

FIN S7/1/78 Pt 6

GOVERNMENT SECRETARIAT
HONG KONG
15 September 2004

FINANCIAL CIRCULAR NO. 9/2004

Guidelines on the Management and Control of Government Funding for Subvented Organisations

(Note : Distribution of this Circular is **Scale C**.
Directors of Bureaux, Controlling Officers,
departmental secretaries and all officers dealing
with government subvention should read it.)

————— This Circular promulgates revised guidelines (attached) on the management and control of government funding for subvented organisations. The guidelines **replace** the following guidelines issued by the former Finance Branch –

- (a) Notes for Guidance of Medical (Deficiency) Subvented Organisations issued in 1986¹;
- (b) Notes for Guidance of Medical (Discretionary) Subvented Organisations issued in 1986¹;
- (c) Miscellaneous Subventions – Guidelines on the Management and Control of Government Subventions issued in 1988; and

/(d)

To : Directors of Bureaux
Controlling Officers

¹ While the two sets of guidelines will no longer be retained by the Financial Services and the Treasury Bureau as central guidelines, Secretary for Health, Welfare and Food and Director of Health have decided to retain them as departmental guidelines for application to organisations under their purview, pending a further review.

- (d) Notes for Auditors and Accountants of Miscellaneous Organisations in receipt of Government Subventions issued in 1990.

2. The revised guidelines remove duplications among the existing sets of guidelines, streamline administrative procedures and rationalise the control framework. They take into account, inter alia, the responsibility of individual Directors of Bureaux in overseeing subvented organisations under their purview, changes in the Government's resource allocation system, the diversity in the subvented sector as well as the need to remove ambiguities and improve user-friendliness.

3. Departmental secretaries are required to re-circulate this Circular to Directors of Bureaux and Controlling Officers once a year, preferably at the start of each estimates season.

4. Please contact Principal Assistant Secretary (Treasury)B at 2810 2286 for enquiries on this circular.

Frederick S Ma
Secretary for Financial Services and the Treasury

Guidelines on the Management and Control of Government Funding for Subvented Organisations

Table of Contents

1. Introduction
2. Setting objectives
3. Budget requirements
4. Examination of an organisation's budget
5. Changes to the budget
6. The organisation's budget and Government's
annual estimates
7. Capital subventions
8. Reserves
9. Treatment of other income
10. Submission of audited accounts
11. Access to records and accounts
12. Anti-corruption procedures
13. Self-financing activities
14. Payment of subvention
15. Memorandum of Administrative Arrangements
and Other Instruments

The Treasury Branch
Financial Services and the Treasury Bureau
September 2004

Guidelines on the Management and Control of Government Funding for Subvented Organisations

1. Introduction

1.1 These guidelines are intended to provide a reference to Directors of Bureaux and Controlling Officers on how to manage and control government funding for subvented organisations to ensure that public money is used properly and cost-effectively.

1.2 These guidelines are administrative in nature. Where they are in conflict with statutory provisions, decisions of the Chief Executive in Council or decisions of the Finance Committee (FC) of the Legislative Council governing the operation and control of a subvented organisation, those provisions or decisions should prevail. Nor do these guidelines override the terms of existing Memorandum of Administrative Arrangements and other tailor-made instruments on the management and control of individual organisations receiving recurrent funding from the Government (as explained in section 15 below).

Ambit

1.3 For the purpose of these guidelines, subvented organisations are organisations receiving grants from the Government on a **recurrent** basis. The grants contribute towards the organisations' operational expenses, in exchange for their services to the public. They may take the form of deficiency grants (provided to honour any Government's undertaking to meet in full the organisation's funding requirement in specific areas) or discretionary grants (provided at the discretion of the Government to support in part or in whole the organisation's funding requirement). The recurrent grant may account for the bulk of the organisation's income or may just be a token contribution/sponsorship forming a small percentage of the organisation's total income.

1.4 Organisations which are only receiving recurrent funding from the Government in the form of membership fees/subscriptions or refunds of rent and rates are not regarded as subvented organisations for the purposes of these guidelines. Likewise, international organisations to which the Government makes a recurrent contribution as a gesture of support are not regarded as subvented organisations. This notwithstanding, Controlling Officers are expected to exercise the usual financial discipline of defining the objectives of and assessing the value for money obtained from proposals involving recurrent funding. The guidelines also do not cover or preclude control mechanisms that may be required when the Government enters into ad hoc project-specific procurement, sponsorship or other forms of agreements with organisations which may or may not themselves be subvented organisations as defined in paragraph 1.3 above.

