

## **LEGISLATIVE COUNCIL PANEL ON WELFARE SERVICES**

### **Charitable Fund-raising Activities**

#### **PURPOSE**

This paper informs Members of the Administration's plan to enhance the monitoring of charitable fund-raising activities.

#### **BACKGROUND**

##### *Existing Regulatory Regime*

2. Under Section 88 of the Inland Revenue Ordinance, Cap.112, the Inland Revenue Department grants tax exemption to charitable institutions or trusts of a public character. While there is no legislation specifically to control charitable fund-raising activities, the Director of Social Welfare (DSW) issues Public Subscription Permits under Section 4(17)(i) of the Summary Offences Ordinance (Cap. 228) for any collection of money or sale or exchange for donation of badges, tokens or similar articles for charitable purposes in public places.

3. In exercising the statutory power to grant a permit, DSW imposes conditions in the permit specifying a number of accounting and transparency requirements. These include audit of the accounts by a qualified accountant with a certified copy of the accounts forwarded to the DSW within a specified period, publication of the accounts in at least one local Chinese language newspaper and one local English language newspaper.

4. On 27 February 2003, the Ombudsman published the results of her direct investigation on the mechanism for monitoring charitable fund-raising

activities. She recommended, in short to medium term, drawing up a code of practice and setting up a voluntary registration system. She also requested the Administration to review in the longer term the adequacy and appropriateness of the present Government policy and practice on monitoring Charities in general and their fund-raising activities in particular.

### ***Public Consultation***

5. The Social Welfare Department (SWD) carried out a public consultation exercise between 19 August and 30 September 2003 on the following-

- (a) Drawing up a Reference Guide for Charities on Best Practices for Fund-raising Activities (Reference Guide). The Reference Guide will include best practices in the areas of donors' rights, fund-raising practices and accounting / auditing requirements to meet standards of transparency and public accountability.
- (b) Charities which voluntarily undertake to comply with the provisions of the Reference Guide may apply to have their names included in a Public Register maintained by SWD, which would be posted on the SWD website for information of the general public. Given the voluntary nature of the system, SWD would not seek to enforce the provisions in the Reference Guide in each and every Charity on the Public Register. Instead, SWD would consider complaints against Charities on the Public Register of contravening the provisions of the Reference Guide. Where a complaint is substantiated, SWD may consider removing that Charity's name from the Register.

— The consultation document is attached at **Annex I**.

6. At the end of the consultation period, the Administration received comments from 62 organisations / individuals. There was a general consensus on the principles of increasing transparency and accountability of Charities and their fund-raising activities. About 38.6% of the comments supported the Government's proposals explicitly, 54.4% had no objection or supported in general whereas 7% were against. There were concerns expressed over other specific aspects as summarized in **Annex II**.

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## *Way Forward*

7. Having regards to the comments received during public consultation and the advice of the Lotteries Fund Advisory Committee (LFAC) which is responsible for advising DSW on, amongst others, fund-raising issues and the Social Welfare Advisory Committee (SWAC), we now propose as a first step to finalize and promulgate a Reference Guide on Best Practices for Charitable Fund-raising Activities for voluntary compliance by Charities. The proposed Public Register will not be considered at this stage for the reasons stated below–

- (a) A voluntary registration system will not be able to help the public identify the so-called “dubious” Charities. In practice, such a registration system may only produce a list similar to that of Section 88 of the Inland Revenue Ordinance.
- (b) If a compulsory registration system is introduced, stringent vetting and review procedures have to be put in place which will have considerable resource implications. Furthermore, the procedures and the need to ensure cost recovery for such a system may inadvertently stifle the fund-raising activities of Charities, in particular small-scale Charities.

8. A Reference Guide on Best Practices for Charitable Fund-raising Activities with best practices in areas of the donors’ rights, fund-raising practices and financial accountability is at **Annex III** which has taken into account comments received during the public consultation and the advice of LFAC and SWAC. The Reference Guide discourages applying undue pressure on donors or prospective donors, encourages the Charities to disclose more of their financial information and to minimize the fund-raising costs. The Charities which voluntarily adopt the Reference Guide may choose to adhere to all or only part of the Guide. The Reference Guide can also serve as a reference for the public in gauging the practice of a Charity in fund-raising. We will conduct a review in a year’s time after its promulgation to ascertain its progress. Whether we would need to revisit the proposal of a public register may also be considered in the light of this.

## **RELATED ISSUES**

9. Since 1998, the Administration has been distributing to the Charities for reference a set of Guidance Note on Internal Financial Controls for Charitable Fund-raising Activities (Guidance Note) which includes advice in safe custody of cash, proper documentation of income and expenditure generated from charitable fund-raising activities, etc. With the assistance of the Hong Kong Society of Accountants and the Independent Commission Against Corruption, the Guidance Note has recently been updated (**Annex IV**). SWD will proceed to issue this new version in conjunction with the launch of the Reference Guide.

10. Members may also wish to note that the Hong Kong Council of Social Service has recently introduced a “Pledge on Donors’ Rights” scheme among its member organisations for self-regulation and self-discipline. The Scheme aims at building a closer and more sustainable relationship between Charities and donors through proactive and voluntary commitment of non-governmental organizations to respect and protect the donors’ rights of the Pledge.

## **ADVICE SOUGHT**

11. Members are invited to note the Administration’s recommendations in paragraphs 7 to 9 above.

Health, Welfare and Food Bureau / Social Welfare Department  
July 2004



**Annex I**

**Public Consultation on  
Monitoring Charitable Fund-raising Activities**

**Social Welfare Department  
August 2003**



## **The Proposed Reference Guide for Charities on Best Practices for Fund-raising Activities and Public Register**

### **Purpose**

The Government is now conducting public consultation on a new proposed mechanism to help monitor charitable fund-raising.

### **Background**

2. Under Section 88 of the Inland Revenue Ordinance, Cap.112, the Inland Revenue Department grants tax exemption to charitable institutions or trusts of a public character. While there is no legislation specifically to control charitable fund-raising activities, on public order ground the Director of Social Welfare issues permits under Section 4(17)(i) of the Summary Offences Ordinance for any collection of money or sale or exchange for donation of badges, tokens or similar articles for charitable purposes in public places. The Commissioner for Television and Entertainment Licensing issues licences under the Gambling Ordinance for the conduct and sale of lotteries.

3. The scope of control of the permits and licences mentioned above does not cover charitable fund-raising activities appealing to the public for donations in various other forms (e.g. balls, concerts, dinners, walks, premieres, shows, appeals by mail/phone/advertisement/mass media, etc) or conducted in places otherwise than those specified in the Ordinances.

