

Best Practice Checklist



Internal Control in Social Enterprises



防止貪污處

Corruption Prevention Department

Hong Kong has seen a rapid growth of social enterprises (SEs) in recent years. Most of them are small scale enterprises operating under the management of a parent organisation which is usually a non-governmental organisation (NGO), with a social objective, such as creating employment and training opportunities for the socially disadvantaged and providing the products or services needed by the community.

Like small and medium enterprises, some of the business operations of SEs such as purchasing and sales are exposed to risks of corruption or other malpractice. In some cases, the risks may be increased due to the lack of experience of the SE's and NGO's staff (mainly social workers by profession) in commercial operations or the lack of resources and attention given to system controls.

This Best Practice Checklist (BPC) provides a set of recommended practices that the NGOs and SEs may adopt to enhance their governance and internal control to reduce the above-mentioned risks. The users of this BPC may adopt the recommended measures appropriate to the SE's business nature, risk exposures, organisation structure, resource capability, and operational need. SEs operating under government sponsorship should also adhere to the requirements and conditions of the funding agreements and adopt appropriate guidelines (e.g. Service Quality Standards laid down by the Social Welfare Department). This BPC is not meant to substitute those conditions.

To help users better assess the importance of the recommended practices, the BPC uses the following bullet symbols:

□ : essential or strongly recommended practice/control

○ : suggested best practice where practicable or resources permit

The valuable input of the HKCSS-HSBC Social Enterprise Business Centre and the Hong Kong General Chamber of Social Enterprises Limited during the compilation of the BPC is gratefully acknowledged. The three photos on the cover of the BPC are provided by the New Life Psychiatric Rehabilitation Association, St. James' Settlement and the Caritas Hong Kong (in the order of display of the photos from left to right).

The Advisory Services Group of the Corruption Prevention Department of ICAC stands ready to provide free, confidential and tailor-made corruption prevention advice to private companies and NGOs / SEs on request, including how to apply the practices recommended in this BPC and which recommendations are suitable for particular situations. For further information, please contact the Group at telephone no. 2526 6363 or fax no. 2522 0505 or email address at asg@cpd.icac.org.hk.

How to use this Best Practice Checklist

For quick and easy reference, users will find the following icon throughout this BPC. They serve to lead users to the information required:



Sample Form – sample forms for adoption where applicable

From The Editorial Board

This BPC aims at providing general guidance for NGOs / SEs on internal controls and does not purport to deal with issues that may arise in any given situation. Descriptions and explanations of the relevant legal provisions and the recommended work procedures and practices are necessarily general and abbreviated to make this BPC easy to understand from the layman's angle. Users of this BPC should seek legal or professional advice as and when necessary. Whilst we endeavour to ensure the accuracy of the information in this BPC, no statement, representation, warranty or guarantee, express or implied, is given by us as to the accuracy, completeness or the appropriateness of such information for use in any particular circumstances and the ICAC is not responsible for any loss or damage whatsoever arising out of the use of the BPC or in connection with any information contained in this BPC.

Throughout this BPC, the male pronoun is used to cover references to both the male and female. No gender preference is intended.

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It is assumed that the social enterprise (SE) is set up and overseen by a parent non-governmental organisation (NGO). It is important for the NGO to put in place good governance and internal control system to facilitate effective oversight and control of its SEs, ensure that they meet their objectives, and minimize risks of corruption or malpractice¹. Where the SE is stand-alone (i.e. set up as an independent entity), the duty falls on the SE's Board or Committee members.

	NGO ²	SE ²
1.1 Governance of Social Enterprises		
<ul style="list-style-type: none"> ❑ Source and appoint Board members, external advisors or staff members with relevant knowledge and experience in the SEs' trade (e.g. corporate governance, financial management) to advise the NGO on the management of the SEs. ❑ Ensure availability of the Board/staff members and advisors to provide advice (i.e. to appoint a replacement should any member/advisor becomes unavailable to provide advice). ○ Establish a Steering/Oversight Committee at the Board level or a support unit in the NGO comprising the members/advisors appointed to oversee the development and operation of its SEs. ❑ Lay down a <i>Code of Conduct for the Board members, advisors and staff members</i> appointed (Appendices 1 & 2), setting out the policies and guidelines governing their conduct and the probity requirements in relation to the management and operation of the SEs, and issue a copy to each Board member, advisor and staff member appointed. 	<ul style="list-style-type: none"> ✓ ✓ ✓ ✓ 	<ul style="list-style-type: none">

¹ It is not the purpose of this BPC to cover an NGO's overall governance and internal control system. For this subject, readers may refer to the ICAC publication "Best Practice Checklist: Governance and Internal Control in Non-Governmental Organisations" (available at: http://www.icac.org.hk/en/prevention_and_education/pt/index.html). This BPC focuses only on an NGO's governance and oversight of its SEs.

² The "✓" at the two columns on the right hand side of each recommendation indicates the party (i.e. NGO or SE, or both) which we consider most suitable to carry out the recommendation. The NGO can however decide the party which it considers most suitable to carry out the recommendation depending on its organisation structure and resource allocation. Where the SE is an independent entity, the SE's Board or Committee members may decide the arrangement.