/1.5

1.5 For reference, the current list of organisations receiving recurrent funding from the Government (other than those mentioned in paragraph 1.4 above) is attached at the **Annex**. Directors of Bureaux are requested to notify the Financial Services and the Treasury Bureau (The Treasury Branch) of additions to/deletions from the list. In the case of additions, Directors of Bureaux should consult the Treasury Branch which would advise on possible read-across implications and the presentation under the “subventions” category in the annual estimates. As a general guideline, the Government should only consider recurrent funding for an outside organisation which is non-profit making and which is delivering a service in the public interest, under objectives and programmes to which the Government may provide input.

Role of Directors of Bureaux and Controlling Officers

1.6 In accordance with section 12 of the Public Finance Ordinance (Cap. 2), Controlling Officers are responsible and accountable for the proper use of public funds under their control. In exercising their statutory authority, and having regard to the diverse nature of subvented organisations, Controlling Officers have the discretion to decide whether any part of these general guidelines should not be applied or applied with modifications to individual subvented organisations (typically for those receiving recurrent subvention through a notional contribution/sponsorship). They can also prescribe additional measures necessary to safeguard public interest. They should, however, see to it that any deviation from the guidelines is justified and publicly defensible. In all circumstances, they should satisfy themselves that an appropriate system of cost control and monitoring is in place for overseeing the spending of public money by subvented organisations, having regard to economy, efficiency and effectiveness in the delivery of public service and use of public funds.

1.7 Relevant Directors of Bureaux with overall policy and monitoring responsibility for subvented organisations under their purview should familiarise themselves with these guidelines. They should satisfy themselves that an effective system is in place to safeguard the proper use of public funds.

2. Setting objectives

2.1 A Controlling Officer, in consultation with the relevant Director of Bureau and subvented organisation as appropriate, should -

- (a) formally define the objectives (with quantifiable results, if possible) that the Government expects to achieve by payment of the subvention;

/(b)

****Note by Clerk, PAC: Annex not attached.***

- (b) review achievements against those objectives and assess the value for money obtained from the subvention no less frequently than annually; and
- (c) review the objectives themselves no less frequently than once every three years.

2.2 In some cases the objectives of the organisation are set out in the legislation establishing that organisation. Such objectives may, in some cases, be too broad to allow for effective management of the subvention. The Controlling Officer should consider whether more detailed objectives are necessary and, where appropriate and consistent with the relevant legislation, agree with the organisation on specific objectives and review mechanism as suggested in paragraph 2.1 above.

3. Budget requirements

3.1 Prior to the disbursement of funds, the Controlling Officer should require the relevant organisation to produce annually a programme of activities and budget for **subvented programmes** undertaken by the organisation, i.e. programmes fully or partly funded by government subvention.

3.2 The Controlling Officer should agree with the subvented organisation the timing and manner (including whether the budget should be presented on a cash basis or on an accrual basis) in which the budget should be prepared.

3.3 The budget proposed by the organisation should be fully justified by reference to the organisation's objectives and performance indicators in respect of the subvented programmes in the period to which the budget relates. Achievements in the last (i.e. fully audited) year and in the current year, as well as any changes in performance indicators, should also be reported for comparison.

3.4 The budget should contain information on all revenue and expenditure in respect of the subvented programmes. Each revenue and expenditure item should show estimates for the forthcoming year, original and revised estimates for the current year and actual outturn (on audited basis) for the previous year. Any material variations between years should be explained.

Revenue estimates

3.5 Income for the subvented programmes should cover both the subventions from the Government and income from other sources. It should be divided into categories such as government subventions (differentiated between

/recurrent

recurrent subvention and one-off capital subvention), fees and charges collected, investment/interest income, donations, etc. The basis for estimating the income from other sources, including the considerations for scale of fees for a subvented service and the assumed rate of return on investment (e.g. interest rate on fixed deposits), where applicable, should be explained. This will help the Controlling Officer assess whether there is scope for the organisation to increase income from other sources and reduce reliance on subvention.