4. There have been occasional calls from the public, the Director of Audit, the Ombudsman and the LegCo Members for greater transparency and accountability with regard to the raising and disposal of funds for charitable purposes.

5. One suggestion expressed over the years is to require Government to monitor each and every fund-raising activity to prevent malpractices by way of,



for example, expanding the scope of the aforementioned Permit to cover all fund-raising activities. This is however unrealistic. Not only would this incur substantial manpower and resources for the Government, it would entail additional administrative costs and onerous bureaucratic requirements on the fund-raisers, which may in turn stifle any goodwill to raise funds in support of a worthy cause. In view of the large number of organisations and the extensive activities involved, the effectiveness of a comprehensive control system is doubtful.

6. Another body of community opinion suggests total non-intervention by Government: donors pick the beneficiaries of their choice and rely on the reputation of the charities concerned. This however does not address the complaint of organisations with doubtful identity or status appealing to the public for funding support as donors have little ready means to verify the identity of the organisations. It might also be detrimental to the less well-known charities as in the absence of a system of verification, donors may tend to support the larger charities.

### **Proposal**

7. After careful consideration of the relevant factors and to strike the proper balance, the Government considers it desirable to enhance administrative measures to work out a voluntary system on a self-regulatory basis. The system aims to enable donors to make an informed choice when making donations or to check about the identity or status of the fund-raising body when in doubt. This approach has been endorsed by the Social Welfare Advisory Committee and is consistent with the Ombudsman's recommendations published in February 2003.

8. The Social Welfare Department (SWD) has been tasked to work out and administer the proposed system which is now outlined in the Enclosure, acting on the advice of the Lotteries Fund Advisory Committee. In summary, a Reference Guide for Charities on Best Practices for Fund-raising Activities (the Reference Guide) would be drawn up. The Reference Guide will include best practices in the areas of donors' rights, fund-raising practices and accounting/



auditing requirements to meet standards of transparency and public accountability. Charities which *voluntarily* undertake to comply with the provisions of the Reference Guide may apply to have their names included in a Public Register maintained by SWD, which would be posted on the SWD website for information of the general public. Given the voluntary nature of the system, SWD would not seek to enforce the provisions in the Reference Guide in each and every charity on the Public Register. Instead, SWD would consider complaints against Charities on the Public Register of contravening the Reference Guide. Where a complaint is substantiated, SWD may consider removing that charity's name from the Register.

9. Compared to an expanded statutory licensing and control scheme, which carries the implications of creating an onerous burden on the charities and the licensing authority and runs the risk of stifling such non-government initiatives to support the community, the proposed approach is preferred, at least for an initial period. This is regarded as a gradual and progressive approach to address public concern. The mounting of a public register that is readily accessible for charities meeting the same benchmark standards and practices would be part of a worthwhile educational process; donors should try to get to know the charity that they intend to support. The advantages of inclusion onto the public register may not be fully appreciated by well-established charities that are already household names. However, for smaller charities doing very good work, the public register would provide them with a means to assure the public that they are adopting good practices to ensure the proper use of funds raised, to attract potential donors and to gain their trust. As a corollary, non-compliance with the Reference Guide leading to the possibility of removal from the public register is considered an effective sanction.

10. As the Reference Guide would play a crucial role in the proposed mechanism, its provisions should be able to address the concerns of the public on proper fund-raising behaviours and yet should also be practicable for charities to adopt. Views on the Reference Guide are therefore being sought from the stakeholders.





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**Advice sought**

11. Comments from the charities or the general public on these proposals are welcomed. Please send your views and comments by letter or e-mail to SWD at the following address on or before **30 September 2003** -

30/F Wu Chung House  
Lotteries Fund Projects Section  
Social Welfare Department  
213 Queen's Road East  
Wanchai  
Hong Kong

Enquiry telephone number : 2832 4376

E-mail address : [grlfp@swd.gov.hk](mailto:grlfp@swd.gov.hk)

Social Welfare Department  
August 2003



**Enclosure**

## **Proposed Mechanism of the Public Register System**

### Preamble

1. The Lotteries Fund Advisory Committee (LFAC) will work out and administer a Reference Guide for charitable fund-raising. Charities\* which voluntarily undertake to adopt the Guide will be included in a public register maintained by Social Welfare Department (SWD) upon application. While SWD will not enforce or monitor the Guide implementation, a charity which no longer adopts the Guide, loses its charity status or found to be non-compliant with the Guide (upon investigation by SWD on receipt of complaints) will be removed from the register. The register will be uploaded to the SWD website for public inspection to assist the public to make informed choices of donation.

### LFAC

2. LFAC, comprising representatives of charities, community leaders and District Council Members, would advise the Director of Social Welfare (DSW) on charitable fund-raising issues, assist her to draw up and update the Reference Guide as and when necessary and review the operation of the public register. Specifically, LFAC will advise DSW on –
  - (a) the preparation and updating of a Reference Guide for charitable fund-raising; and



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- (b) the adjudication of complaints relating to the Guide viz. whether certain specific action conducted by a charity contravenes the Guide.

\*Note: charities or charitable organisations are normally defined as those tax-exempted institutions covered under Section 88 of the Inland Revenue Ordinance.

The Reference Guide for Charities on Best Practices for Fund-raising Activities  
(Reference Guide)

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3. The Reference Guide is at the Appendix, covering Donors' Rights, Fund-raising Practices and Financial Accountability.
  4. The Reference Guide will be drawn up in consultation with, amongst others, the charities, the Hong Kong Society of Accountants and ICAC Corruption Prevention and will be circulated widely for public consultation before finalization.
  5. The Guide will be widely publicized and will be uploaded to SWD's website. It will be refined and updated by LFAC with experiences gained.
  6. SWD or LFAC will not monitor or enforce adherence of the Guide. However upon receipt of complaints against certain action of a charity which is on SWD's Public Register being deviated from the Guide, LFAC will adjudicate whether the complaint is valid after studying information available to it. If a



complaint could be established, after the adjudication of LFAC, the details of the complaint, the replies from the charities as well as the result of adjudication would be posted to SWD's website.

