

**A brief account of Chapter 2 of Report 68  
“Monitoring of charitable fund-raising activities”  
by the Director of Audit  
at the Public Hearing of the Public Accounts Committee  
of the Legislative Council on Tuesday, 16 May 2017**

Mr. Chairman,

Thank you for inviting me here to give a brief account of Chapter 2 of Report No. 68 of the Director of Audit, entitled “Monitoring of charitable fund-raising activities”.

This Audit Report comprises six parts.

Part 1 of the Report, namely "Introduction", describes the background of the audit.

Hong Kong is a philanthropic community where fund-raising for charities forms part of its way of life. To ensure that charities uphold accountability and transparency during the course of their fund-raising activities, it is important to monitor these activities in an effective and appropriate manner. Currently, there is no legislation enacted specifically for this purpose. The Government’s regulation of certain charitable fund-raising activities, such as flag days, sale of raffle tickets and on-street charity sales, is incidental to three pieces of legislation, namely the Summary Offences Ordinance, the Gambling Ordinance and the Hawker Regulation.

Part 2 of the Report examines the Government’s efforts to promote transparency and accountability of charitable fund-raising activities.

The Audit Commission (Audit)’s examination revealed that the Government decided in 2002 that administrative controls should be strengthened with a view to enhancing transparency and accountability of fund-raising activities to enable donors to make an informed choice when making donations. Therefore, the Social Welfare Department (SWD) promulgated in 2004 the “Reference Guide on the Best Practices for Charitable Fund-raising Activities” (Reference Guide) for voluntary adoption by charities.

Up to September 2016, 400 charitable organisations had indicated to the SWD that they would adopt the Reference Guide. However, the number of tax-exempt charities under the Inland Revenue Ordinance has doubled to nearly 9,000 in the past decade and there have been an increasing number of fund-raising activities which are not subject to Government’s monitoring, such as appeals for donations through the Internet or face-to-face solicitation of regular donations in public places. In this connection, Audit has recommended that departments concerned should step up promotion efforts to encourage more charitable organisations to ensure that their volunteers, employees and hired solicitors would act with fairness, integrity, and in accordance with all applicable laws and regulations in organising fund-raising activities.

Part 3 of the Report examines the SWD's administration of Public Subscription Permits (PSPs) for charitable fund-raising activities.

The SWD issues PSPs for flag days and general charitable fund-raising activities in public places. Audit examination revealed that some permittees had failed to comply with the permit conditions. For instance, they had not submitted audited reports of fund-raising activities within the stipulated time. While the SWD had withheld certain non-compliant permittees' applications for new PSPs, they continued to raise funds through other means. Audit also found that the administration costs of some fund-raising activities were high, which might reduce the amount of donations that could reach the beneficiaries. Therefore, Audit has recommended that the SWD should step up enforcement actions on cases of repeated non-compliance with the permit conditions on submission of audited reports, and consider setting an expenses ceiling for general charitable fund-raising activities which are similar in nature to flag days.

Part 4 of the Report examines the Home Affairs Department (HAD)'s administration of lottery licences for charitable fund-raising activities.

Audit examination revealed that some charitable organisations holding lottery licences issued by the HAD had failed to comply with the licence conditions on submission of lottery accounts and other documents within the stipulated time. There was also room for improvement regarding the HAD's follow-up actions on late submission of documents and the arrangements for public inspection of the lottery accounts. Audit has recommended that the HAD should step up monitoring of licensees' compliance with the licence conditions, and take appropriate measures to facilitate public access to the lottery accounts.

Part 5 of the Report examines the Food and Environmental Hygiene Department (FEHD)'s administration of temporary hawker licences for fund-raising activities involving on-street selling.

Audit examination revealed that the FEHD's administrative/licensing requirements were different from those of the other two licensing departments. For instance, it had not imposed any requirements on the safe custody of monies received as well as the need to account for the use of donations. In addition, owing to the lack of one-stop service, an organisation might need to seek approvals from different departments for the same charitable fund-raising activity involving on-street selling, resulting in extra workload to the government departments and the charitable organisations. In this connection, Audit has recommended that the FEHD should consider improving the administrative measures concerned, including streamlining of the licensing procedures, and more effective monitoring of on-street selling activities for charitable fund-raising purposes.

Part 6 of the Report examines the way forward on the monitoring of charitable fund-raising activities with reference to the recommendations of the Law Reform Commission (LRC) Report on Charities published in 2013.

According to the LRC Report, there are deficiencies in the existing regulatory framework of charities, including inconsistent standards or requirements on governance, accounting and reporting by charities and limited control of charitable fund-raising activities. The Government's guidelines stipulate that a public response to the

recommendations of the LRC Report should be provided within 12 months of its publication. However, for three years since the issue of the LRC Report, the Home Affairs Bureau (HAB) was still coordinating comments from relevant bureaux/departments (B/Ds). Hence, Audit has recommended that the HAB should expedite the consultation with relevant B/Ds with a view to formulating a response to the recommendations of the LRC Report.

Our views and recommendations were generally agreed by relevant B/Ds. I would like to take this opportunity to acknowledge with gratitude their full cooperation, assistance and positive response during the course of the audit review.