Expenditure estimates

3.6 The Controlling Officer may find it useful to take reference from the Government's methods for analysing and controlling expenditure. The expenditure estimates should give information on the following –

- (a) *Staff expenses:* A breakdown of staff expenses by items should be included. Examples of typical items are salaries, other benefits (including the organisations' contribution to provident funds, contract gratuity, passages, housing allowances, cash allowances, bonuses, etc.) and job-related allowances. Apart from explaining variations in the total expenditure for staff expenses between the years, the organisation should provide supplementary information on staff size and the distribution by staff categories. It should also explain any changes in staff size and in its policy on remuneration packages.
- (b) *Other recurrent expenses:* This covers a detailed list of expenditure of a recurrent nature other than staff expenses. Certain non-recurrent expenditure items costing less than a prescribed amount per item may be regarded as recurrent expenditure for this purpose, in line with general practices on categorisation of recurrent and non-recurrent expenditure. For reference, in 2004-05 Government's non-recurrent expenditure items costing \$150,000 or less are generally counted as recurrent expenditure under the annual estimates. Examples of typical expenditure classifications are –
 - (i) Administration, e.g. fuel, light and power; maintenance of computer systems; cleaning service;
 - (ii) Accommodation, e.g. rent; management/maintenance fees;
 - (iii) Stores and equipment;
 - (iv) Transport, e.g. running expenses of vehicles; travelling expenses; and
 - (v) Training and development.

/(c)

- (c) *Non-recurrent expenditure:* This covers items of non-recurrent expenditure each of which exceeds the limit prescribed in (b) above or any single project involving maintenance, repair, re-equipment or re-furnishing costing more than the prescribed amount for the complete project. For example, furnishing and equipping a recreation hall would be regarded as one project.

3.7 An organisation may show depreciation of capital assets in its income and expenditure accounts but such information must be shown separately. The information should not be taken into account in the determination of a level of subvention.

4. Examination of an organisation's budget

4.1 The Controlling Officer should take into account the organisation's budget (including the level of reserve, if any) when recommending the amount of subvention for inclusion in the annual estimates of the Government. In recommending the amount, the Controlling Officer should be satisfied that the organisation is being operated in a cost-effective manner and that the budget presented (including the amount of subvention requested of the Government) is not excessive. The fact that a subvented organisation has projected a year-end deficit does not oblige the Government to provide additional funding. The relevant Controlling Officer should examine whether the deficit budget is justified and whether the organisation is able to manage the deficit with its reserve (section 8 below). If not, the Controlling Officer should take up with the Director of Bureau to consider a viable and sustainable way forward.

4.2 On the expenditure side, the test is whether a subvented organisation has exercised due diligence to improve the value for money it obtains from the subvention. On matters of staffing, the Controlling Officer should make reference to any prevailing guidelines, currently those issued by the Director of Administration for the control and monitoring of remuneration practices in respect of senior executives in subvented bodies (Ref. CSO/ADM CR 2/1136/01 dated 28 March 2003). The Controlling Officer should also remind the subvented organisation to observe the principle of fairness and transparency in recruiting staff to fill posts under a subvented programme. On other operational costs, the Controlling Officer should assess whether the organisation has actively looked for opportunities to reduce overheads and to enhance productivity, e.g. through more extensive use of information technology. To avoid any hidden subsidy by other sources of government funding, subvented organisations are normally expected to pay full costs for services rendered by government departments.

4.3 The Controlling Officer should remind the subvented organisation to put in place a procurement policy which is transparent, fair and cost-effective, making references to practices in the Government. Emphasis should be placed on the promotion of level playing field and competitive bidding. Procurement by single tender should be fully justified.

/4.4

4.4 Subvented organisations should be reminded that if they want to bid for a government contract, they should notify the relevant Controlling Officer overseeing the subventions. The Controlling Officer should guard against subvented resources being siphoned off to programme areas falling outside the approved scope for subvention. To facilitate cost comparison on a level playing field, subvented organisations bidding for government contracts should also bid on the basis of the full (versus subvented) cost of their services.

4.5 On the revenue side, the Controlling Officer should assess whether the subvented organisation has made convincing efforts to raise funds and maximise revenue from sources other than the Government, for example, from charging fees and the sale of products and services, where this is not inconsistent with relevant provisions in law and with approved objectives. To avoid hidden subsidy by government subventions, subvented organisations should charge full costs for services provided on a self-financing basis to other organisations.