#### Public Register

7. SWD will set up and maintain a Public Register of NGOs which have adopted the Reference Guide voluntarily. This may be proved by the charity's governing board passing a formal resolution to do so. The Register will include also the contact detail (e.g. address, telephone number, web-site and e-mail address) of the charities. It will be updated periodically upon confirmation by the charities of their continued charity status (under Section 88 of the Inland Revenue Ordinance) and their continued adoption of the Guide. LFAC may advise DSW to consider removing the name of the charity from the register temporarily or permanently if the charity is found to have contravened the Guide. The name of a charity may also be removed from the Register if DSW, in consultation with LFAC, is not satisfied that it is a suitable organisation to have its name appear on the public register e.g. if the charity has been convicted of some criminal offences. The Register will also be posted to SWD's website.
8. The Public Register would assist prospective donors to make informed choices of donation. In this connection, it would also serve as a platform for charities to let prospective donors to be aware of their objects and activities through the linkages to the charities provided.



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Possibilities for further consideration

9. When the system is on firm footing, SWD may consider according priorities to charities on the register in processing applications for Public Subscription Permits for flag days or other fund-raising activities issued under S.4(17)(i) of the Summary Offences Ordinance. Eventually, SWD may make the adoption of the Guide an eligibility criterion of applications for all Public Subscription Permits.



**THE REFERENCE GUIDE FOR  
CHARITIES ON BEST PRACTICES FOR  
FUND-RAISING ACTIVITIES**

Introduction

1. This draft document is being developed by the Social Welfare Department (SWD) for consultation purpose. The aim of the future finalized document is mainly to provide a set of benchmarks for the charities\* that solicit and receive donors' financial support to assure donors of their integrity and accountability.
2. Charities that adopt this Reference Guide commit to fund-raising practices that respect donors' rights to truthful information and to privacy. They also commit to manage responsibly the funds that donors entrust to them, and to report their financial affairs accurately and completely.
3. Donors or prospective donors who have questions or concern about fund-raising activities should contact the charity on whose behalf the funds are being solicited. Charities that adopt the Reference Guide are committed to deal with such queries promptly and fairly. SWD also provides information and receives complaints about charities which appear on its Public Register (see paragraph 5 below) of contravening the Reference Guide.
4. In order to be recognized by the SWD as having adopted this Reference Guide, a charity's governing board must pass the following motion as a formal resolution:

\*Note: charities or charitable organisations are normally defined as those tax-exempted institutions covered under Section 88 of the Inland Revenue Ordinance.



“[Name of charity] hereby adopts the HKSAR Social Welfare Department’s Reference Guide for Charities on Best Practices for Fund-raising Activities as its policy. In so doing, members of the governing board commit to being responsible custodians of donated funds, to exercise due care concerning the governance of fundraising and financial reporting, and to ensure to the best of their ability that the organisation adheres to the provisions of the Reference Guide. It is hereby confirmed that each member of the governing board has received a copy of the Reference Guide and that a copy will also be provided to each person who subsequently joins the governing board.”

5. Charities that adopt the Reference Guide may, subject to successful application, be added to SWD’s Public Register. Details of the application procedures and the registration form could be found at (website address) or by contacting (details).

#### A. Donors’ Rights

1. All donors (individuals, corporations, and foundations) are entitled to receive an official receipt for the amount of the donation. The charity’s governing board may establish a minimum amount for the automatic issuance of receipts, in which case smaller donations will be receipted only upon request. The level of this minimum amount should be made known to donors and prospective donors.
2. All fund-raising solicitations by or on behalf of the charity will disclose the charity’s name and the purpose for which funds are requested. Printed solicitations (however transmitted) will also include its address or other contact information.
3. Donors and prospective donors are entitled to the following (or an opportunity to examine the following), promptly upon request:
  - (a) the relevant part of the charity’s governing documents which detail its objects and purposes;



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- (b) the charity's most recent annual report and financial statements as approved by the governing board;
  - (c) the charity's confirmation whether it is a tax-exempt charity under Section 88 of the IRO and, if so, the effective date of exemption;
  - (d) a list of the names of the members of the charity's current governing board; and
  - (e) a copy of the latest edition of this Reference Guide (which may be downloaded from SWD's website).

The charity should provide the above in Chinese or English.

- 4. Donors and prospective donors are entitled to know, upon request, whether an individual soliciting funds on behalf of the charity is a volunteer, an employee, or a hired solicitor.
- 5. Donors will be encouraged to seek independent advice if the charity has any reason to believe that a proposed donation might significantly affect the donor's financial position, or relationship with other family members.
- 6. Donors' requests to remain anonymous will be respected.
- 7. The privacy of donors will be respected. Any donor records that are maintained by the charity will be kept confidential to the greatest extent possible. Donors have the right to see their own donor record, and to challenge its accuracy.
- 8. If the charity exchanges, rents, or otherwise shares its fundraising list with other organisations, this must be done with the prior explicit consent of the donors and a donor's subsequent request to be excluded from the list will be honoured at the earliest possible opportunity.
- 9. Donors and prospective donors will be treated with respect. Every effort will be made to honour their requests to :
  - (a) limit the frequency of solicitations;





- (b) not be solicited by telephone or other technology; or
  - (c) receive printed material concerning the charity.
10. The charity will respond promptly to a complaint by a donor or prospective donor about any matter that is addressed in this Reference Guide. A designated staff member or volunteer will attempt to satisfy the complainant's concerns in the first instance. A complainant who remains dissatisfied will be informed that he/she may appeal in writing to the charity's governing board or its designate, and will be advised in writing of the disposition of the appeal. A complainant who is still dissatisfied will be informed that he/she may notify SWD in writing if the charity is currently listed on SWD's Public Register.

## B. Fund-raising Practices

1. Fund-raising solicitations on behalf of the charity will:
  - (a) be truthful;
  - (b) accurately describe the charity's activities and the intended use of donated funds; and
  - (c) respect the dignity and privacy of those who benefit from the charity's activities.
2. The charity will ensure the volunteers, employees and hired solicitors who solicit or receive funds on behalf of the charity shall:
  - (a) adhere to the provisions of this Reference Guide;
  - (b) act with fairness, integrity, and in accordance with all applicable laws, permit/licence conditions, rules, regulations, guidelines, etc.;
  - (c) adhere to the provisions of applicable professional codes of ethics, standard of practice, etc.;



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- (d) cease immediately solicitation of a prospective donor who identifies the solicitation as harassment or undue pressure;
  - (e) disclose immediately to the charity any actual or apparent conflict of interest; and
  - (f) not accept donations for purposes that are inconsistent with the charity's objects or mission.
3. The charity shall respond promptly to a donor's request to amend the donor's standing donation instruction.
  4. Paid fund-raisers, whether staff or consultants, will be compensated by a salary, retainer or fee, and will not be paid finders' fees, commissions or other payments based on the number of gifts received or the value of funds raised. Compensation policies for fund-raisers, including performance-based compensation practices (such as salary increases or bonuses) will be consistent with the charity's policies and practices that apply to non-fundraising personnel.
  5. The charity will not sell its donor list. If applicable, any rental, exchange or other sharing of the charity's donor list will exclude the names of donors who have so requested (as provided in section A8 above). If a list of the charity's donors is exchanged, rented or otherwise shared with another organisation, such sharing will be for a specified period of time and a specified purpose.
  6. The charity's governing board will be informed at least annually of the number, type and disposition of complaints received from donors or prospective donors about matters that are addressed in this Reference Guide.

