imprest System was not properly implemented:
  - Reimbursement of petty cash claims was **not directly from the petty cash flow** but from the month end topping up
  - Topping up of the petty cash float was **at a fixed sum** instead of the actual shortfall below the threshold
- Approving officer did **not sign and /or date** on invoices / claim forms
- Approving officer approved his/her **own petty cash claims**
- Claimants did **not sign and / or date** on invoices/ claim forms **to acknowledge receipt** of reimbursement



# Internal Control Common Findings

## 4. Petty Cash

- Invoices / Receipts were not stamped with the word **“PAID”** upon settlement of the claims to avoid duplicate payment.
- Surprise cash count was **not conducted** or **less than 3 times a year** by some NGOs.
- Result of surprise cash count was **not properly documented**



# Internal Control Common Findings

## 5. Payment

- Paid invoices were not stamped with the word **“PAID”** to avoid duplicate payment
- Some **information were found missing** in the Payment vouchers e.g. serially assigned voucher number, date, ledger accounts to be posted, description of payment, cheque number, etc.
- Monthly **Paylist** of salaries and allowances was **not signed and dated** by the preparer and checking officer



# Internal Control Common Findings

6. Programme Income and Expenses
  - Financial reports were **not prepared** and/or **reviewed within one month** after completion of the programmes
  - Unspent advances / claims were thus returned / reimbursed later than one month after the completion of the programmes





# Internal Control Common Findings

## 6. Programme Income and Expenses

Sample of Programme Budget

Programme Code : \_\_\_\_\_  
Name of the Programme : \_\_\_\_\_ Date of the Programme : \_\_\_\_\_

Budgeted Programme Expense Items	Amount (\$)
Food	
Travelling/ Transportation	
Printing and Stationery	
Promotion	
Decoration	
Gifts	
Souvenir	
Photographs	
Miscellaneous	
<b>Total Expenses (a):</b>	

Budgeted Programme Income	Amount (\$)
Programme Fee Income (\$) _____ x (no. of participants)	
<b>Total Income (b) :</b>	
<b>Budgeted Surplus/ (Deficit) (b) – (a)</b>	

**Amount of Advance :**

Cash \$ \_\_\_\_\_ (Payment Voucher No. \_\_\_\_\_)  
Cheque \$ \_\_\_\_\_ (Cheque. No. \_\_\_\_\_)  
(Payment Voucher No. \_\_\_\_\_)  
Prepared by : \_\_\_\_\_ Date : \_\_\_\_\_  
Checked by : \_\_\_\_\_ Date : \_\_\_\_\_  
Advanced received by: \_\_\_\_\_ Date : \_\_\_\_\_

Sample of Programme Financial Report

Programme Code : \_\_\_\_\_  
Name of the Programme : \_\_\_\_\_ Date of the Programme: \_\_\_\_\_

Actual Programme Expense Items	Voucher Reference	Amount (\$)
	A/C folio	
Food		
Travelling/ Transportation		
Printing and Stationery		
Promotion		
Decoration		
Gifts		
Souvenir		
Photographs		
Miscellaneous		
<b>Total no. of vouchers</b>		<b>Total Expenses (a):</b>

Actual Programme Income	Amount (\$)
Programme Fee Income (\$) X _____ (no. of participants per attendance record)	
<b>Total Income (b):</b>	
Actual Surplus/ (Deficit)	<b>(b) – (a)</b>
	<b>Total:</b>

Advance	Amount (\$)
Cash	
Cheques (CHQ No.: _____)	
<b>Total Advance :</b>	
<b>Less : Total Expenses :</b>	
<b>Surplus to be refunded/ (Deficit to be reimbursed) :</b>	

Prepared by : \_\_\_\_\_ Date : \_\_\_\_\_  
Checked by : \_\_\_\_\_ Date : \_\_\_\_\_  
Refund received by : \_\_\_\_\_ Date : \_\_\_\_\_  
Reimbursement received by : \_\_\_\_\_ Date : \_\_\_\_\_



# Internal Control Common Findings

## 7. Fixed Assets

- Some of the assets were **not labelled** /marked with an **assigned serial number** to facilitate physical checking of assets
- Some of the **information** such as description of the assets, assigned asset numbers, physical location, date and cost of acquisition, source of fund to acquire the assets, date of disposal etc. for each item **were missing** in the Fixed Asset Register

Fixed Asset Register

Fixed Asset Label No.	Description	Location	Additions			Disposal		
			Date	Amount (\$)	Source of Fund	Date	Reason	Approval Reference



# Internal Control Common Findings

## 7. Fixed Assets

- The date of approval for disposal of assets were **later than the disposal date**
- Though annual physical check were claimed to be conducted, **result of checking was not properly recorded** or evidenced by signature of the checking officer and reviewing officer
- In some cases, **part of the result** of the physical checking **was missing** (i.e. signature / initial of the checking officer were not found for some items)



# New Measures for Expediting the Implementation of Internal Control Recommendations

Under existing practice, upon receiving SWD's management letters (M/Ls), NGOs are required to

- give initial response within 1 month
- review the internal control procedures of all service units and take necessary follow up actions

To expedite the implementation of our recommendations, NGOs will be further requested to [within 6 months from the date of our M/Ls]

- **table our management letter at the board meeting** to draw members' attention and provide the relevant part of the board meeting notes to SWD for record
- **provide an updated version of your accounting and financial procedures** together with the relevant **supporting documents to evidence the implementation** of the recommendations



**Thank You!**