5. Changes to the budget

5.1 Without prejudice to relevant statutory provisions, the Controlling Officer should agree with the organisation the extent to which the Director of Bureau or the Controlling Officer will have authority over the budget submitted, e.g. whether, as a condition of subvention, the budget requires approval of the Director of Bureau/Controlling Officer, or whether the budget is only for reference purpose. Where approval is required, and subject to paragraph 6.2 below, the Director of Bureau/Controlling Officer should agree with the organisation the extent to which subsequent variations are allowed, e.g. whether the organisation may vire funds from one expenditure item to another.

5.2 The Controlling Officer should have an understanding with the subvented organisation on circumstances under which the provision of additional subvention may be considered during the year, as well as circumstances under which surplus subvention may be clawed back (notwithstanding any arrangements for the keeping of reserves under section 8 below). Without pre-empting the understanding between the Controlling Officer and the subvented organisation, such adjustments may arise from –

- (a) upward or downward price adjustment in the course of the year to reflect latest decision on annual civil service pay adjustment (it should be noted that the agreement between the organisation and the Controlling Officer will not pre-empt the Financial Services and the Treasury Bureau acting as the Centre from price-adjusting the relevant operating expenditure envelope to reflect civil service pay adjustment, where applicable);
- (b) new or additional services requested by the Government, or curtailment/cessation of agreed services in the course of the year;

/(c)

- (c) changes in statutory obligations; and
- (d) unforeseen contingencies beyond the control of the organisation.

5.3 In general, where recurrent subvention is provided on a deficiency basis or in the case of capital subventions granted (section 7 below), any surplus should be returned to the Government.

5.4 The Controlling Officer should make it clear to the subvented organisation that there is no obligation on the part of the Government to bail out an organisation running into a deficit.

6. The organisation's budget and Government's annual estimates

6.1 The amount of subvention appropriated for an organisation each year is reflected in the Government's annual estimates. Currently, recurrent subvention and non-recurrent subvention other than capital subventions are reflected under *Subhead 000 Operational expenses* and appropriate *Non-recurrent subheads* respectively under the Operating Account of the relevant head of expenditure in the General Revenue Account (GRA). Capital subventions (section 7 below) are reflected in the Capital Account of the GRA or the Capital Works Reserve Fund (CWRP) depending on their nature and the amount involved.

6.2 In all instances, the Controlling Officer should see to it that subvention is only used for the purposes for which it is voted. Where the variations to an organisation's approved budget (paragraph 5.1 above) will result in changes to the Estimates of the Government, they can only be permitted with the approval of the FC of the Legislative Council or the relevant authority acting under authority delegated by the FC, in accordance with section 8 of the Public Finance Ordinance (Cap. 2). In this regard, it is noted that some subvented organisations have been using recurrent subventions received from the Government to fund items of a non-recurrent nature. This in itself will not necessarily constitute a change to the Estimates of the Government, as it is accepted that a subvented organisation should be given some flexibility over the use of Government's recurrent subvention in supporting its day-to-day operation. The Controlling Officer and the subvented organisation should, however, observe the following ground rules –

- (a) any recurrent subvention approved specifically for individual recurrent programmes should not be used to fund activities outside the programmes. Such usage will constitute a change to the scope of the approved recurrent subvention for which prior approval of the approving authority is required;

/(b)

- (b) the recurrent subvention should not be redeployed to fund capital works items which should fall under the purview of the CWRF. Such redeployment, which will have the effect of changing the Government's global estimates for the GRA and the CWRF, requires the prior agreement of the Financial Services and the Treasury Bureau (The Treasury Branch);
- (c) the recurrent subvention should not be diverted to provide top-up funding for non-recurrent items the estimates for which have already been approved by the FC or the Administration under delegated authority. Such diversion will constitute a change to the approved project estimates for which the Controlling Officer should seek the prior approval of the approving authority; and
- (d) in no circumstances should recurrent subvention be diverted to support items/activities for which the Government has already expressed difficulties in giving policy or funding support for reasons other than lack of funding (for funding support, see also paragraphs 7.2 to 7.5 below).