### C. Financial Accountability

1. The charity's financial affairs will be conducted in a responsible manner, consistent with the applicable legal requirements and relevant ethical or professional obligations.
2. All donations will be used to support the charity's objects, as detailed in its governing documents.



3. All restricted or designated donations will be used for the purposes for which they are given. If necessary due to program or organizational changes, alternative uses will be discussed where possible with the donor or the donor's legal designate. If the donor is deceased or legally incompetent and the charity is unable to contact a legal designate, the donation will be used in a manner that is as consistent as possible with the donors' original intent.
4. Annual financial reports will be factual and accurate in all material respects and externally audited, disclosing:
  - (a) the total amount of fund-raising revenues (receipted and non-receipted);
  - (b) the total amount of fund-raising expenses (including salaries and overhead costs)
  - (c) the total amount of expenditures on charitable activities (including gifts to other charities);
  - (d) identify government grants and contributions separately from other donations;
  - (e) be prepared in accordance with generally accepted accounting principles and standards established by the Hong Kong Society of Accountants, in all material respects; and
  - (f) should identify the revenue generated from individual event/drive involving an appeal to the public.
5. Separate externally audited financial statements should be prepared for individual events or drives which involve appeal to the public (in public place, through broadcast, on the internet, on newspapers/magazines or other publications, etc.) within ninety days of the completion of the event/drive and annually (if that event/drive lasts for over one year). The statements should be factual and accurate in all material respects, disclosing-



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- (a) the total amount of fund-raising revenue (received or non-receipted);
  - (b) the total amount of fund-raising expenses (including salaries and overhead costs);
  - (c) the whereto of the net proceeds, and when the whole or part of these proceeds would be transferred to the revenues of the charity, they should be accounted for in its annual statements (see C4(f) above); and
  - (d) be prepared in accordance with generally accepted accounting principles and standards established by the Hong Kong Society of Accountants, in all material respects
6. No more will be spent on administration and fund-raising than is required to ensure effective management and resource development. For an individual event/drive involving appeal to the public, the expenses should not account for more than 10% of the gross proceeds.
  7. The cost-effectiveness of the charity's fund-raising program will be reviewed regularly by the governing board.

**Course and Outcome of the Public Consultation  
(19 August – 30 September 2003)**

1. A series of publicity activities on the consultation exercise were conducted in newspapers, on TV and Radio.
2. The relevant Committees of the 18 District Councils (or the District Councils themselves) were consulted.
3. SWD has also notified the charities on its contact list of the exercise and requested Departments/Bureaux such as the Education and Manpower Bureau, the Department of Health, the Home Affairs Bureau etc. which have frequent liaisons with charities to inform the latter about the consultation.
4. The Hong Kong Council of Social Service and the Community Chest have also been requested to assist in disseminating the information of the consultation to their respective members.
5. Several sharing sessions were carried out with the attendance of representatives from charities.

\_\_\_\_\_ The summary of the comments on the support worthiness of the proposed Reference  
\_\_\_\_\_ Guide-Public Register system is attached at Annex II(A). Views expressed on some  
\_\_\_\_\_ major issues are at Annex II(B).

### Summary of the Comments on the Support Worthiness of the Proposed Reference Guide-Public Register System

	<b>Total (%)</b>
<b>Support the proposed system</b>	<b>22 (38.6%)</b>
<b>Generally in support/no objection<sup>✧</sup></b>	<b>31 (54.4%)</b>
<b>Against the proposed system</b>	<b>4 (7%)</b>
<b>Total<sup>(Note 1)</sup> :</b>	<b>57 (100%)<sup>(Note 2)</sup></b>

Note :

- ✧ Unlike those comments which carry a motion of endorsement or objection to the framework, the views of these groups were given in meetings or did not indicate explicit for or against the whole framework.
1. The comments of Hong Kong Society of Accountants are excluded as the Society provides professional advice.
  2. Only organisations with written comments are counted.

## Views on the Public Consultation Paper

Major Issues	Views Expressed
<p>a) LFAC will advise DSW on the administration of the proposed system by e.g. formulating/revising the Reference Guide and adjudicating the complaints against the charities on the Public Register.</p>	<p>(i) 9 organisations suggested either SWD or a new Committee be set up to take over LFAC's roles on this issue.</p> <p>(ii) 3 organisations expressed concerns about the representativeness and the mix of LFAC's membership.</p> <p>(iii) 3 organisations worried that LFAC's involvement might alienate those charities which oppose any association with gambling related activities / entities.</p> <p>(iv) 2 organisations opined that LFAC's role should be strengthened.</p>
<p>b) When the proposed system is on firm footing, SWD may make the adoption of the Guide an eligibility criterion of applications for all Public Subscription Permits issued by SWD.</p>	<p>(i) 5 organisations objected this proposal.</p> <p>(ii) One organisation supported this proposal.</p>
<p>c) Positioning of the Reference Guide.</p>	<p>(i) One organisation suggested that it is necessary to establish whether the practices are only best practices as they may not be attained by all charities or whether the provisions are minimum requirements which a charity must attain.</p>
<p>d) The charity shall encourage the Donors to seek independent advice if the charity has any reason to believe that a proposed donation might significantly affect the donor's financial position, or relationship with other family members. (Clause A5 of the draft Reference Guide at Annex I)</p>	<p>(i) 7 organisations concerned that this should not be the responsibility of the charity.</p> <p>(ii) One organisation worried that the provision might lead to abuse of the system when there are controversies over the will of a deceased who bequeathed part of his / her estates to the charity.</p> <p>(iii) One organisation expressed difficulty to verify whether the charity has taken necessary action.</p> <p>(iv) One organisation supported the provision of this clause.</p>
<p>e) Paid fund-raisers, whether staff or consultants, should be compensated by salary etc. and not be paid finders' fees, commissions or other payments based on the number of gifts received or the value of funds raised. (Clause B4 of the draft Reference Guide at</p>	<p>(i) 5 organisations suggested that a charity should be given flexibility to determine its payment policy.</p> <p>(ii) 3 organisations found that the commission system could facilitate and reduce the risk of a charity which employs the service of professional fund-raising firms.</p> <p>(iii) 3 organisations suggested that as an alternative it</p>

Major Issues	Views Expressed
Annex I)	should be sufficient to provide information to the public of the system of payment.
f) Separate externally audited financial statements should be prepared for individual events or drives which involve appeal to the public. (Clause C5 of the draft Reference Guide at Annex I)	(i) 12 organisations objected against this provision mainly because of the cost and administration implications. (ii) 5 organisations suggested establishing a threshold so that events with an income lower than the threshold may be exempted from this requirement.
g) No more will be spent on administration and fund-raising than is required to ensure effective management and resource development. For an individual event / drive involving appeal to the public, the expenses should not account for more than 10% of the gross proceeds. (Clause C6 of the draft Reference Guide at Annex I)	(i) The principle that no more should be spent on administration and fund-raising than is required to ensure effective management and resource developments is widely accepted. (ii) 21 organisations considered the across-the-board 10% cap on fund-raising expenses not appropriate because of different nature of activities, different bargaining power of charities etc. (iii) 8 organisations proposed a different level or a range of benchmarks (from 15% to over 100%) for different types of activities. (iv) 4 organisations opined that the charities should disclose such information.
h) Other procedural details of implementation.	(i) 18 organisations concerned with the fairness and openness of the administrative arrangements for adjudication of complaints against charities. (ii) 12 organisations concerned with the sanction of the system, procedures of de-registering and appeal mechanism etc.

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**Reference Guide  
on  
Best Practices for  
Charitable Fund-raising  
Activities**

**Social Welfare Department  
July 2004**

## **I. Introduction**

### Background

1. To improve the transparency and accountability of charitable fund-raising activities, the Social Welfare Department (SWD) has conducted a public consultation exercise between 19 August and 30 September 2003 through a consultation paper on a proposed Reference Guide for Charities on Best Practices for Fund-raising Activities together with a Public Register system. Having carefully considered the feedback of the public and the Charities, and on the advice of the Social Welfare Advisory Committee (SWAC) and the Lotteries Fund Advisory Committee (LFAC), SWD decided to promulgate a Reference Guide on Best Practices for voluntary compliance of the Charities\* as a first step. Charities may flexibly adopt the Guide fully, partly, or not at all. The public is encouraged to use the Guide as a reference against which the performance of a Charity in fund-raising can be measured. SWD would conduct a review in a year's time after promulgation to ascertain its progress.

\*Note: Charities or charitable organizations are normally defined as those tax-exempted institutions covered under Section 88 of the Inland Revenue Ordinance.

### Role of Lotteries Fund Advisory Committee (LFAC)

2. LFAC will advise the Director of Social Welfare (DSW) on charitable fund-raising issues, assist him to draw up and update the Reference Guide as and when necessary and to review the operation of the system.

### The Reference Guide on Best Practices for Charitable Fund-raising Activities (Reference Guide)

3. Similar overseas codes of practices have been referred to in drawing up the Reference Guide which is finalized in consultation with, amongst others, the Charities, the Hong Kong Society of Accountants and the Corruption Prevention Department of the Independent Commission Against Corruption.
4. The Reference Guide will be uploaded onto SWD's website. It will be refined and updated by SWD on the advice of LFAC with experiences gained.
5. The Guide is divided into three parts, covering the areas on donors' rights, fund-raising practices and financial accountability.

6. These best practices do not purport to address suspected fraudulent activities which are governed by the Theft Ordinance (Cap. 210) and are subject to criminal investigation. On the other hand, responsible Charities may also have their own reasons for not adopting this Reference Guide (e.g. they are already adopting a separate but no less ethical code of practices).

### The Mechanism

7. Charities that voluntarily adopt this Reference Guide commit to fund-raising practices that respect donors' rights to truthful information and to privacy. They also commit to managing responsibly the funds that donors entrust to them, and to reporting their financial affairs accurately and completely.
8. Donors or prospective donors who have questions or concern about fund-raising activities should contact the Charity which organises the activities. Charities that adopt the Reference Guide are committed to dealing with such queries promptly and fairly.
9. Charities which voluntarily adopt the Guide (fully or partly) are invited to inform SWD that they have done so. They would be consulted, together with other parties, on their practical experience on implementation of the Guide in a subsequent review which will be conducted in one year from the promulgation of the Reference Guide.

## II. The Reference Guide

<b>A. Donors' Right</b>	
<b>Reference Guide</b>	<b>Explanatory Notes</b>
A1. All donors (including individuals, corporations, and foundations) are entitled to receive an official receipt for the amount of the donation. The Charity's governing board may establish a minimum amount for the automatic issuance of receipts, in which case smaller donations will be receipted only upon request. The level of this minimum amount should be made known to donors and prospective donors.	(i) Charitable organisations should establish clear policies regarding the issuance of official receipts. Particular attention should be given to situations where no receipt should be issued.
A2. All fund-raising solicitations by or on behalf of the Charity will disclose the Charity's name and the purpose for which funds are requested. Printed solicitations will also include its address or other contact information.	<p>(i) All communications with donors and prospective donors should include a statement of the purpose of the fund-raising appeal and sufficient contact information to facilitate further enquiries about or to the charitable organisation.</p> <p>(ii) Care should be taken not to mislead donors or prospective donors into believing that their contribution will be used for a specific project, if this is not the case. Where an appeal is made for funds for general use, it is a good practice to clearly identify any projects mentioned in fund-raising solicitations as examples of the Charity's work.</p> <p>(iii) It is preferable to provide the Charity's complete local address. Where this is not practical (e.g. the Charity does not have its own office) or reasonable given the nature of the charitable activity or the nature of the solicitation (e.g. by telephone), sufficient information should be included to enable donors or prospective donors to contact the organisation during regular business hours and communicate with an employee or volunteer who can respond to their questions.</p>
A3. Donors and prospective donors are entitled to the following (or an opportunity to examine the following) promptly upon request:	(i) Charitable organisations recognize that they are responsible and accountable to donors and should therefore disclose all information (e.g. financial statements, annual report) that will reasonably add