7. Capital subventions

7.1 For the purposes of these guidelines, capital subventions are taken to mean non-recurrent funding for **construction, repairs, maintenance, refurbishment and other works projects or the acquisition/construction of systems and equipment**. Capital subventions may be charged to the CWRF or the capital account of relevant expenditure head in the GRA, depending on the nature and cost estimate of individual projects.

Resource allocation

7.2 A subvented organisation may apply to the Controlling Officer for new money in the form of capital subventions. The recommendations of the Controlling Officer will be considered by the Financial Services and the Treasury Bureau (The Treasury Branch) under relevant resource allocation exercises.

7.3 As a general rule, the Controlling Officer should ensure that capital subventions (whether new money or recurrent funding redeployed for the purposes) are spent in a cost-effective manner on worthy projects in support of the subvented organisations' stated objectives. Before recommending an application for capital subvention to the Treasury Branch, the Controlling Officer should assess the justification and cost-effectiveness of the project, the capability of the organisation to manage the project and whether recurrent consequences arising from the project can be absorbed by the organisation or the operating expenditure

/envelope

envelope for the relevant Director of Bureau. The Controlling Officer should also assess whether the organisation has put in due efforts to contribute to the capital costs of the project. In this regard, the target is for organisations to contribute at least 20% of the project cost where possible.

7.4 The Controlling Officer should note that the resource allocation exercise will only decide whether funding for the project should be earmarked internally within the Government. The allocation of funding will be subject to the approval of the Legislative Council in the context of the annual Appropriation Bill or through separate submissions to the FC/public officers acting under authority delegated by the FC, whichever is appropriate. The Controlling Officer should therefore remind the subvented organisation not to enter into any contractual commitment in respect of the project before funding has been approved by the relevant authority. Subvented organisations will have to take full responsibility for any financial consequences arising from their premature commitment.

7.5 Where the Government has earmarked funding internally on the understanding that a certain amount or percentage of the cost will be met from outside the Government, the Controlling Officer should, before applying to the relevant approving authority for funding, satisfy himself that the subvented organisation has either raised its share of contribution or that the contribution is clearly forthcoming.

Disbursement of capital subventions and project monitoring

7.6 After the capital subvention is approved, the Controlling Officer should release funding on a need basis or based on pre-agreed milestones, subject to the approved capital subvention and scope of works not being exceeded and the payment having been duly certified by the organisation, in consultation with the relevant works departments as necessary. The Controlling Officer should also ensure that the organisation would seek prior approval from the appropriate authority for increases in approved project estimates before committing any government funding. Prior approval from the appropriate authority on changes in the approved scope of works is also required before commencement of the relevant works.

7.7 To safeguard the interest of the Government in the event of default/abortion of subvented projects, the Controlling Officer shall require the subvented organisation to exhaust any non-government funding committed and received before drawing upon the capital subvention approved for the project. The amount of non-government funding expended will not be reimbursed in case the project is cancelled/curtailed for one reason or another.

/7.8

7.8 The Controlling Officer shall require the subvented organisation to submit project progress reports together with updated budget forecasts and outturn income and expenditure statements upon approval of capital subventions and thereafter at quarterly intervals (unless for short-term projects).

Technical support

7.9 The Controlling Officer should, at various stages of the projects, seek the technical advice of relevant professional departments (notably Architectural Services Department in the case of subvented building projects including construction, repair, maintenance or refurbishment works, and Office of the Government Chief Information Officer in respect of IT projects) on the acceptability of the projects for subvention purposes. Areas on which the professional departments may be consulted include project feasibility, design, scope, cost and selection of consultants/contractors, etc.

Finalisation of accounts

7.10 The Controlling Officer should require the concerned subvented organisation to submit final project accounts, as duly certified by the senior management of the organisation and relevant professionals, on completion of a subvented project in a timely manner. The Controlling Officer should assess whether the project has been satisfactorily completed and assess the final cost which qualifies for subvention, in consultation with relevant professional departments as necessary. If it is revealed that the actual project cost is lower than the original project estimate based on which capital subvention is approved, the Controlling Officer should ensure that all surplus capital subvention if already disbursed (i.e. difference between funding disbursed and the actual project cost less amount of outside contribution pledged) is returned to the Government.