<b>A. Donors' Right</b>	
<b>Reference Guide</b>	<b>Explanatory Notes</b>
<p>(a) the relevant part of the Charity's governing documents (e.g. Ordinance, Memorandum and Articles of Association) which details its objects and purposes;</p> <p>(b) the Charity's most recent annual report and audited financial statements as approved by the governing board;</p> <p>(c) the Charity's confirmation whether it is a tax-exempt Charity under Section 88 of the Inland Revenue Ordinance and, if so, the effective date of exemption and whether the status has been removed;</p> <p>(d) a list of the names of the members of the Charity's current governing board; and</p> <p>(e) a copy of the latest edition of this Reference Guide (which may be downloaded from SWD's website).</p> <p>The Charity should provide the above in Chinese or English.</p>	<p>to the public's understanding of, and confidence in, their operations, and in their methods and costs of fund-raising.</p> <p>(ii) Charitable organisations should reply promptly to all requests for information.</p> <p>(iii) Financial statements should provide enough information to serve as a basis for informed decision-making by donors, and shall accurately present the financial activities and overall financial position of the organisation and shall disclose, at minimum, the information set out in this Reference Guide.</p> <p>(iv) All financial summaries or extracts presented separately from an organisation's financial statement should be clearly related to and consistent with the information contained in the full financial statements including notes.</p> <p>(v) This Practice should be read in conjunction with Section C4 below.</p> <p>(vi) This provision would be considered to have been complied with if the enquirer is allowed to make an appointment with the Charity to examine the documents or the information has been uploaded in the Charity's website [or a direction to the relevant websites where appropriate].</p>
<p>A4. Donors and prospective donors are entitled to know, upon request, whether an individual soliciting funds on behalf of the Charity, is a volunteer, an employee, or a hired solicitor, etc.</p>	<p>(i) The "volunteer, employee and hired solicitor" are only some examples of the person who may solicit donations for a Charity since other people such as members of the governing board may also be involved in such activities.</p> <p>(ii) Training of fund-raisers, whether volunteer or paid, should include a briefing about the donor's right to know the fundraiser's status.</p>
<p>A5. Donors' requests to remain anonymous will be respected.</p>	<p>(i) Every donor has the right to confidentiality in their affairs and the right to require that their identity and/or the amount of their donation is not publicly disclosed.</p> <p>(ii) A donor's right to anonymity is limited only by legal requirements to disclose.</p>

<b>A. Donors' Right</b>	
<b>Reference Guide</b>	<b>Explanatory Notes</b>
<p>A6. It is imperative that the Charity complies with the requirements of the Personal Data (Privacy) Ordinance in relation to the collection, accuracy, retention, use, security, access and correction of personal data of its donors.</p>	<p>(i) A charitable organisation ensures its own integrity and that of the sector through the proper use and management of all donors' or prospective donors' personal information in its possession. Every organisation should carefully safeguard the confidentiality of information which donors or prospective donors would reasonably expect to be private.</p> <p>(ii) The duty of confidentiality continues after the professional relationship with a donor or prospective donors has ended.</p>
<p>A7. Donors and prospective donors will be treated with respect. Every reasonable effort will be made to honour their requests to :</p> <p>(a) limit the frequency of solicitations; or</p> <p>(b) not be solicited by telephone or other technology.</p>	<p>(i) While recognizing the Charities' need of the flexibility in choosing the ways to approach donors, fund-raising activities should be conducted to preserve and enhance the public's confidence in the integrity of the individual Charity and the welfare sector as a whole. Disregard of donors' or prospective donors' expressed wishes regarding the manner or frequency of contact is contrary to good practice and reflects poorly on the entire sector.</p> <p>(ii) This Practice should be read in conjunction with Section B2 below.</p> <p>(iii) Section A7(a) may not be applicable in some circumstances e.g. it would seldom be possible for fund-raisers in the street to comply.</p>
<p>A8. The Charity will respond promptly to a complaint by a donor or prospective donor about any matter that is addressed in this Reference Guide.</p>	<p>(i) Complaints should be investigated and addressed thoroughly, professionally and without bias, and properly documented.</p> <p>(ii) The charitable organisation's governing board bears ultimate responsibility for the ethical conduct of all fund-raising activities and should make certain that fund-raising staff and volunteers are aware of and familiar with the requirements of this Reference Guide.</p> <p>(ii) This Practice should be read in conjunction with Section B6 below.</p>

<b>B. Fund-raising Practices</b>	
<b>Reference Guide</b>	<b>Explanatory Notes</b>
<p>B1. Fund-raising solicitations on behalf of the Charity will:</p> <ul style="list-style-type: none"> <li>(a) be truthful;</li> <li>(b) accurately describe the Charity's activities and the intended use of donated funds; and</li> <li>(c) respect the dignity and privacy of those who benefit from the Charity's activities.</li> </ul>	<ul style="list-style-type: none"> <li>(i) All marketing, advertising and public information materials prepared in connection with fund-raising campaigns must be forthright and truthful and should accurately describe the organisation's mission, programmes and use of solicited funds.</li> <li>(ii) Fund-raising communications should contain no material omission, exaggeration of fact, misleading photograph, nor any other information that would tend to create a false impression or misunderstanding. Solicitations should be constructed so that the public response is based on the reality of the situation and the organisation's actual capacity and not on deliberate misinformation or manipulation.</li> </ul>
<p>B2. The Charity will ensure the volunteers, employees and hired solicitors who solicit or receive funds on behalf of the Charity shall:</p> <ul style="list-style-type: none"> <li>(a) adhere to the provisions of this Reference Guide;</li> <li>(b) act with fairness, integrity, and in accordance with all applicable laws, permit/licence conditions, rules, regulations, guidelines, etc.;</li> <li>(c) adhere to the provisions of applicable professional codes of ethics, standard of practice, etc.;</li> <li>(d) cease immediately solicitation of a prospective donor who identifies the solicitation as harassment or undue pressure;</li> <li>(e) disclose immediately to the Charity any actual, potential or perceived conflict of interest; and</li> </ul>	<ul style="list-style-type: none"> <li>(i) As elaborated under Section A4 above, the "volunteer, employee and hired solicitor" are only some examples of the person who may solicit donations for a Charity since other people such as members of the governing board may also be involved in such activities.</li> <li>(ii) Contracts between a Charity and a hired solicitor should specify that all fund-raising activities undertaken on behalf of the Charity will be conducted in a manner that is consistent with the provisions of this Reference Guide.</li> <li>(iii) Charitable organisations should exercise effective control over volunteers, employees and hired solicitors and take all reasonable steps to ensure that every person participating in a fund-raising programme is aware of and complies with this Reference Guide.</li> <li>(iv) Charitable organisations should inform volunteers, employees and hired solicitors about the provisions of all laws applicable to the organisation's fund-raising practices and take all reasonable steps to ensure that fund-raising activities are carried out in accordance with the law.</li> </ul>

<b>B. Fund-raising Practices</b>	
<b>Reference Guide</b>	<b>Explanatory Notes</b>
(f) not accept donations for purposes that are inconsistent with the Charity's objects or mission.	<p>(v) Fund-raising solicitations should encourage voluntary giving and should not apply undue or unwarranted pressure.</p> <p>(vi) The obligation to disclose even a "perceived conflict of interest" requires the Charities and its agents to take into account public and donor perceptions when assessing whether a conflict of interest is present.</p> <p>(vii) This Practice requires individual fund-raisers to fully disclose all actual, potential or perceived conflicts of interest to the Charity. Full disclosure enables the Charity to make an informed decision regarding a fundraiser's suitability to continue to act on behalf of the organisation in spite of the conflict.</p> <p>(viii) Charitable organisations should be mindful of the need to ensure the disclosure of any conflict of interest that would be of material interest or relevance to a donor or prospective donor, or which may influence a decision to give.</p> <p>(ix) This Practice should be read together with Sections A4 and A7 above.</p> <p>(x) This Section should normally not be applicable to those events where the Charity is just the beneficiary but does not organise the events. Nevertheless, even under such circumstances, it would be good practice for the Charity to advise the organiser of these events to fulfill the requirement of this Section, where practicable.</p>
B3. The Charity shall respond promptly to a donor's request to amend the donor's standing donation instruction.	(i) A Charity shall take all reasonable steps to assist to revise the donor's standing (e.g. monthly) donation instruction as and when it is being approached by the donor.



<b>B. Fund-raising Practices</b>	
<b>Reference Guide</b>	<b>Explanatory Notes</b>
<p>B4. Paid fund-raisers, whether staff or consultants, should be compensated by a salary, retainer or fee, and not be paid finders' fees, commissions or other payments based on the number of donors secured, the amount (or number) of gifts received or the value of funds raised. Compensation policies for fund-raisers, including performance-based compensation practices (such as salary increases or bonuses) will be consistent with the Charity's policies and practices that apply to non-fund-raising personnel.</p>	<p>(i) This is a controversial provision since some Charities find that the commission system could reduce their risk in employing the service of professional fund-raising firms. Moreover, some others consider that Charities should be given the flexibility to determine their pay policies.</p> <p>(ii) The rationales for including this provision are as follows:</p> <ul style="list-style-type: none"> <li>– A set salary, retainer or fee recognizes the value of professional fund-raising solicitors independently of the fund-raising outcome (which cannot be guaranteed).</li> <li>– There is an inherent conflict of interest in percentage-based compensation: fund-raisers negotiate donations that also benefit them personally.</li> <li>– Successful fund-raising programmes are built on the development of long-term relationships with donors. Percentage-based compensation of fund-raisers provides an incentive to maximize immediate revenue from the current campaign, and may undermine the long-term interests of the charitable organisation.</li> <li>– Percentage-based compensation undermines the donating public's confidence by diverting or appearing to divert donated funds into private pockets. Donors and potential donors may be alienated and may reconsider their decision to give if it is perceived to benefit the person making the donation request rather than the organisation or the causes it represents.</li> </ul>

<b>B. Fund-raising Practices</b>	
<b>Reference Guide</b>	<b>Explanatory Notes</b>
	<p>– To charge a commission based on the amount of funds raised is generally viewed as unethical by fund-raising professionals. Some overseas leading non-profit sector professional fund-raising organisations (e.g. Association of Fund-raising Professionals, Canadian Association of Gift Planners) also prohibit their membership from accepting percentage-based or commission compensation structures.</p> <p>(iii) The provision does not preclude, amongst others, the use of a fund-raising target as one of the parameters to measure the performance of fund-raising staff. It however disagrees with the inclusion in salary / pay a percentage of the amount of fund raised for the Charity.</p> <p>(iv) The provision does not intend to cover occasions where a donation is pledged or secured on the basis of the sale of goods / services provided by another organisation / firm. Under these circumstances, it would be good practice to publicize the specific rate of the donation to be made to the Charities concerned e.g. 1% of the revenue or \$1 per item sold etc.</p>
B5. The Charity will not sell its donor list. If a list of the Charity's donors is exchanged, rented or otherwise shared with another organisation subject to the compliance of the provisions of the Personal Data (Privacy) Ordinance, such sharing will be for a specified period of time and a specified purpose.	<p>(i) The governing board of a charitable organisation should give formal approval to all policies regarding the use of donor lists.</p> <p>(ii) Donor lists are an income-producing asset of the charitable organisation. Relinquishing control of a donor list by selling it or diminishing its value by allowing others to have unlimited access may be detrimental to the long term development of the Charity.</p> <p>(iii) This Practice should be read together with Section A6 above.</p>

<b>B. Fund-raising Practices</b>	
<b>Reference Guide</b>	<b>Explanatory Notes</b>
B6. The Charity's governing board will be informed at least annually of the number, type and disposition of complaints received from donors or prospective donors about matters that are addressed in this Reference Guide.	<p>(i) The governing board of a charitable organisation has a duty to be familiar with its fund-raising programmes, including the steps taken by the organisation to monitor compliance with this Reference Guide and to address complaints that have arisen as a result of an actual or alleged violation of this Reference Guide.</p> <p>(ii) Fund-raising activities affect the reputation of the Charity and the value of its name. Board of Directors have a duty to protect these intangible assets.</p> <p>(iii) This Practice should be read in conjunction with Section A8 above.</p>

<b>C. Financial Accountability</b>	
<b>Reference Guide</b>	<b>Explanatory Notes</b>
C1. The Charity's financial affairs will be conducted in a responsible manner, consistent with the applicable legal requirements and relevant ethical or professional obligations.	<p>(i) Charitable boards must act prudently in all matters concerning the financial management of the organisation. They are guardians of the Charity and its assets.</p> <p>(ii) Board of Directors must ensure that proper accounts are maintained and that all entries in the organisation's financial statements can be substantiated.</p>
C2. All donations will be used to support the Charity's objects, as detailed in its governing documents.	<p>(i) Charitable organisations should make their objects and mission clearly known.</p> <p>(ii) Charitable boards have a duty to ensure that the organisation remains true to its mission and objectives, and that its identity, programmes and activities are not distorted or subverted by external or internal self-interest.</p> <p>(iii) A charitable organisation may not give money or other resources to another organisation to carry out activities outside of or not in support of its own objects.</p>
C3. All restricted or designated donations will be used for the purposes for which they are given.	<p>(i) This Practice applies to restricted or designated donations that are subject to conditions or limitations imposed by the individual donor and to fund-raising appeals made to the public at large for the support of specific programmes or projects.</p> <p>(ii) Donors who make restricted or designated donations have a right to expect that their donations will be applied according to their specific directions.</p> <p>(iii) All statements made by a charitable organisation regarding the use of a contribution should be honoured.</p>