8. Reserves

8.1 Subject to the provisions of relevant legislation or funding agreement (including the considerations in paragraph 5.2 above), a subvented organisation may place surpluses¹ arising from subvented programmes into a reserve. The keeping of reserve gives organisations an incentive to economise. It also provides organisations with a buffer to meet contingency. This section does not normally apply to surpluses arising from recurrent subventions which are provided on a deficiency basis or capital subventions (covered by paragraph 5.3 above).

/8.2

¹ It is noted that the surpluses may come from unspent subvention or unspent income from other sources supporting a subvented programme. For the purpose of this section on keeping reserves, all surplus arising from a subvented programme upon finalisation of the audited account for that accounting year is deemed to be unspent subvention.

8.2 The Controlling Officer should, in consultation with the Financial Services and the Treasury Bureau (The Treasury Branch), set an appropriate reserve ceiling for funds so carried forward. The objective is to prevent an organisation from accumulating more than is necessary, at the expense of other worthy causes which may have been supported by public funds had the “underspending” in subvention been returned to the Government. The reserve ceilings may differ between organisations, but they should be set at reasonable levels having regard to the susceptibility of the concerned organisations to fluctuations in income and expenditure and the demand for time-limited funding from time to time. For transparency, Controlling Officers are advised to communicate the level of reserve to the Legislative Council which approves the appropriation of funds for the relevant subvention.

8.3 Any surplus in excess of the agreed reserve ceiling should be returned to the Government (by way of offsetting from next year’s subvention or returning to General Revenue), or dealt with in accordance with arrangements agreed between the Controlling Officer and the organisation.

8.4 The Controlling Officer should agree with the subvented organisation the general ambit of a reserve accumulated from underspending on subvented programmes, and the authority of the organisation over the use of the reserve. Generally the reserve should be ploughed back into programmes which are normally supported by public funds. Where the use of reserve would generate additional financial consequences for the Government, the organisation must seek the prior agreement of the Controlling Officer before committing to spend from the reserve.

8.5 To facilitate monitoring and control, a subvented organisation should keep separate accounts of its reserve accumulated from underspending on subvented programmes (to which this section applies) and any reserve attributable to surplus income generated from self-financing activities.

9. Treatment of other income

Fees and charges

9.1 The Controlling Officer should agree with the subvented organisation the principles and conditions governing the administration of fees and charges in support of a subvented programme, e.g. whether the introduction and revision of fees and charges require the prior approval of the Controlling Officer and to what extent subvented organisations are allowed to deploy the income at their discretion. As a general rule, when operating income-generating activities in support of a subvented programme, subvented organisations should ensure that the activities are in line with relevant government policies, the objectives of the subvented programme and relevant legal requirements. In no circumstances should the subvented programme be compromised.

/Donations

Donations

9.2 The Controlling Officer should agree with the subvented organisation the circumstances under which donations may be accepted and retained. The acceptance of donations by a subvented organisation for running services/undertaking capital projects may have recurrent/time-limited financial implications. The Controlling Officer should make it clear to the subvented organisation that such financial consequences have to be borne by the organisation from its available resources, unless the organisation, before acceptance of the donations, has obtained the Controlling Officer's agreement to provide additional funding for the purposes.

9.3 In some cases, the donors have not specified the uses of the donations. For organisations which run both subvented and non-subvented programmes, as well as organisations running solely subvented programmes funded on different bases, the application of the non-designated donations should be agreed with the Controlling Officer. In the discussions, the Controlling Officer should strike a balance between the desirability of applying these non-designated donations to subvented programmes with a view to reducing the organisations' reliance on public funding and the expectation of the subvented organisations for having a say over donations which they have solicited. The Controlling Officer should guard against any consequential reduction in the level of subvention becoming a disincentive for the subvented organisations to solicit donations.

10. Submission of audited accounts

10.1 The Controlling Officer should require each subvented organisation to submit, before a prescribed date, the audited annual financial statements of the organisation (which should include balance sheet, income statement, cash flow statement, and accounting policies and explanatory notes), and an audited annual financial report showing –

- (a) the income and expenditure of the organisation's subvented programmes (the Controlling Officer to decide whether there should be one consolidated income and expenditure analysis for all subvented programmes or separate analyses for each distinctly separate subvented service); and
- (b) where applicable, the movements in the reserve of unspent subvention retained and assets acquired under the subvented programmes.