<b>C. Financial Accountability</b>	
<b>Reference Guide</b>	<b>Explanatory Notes</b>
	<p>(iv) If there are necessary programme or organisational changes, alternative uses will be discussed where possible with the donor or the donor's legal designate. If the donor is deceased or legally incompetent and the Charity is unable to contact a legal designate, the donation will be used in a manner that is as consistent as possible with the donors' original intent.</p> <p>(v) Charitable organisations should have a mechanism in place to deal with:</p> <ul style="list-style-type: none"> <li>– funds that cannot be applied to a specific project; and,</li> <li>– surplus funds raised over and above the requirements of a given campaign.</li> </ul> <p>These mechanisms should be clearly communicated in all fund-raising appeals.</p> <p>(vi) It is prudent to obtain legal advice before proceeding in this area. This Practice and its explanatory notes should not be interpreted as authorizing organisations to act independently of the legal requirements of their jurisdiction or outside of the terms of the original donation agreement.</p> <p>(vii) An accounting system that tracks designated donations should be developed.</p>

<b>C. Financial Accountability</b>	
<b>Reference Guide</b>	<b>Explanatory Notes</b>
<p>C4. Annual financial reports will be factual and accurate in all material respects and externally audited, disclosing:</p> <p>(a) the total amount of fund-raising revenues (received and non-receipted);</p> <p>(b) the total amount of fund-raising expenses (including salaries and overhead costs)</p> <p>(c) the total amount of expenditures on charitable activities (including gifts to other Charities);</p> <p>(d) government grants and contributions which will be identified separately from other donations;</p> <p>(e) that the statements are prepared in accordance with generally accepted accounting principles and standards established by the Hong Kong Society of Accountants, in all material respects; and</p> <p>(f) where applicable, the revenue generated from individual event/drive involving an appeal to the public.</p>	<p>(i) This Practice deals with the public reporting of the financial position of a charitable organisation. To ensure consistency and accuracy, financial statements should be prepared in accordance with the standards of Hong Kong Society of Accountants (HKSA).</p> <p>(ii) The disclosures referred to in this Practice may appear in a note to the financial statement.</p> <p>(iii) The requirement in this Practice that financial statements be “factual and accurate in all material respects” is met where financial statements are demonstrably prepared in accordance with the standards of HKSA.</p> <p>(iv) Charitable organisations have an obligation to ensure that their financial statements and annual reports are accessible, user-friendly, complete, understandable and truthful.</p> <p>(v) This Practice should be read in conjunction with Section A3 above.</p> <p>(vi) The proposal to present true and fair accounts by valuating also gifts in kind is appreciated and there is no objection for Charities to do so. There is however no intention to add this to the Reference Guide for the time being since the necessity of this proposed practice is still not generally recognized.</p>

<b>C. Financial Accountability</b>	
<b>Reference Guide</b>	<b>Explanatory Notes</b>
<p>C5. It is good practice to make the financial statements of individual events available to the public as far as practicable. Particularly for those high value and well-defined projects, Charities are encouraged to prepare separate externally audited (or reviewed) financial statements for individual events or drives which involve appeal to the public (carried out in public place, through broadcast, on the internet, on newspapers/magazines or other publications, etc.) within ninety days of the completion of the event/drive and annually (if that event/drive lasts for over one year). The statements should be factual and accurate in all material respects, disclosing, preferably-</p> <p>(a) the total amount of fund-raising revenue (received or non-receipted);</p> <p>(b) the total amount of fund-raising expenses (including salaries and overhead costs);</p> <p>(c) the whereto of the net proceeds, and when the whole or part of these proceeds would be transferred to the revenues of the Charity, they should be accounted for in its annual statements (see C4(f) above); and</p> <p>(d) that the accounts are prepared in accordance with generally accepted accounting principles and standards established by the Hong Kong Society of Accountants, in all material respects.</p>	<p>(i) The benefits of such audited statements for individual event as a transparency and accountability instrument have not been disputed but there are concerns on the financial and administrative implications if the requirement is applicable to each and every event. As such, while it is desirable to make the financial statements of individual events available to the public where circumstances permit, the practice is recommended as a good practice for the adoption of Charities particularly for those high value and well-defined projects which appeal to the public for donations.</p> <p>(ii) The whereto of the funds raised in such an event should be accounted for in this statement or in the annual audited statements if the funds raised in this event is transferred to the Charities for general application or to a specific account for a project.</p> <p>(iii) Other details could be referred to the explanatory notes for C4 above.</p>

<b>C. Financial Accountability</b>	
<b>Reference Guide</b>	<b>Explanatory Notes</b>
<p>C6. No more will be spent on administration and fund-raising than is required to ensure effective management and resource development. Charities are encouraged to disclose a return on investment figure for the entire Charity's business for donors' reference. It would also be a good practice for Charities to disclose the return and expenses figures for high value and well-defined projects.</p>	<p>(i) The purpose of this Practice is to ensure that fund-raising costs and administration costs are reasonable so that the greatest amount of the Charity's resources can be devoted to its charitable programmes. Appropriate fund-raising costs will vary according to the following : the organisation's size, age, popularity and reputation; access to donors; availability of volunteers; access to corporations; management expertise; financial success; and, the experience of its fund-raising professionals.</p> <p>(ii) Charitable boards have a responsibility to oversee the way in which the costs of fund-raising are determined and reported to donors and to the public. Governing boards should take an active role in approving and monitoring policies concerning:</p> <ul style="list-style-type: none"> <li>– their organisation's fund-raising activities; and,</li> <li>– the disclosure of the nature and amount of fund-raising expenses.</li> </ul>
<p>C7. The cost-effectiveness of the Charity's fund-raising programme will be reviewed regularly by the governing board.</p>	<p>(i) Charitable boards, as part of their governance activities, have an obligation to measure the costs and benefits of their organisation's fund-raising programme on a regular basis and to make any changes necessary to ensure that the maximum amount possible is being applied to charitable activities, consistent with the long-term interests of the Charity and its beneficiaries.</p> <p>(ii) The Board could determine how frequent it should conduct one such review. There should however be regular frequency to carry out such an important review.</p>

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## **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  
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