/10.2

10.2 The annual financial statements and annual financial report in paragraph 10.1 above should be certified by the Chairman of the subvented organisation or equivalent and audited by professional accountants registered under section 22 of the Professional Accountants Ordinance (Cap. 50) in accordance with standards issued by the Hong Kong Institute of Certified Public Accountants (formerly called the Hong Kong Society of Accountants).

10.3 The detailed requirements and presentation of the annual financial report to be submitted may be determined by the Controlling Officer taking into account any specific requirements and, where necessary, in consultation with the Director of Accounting Services.

10.4 The auditors' report accompanying the annual financial statements and annual financial report submitted should contain an expression of opinion as to –

On the annual financial statements of the subvented organisation –

whether they give a true and fair view of the state of affairs of the subvented organisation as at the balance sheet date and of its financial result and cash flows for the year then ended.

On the annual financial report of the subvented programme(s) being audited –

whether the subvented organisation has complied with, in all material respects, the requirements set by the Government (including the requirements to keep proper books and records and to prepare annual financial report of the subvented programme(s) in accordance with the books and records) and all the terms and conditions of the subvention as specified in the relevant subvention guidelines and other relevant documents.

10.5 The subvented organisation should agree with the auditors the terms of the audit engagement, such as the objectives, scope and form of report, etc. To avoid misunderstanding, the agreed terms should be recorded in an engagement letter.

10.6 The Controlling Officer should remind the organisation to provide the auditors with all the relevant subvention guidelines and other relevant documents.

/11.

11. Access to records and accounts

11.1 The Controlling Officer should ensure that he or she and the Director of Audit will have unhindered access to the records and accounts of a subvented organisation, as a condition of subvention if not already provided by law. When so requested in this connection, the organisation will be obliged to explain to the Controlling Officer and the Director of Audit any matters relating to the receipt, expenditure or custody of any money derived from public funds.

11.2 In accordance with the scope of value for money audits agreed between the Public Accounts Committee of the Legislative Council and the Director of Audit and accepted by the Administration, the Director of Audit may carry out value for money studies in any organisation which receives more than 50% of its income from public moneys. The Director of Audit may also, by prior agreement between the Controlling Officer and a subvented organisation as a condition of subvention, carry out similar studies in organisations which receive 50% or less of their income from public moneys.

12. Anti-corruption procedures

12.1 The Commissioner of the Independent Commission Against Corruption (ICAC) may examine the management and control procedures in a subvented organisation with a view to providing corruption prevention advice to the executive committee. The organisation is expected to heed the advice given by the ICAC and to take such remedial actions as are appropriate.

12.2 It is the responsibility of each subvented organisation to ensure that its management and staff conform with the requirements of the Prevention of Bribery Ordinance (Cap. 201).

13. Self-financing activities

13.1 Some subvented organisations run self-financing activities without any subvention from the Government. The organisation should keep a separate set of accounts for these activities and ensure that there is no cross-subsidisation of self-financing activities by the subvented programmes in money or in kind.

14. Payment of subvention

14.1 The Controlling Officer should avoid disbursing an annual subvention in one go, unless this is essential for meeting the operational needs of the organisation. The subvention should normally be paid by instalments, e.g. monthly or quarterly, having regard to the cashflow requirements of the subvented organisations, the amount of funding involved, etc.

/15.

15. Memorandum of Administrative Arrangements and other instruments

15.1 The Controlling Officer should let the organisation receiving recurrent funding from the Government know how these and other guidelines would be applied in their cases. As a matter of good management, Directors of Bureaux or the relevant Controlling Officers should preferably enter into a Memorandum of Administrative Arrangements or a similar instrument with each organisation receiving recurrent funding from the Government under their purview. Such tailor-made instruments should, having regard to these guidelines, set out the responsibilities of all parties in the delivery and monitoring of government-funded services and capital projects.

15.2 These guidelines do not override the terms of **existing** Memorandum of Administrative Arrangements and other tailor-made instruments on the management and control of individual organisations receiving recurrent funding from the Government, e.g. Code of Aid for aided schools, Lump Sum Grant Manual for welfare services, UGC Notes on Procedures. Relevant Directors of Bureaux and Controlling Officers are nonetheless expected to review the existing memoranda and other instruments periodically and to take account of these guidelines in the next review.

The Treasury Branch
Financial Services and the Treasury Bureau
September 2004