	NGO	SE
<input type="checkbox"/> Avoid any business dealings between the SEs and Board members, advisors or staff members so as to prevent any potential conflict of interest (e.g. avoid requesting an advisor to nominate a supplier/service provider or a staff candidate).	✓	✓
<input type="checkbox"/> Arrange training or experience-sharing activities to staff members involved in the management, supervision and operation of the SEs (e.g. knowledge of the relevant trade, business management, financial management, sales and marketing) ³ .	✓	✓
<input type="radio"/> Engage/deploy a full-time manager or supervisor with the required business/trade experience to run an SE.	✓	✓
<input type="checkbox"/> Put in place mechanisms to facilitate the regular monitoring and evaluation of the SEs' performance by the NGO's management and the Oversight Committee/Board, including standard management and financial reports which the SEs are required to submit regularly, and site visits or surprise checks on the SEs by supervisors, senior staff and Board/Committee members of the NGO.	✓	
<input type="checkbox"/> Provide annual performance and financial reports on the SEs to relevant stakeholders (e.g. the funding sources) to facilitate external monitoring and input.	✓	

³ Some relevant training and experience-sharing activities are arranged by the Hong Kong Council of Social Service, Hong Kong General Chamber of Social Enterprises Limited and tertiary institutes, etc.

1.2 Internal Control System

The following outlines the key elements/principles of a sound internal control system which NGOs and SEs are advised to adopt for their business processes :

(i) *Policies, Procedures/Guidelines*

- | | | |
|---|---|--|
| <ul style="list-style-type: none"> ❑ Lay down written policies, procedures and guidelines, and specify the authorities for important decisions/transactions, for the SE's key business processes, including purchasing, financial control, sales, inventory control, and staff administration. | ✓ | |
| <ul style="list-style-type: none"> ❑ Regularly review the policies, procedures and guidelines, and update if necessary to meet current operating environment and needs. | ✓ | |

(ii) *Compliance by Staff*

- | | | |
|---|---|---|
| <ul style="list-style-type: none"> ❑ Ensure that the policies, procedures, guidelines, and Code of Conduct are clearly understood by the staff concerned through briefing or training, and establish/promote a compliance culture among the staff. | ✓ | ✓ |
|---|---|---|

(iii) *Documentation and Accountability*

- | | | |
|--|---|---|
| <ul style="list-style-type: none"> ❑ Require adequate documentation/records of important business processes and transactions (e.g. purchases, sales, stock movements), which should identify the staff responsible to ensure accountability. | ✓ | ✓ |
| <ul style="list-style-type: none"> ❑ Devise simple/standard forms for use by the staff in carrying out important processes/transactions, where appropriate, to help compliance with laid down procedures and facilitate proper documentation. | | ✓ |

(iv) *Checks and Balances and Supervision*

- | | | |
|--|---|---|
| <ul style="list-style-type: none"> ❑ Segregate duties in important business processes e.g. for the procurement of assets of value, the duties of purchasing, approval and payment, as far as practicable. | ✓ | ✓ |
|--|---|---|

- Where duties in any important process are not segregated due to resource limitation, subject transactions in the process performed by one staff member to counter checks or random checks by another staff member or a supervisor.
 ✓

- Conduct occasional site checks on the SEs and spot checks on important processes/transactions, and report irregularities to the NGO's management.
 ✓

- (v) ***Independent Review and External Monitoring***
- Ensure transparency in relevant information (e.g. publicize sales promotion and procurement criteria), and provide an independent channel at the NGO level for receiving feedback or complaints.
 ✓
✓

- Conduct internal audits on major operations if resources permit.
 ✓

- Subject the accounts and operations of the SEs to external audit.
 ✓

An NGO/SE's financial assets (including money), if not properly controlled, will be at risks of misappropriation or abuse. Many key business processes (such as purchasing, sales and staff remuneration) involve financial transactions. It is therefore important for SEs to put in place sound financial controls to prevent abuse/misappropriation of financial assets as well as malpractice in business processes.

NGO SE

2.1 Financial Control Procedures and Duties

- | | | |
|---|---|---|
| <ul style="list-style-type: none"> ❑ Lay down financial management procedures, instructions or guidelines including operation of bank accounts, budget preparation and control, handling of receipts and payments, financial reporting, checks/audits, and handling of exceptions (e.g. overdue payments, writing off of debts). | ✓ | |
| <ul style="list-style-type: none"> ❑ Lay down the financial authorisation limits for purchases and payments of different posts or levels of personnel, placing the authorisation level for higher values and exceptions (e.g. write-off of accounts receivable) at the NGO. | ✓ | |
| <ul style="list-style-type: none"> ❑ Segregate duties in the financial control process as far as possible (e.g. authorisation, disbursement of payments and keeping of accounting records should be carried out by different persons), some of which may be performed at the NGO level to enhance control. | ✓ | ✓ |
| <ul style="list-style-type: none"> ❑ Engage/deploy staff with knowledge/experience in finance and accounting (or assign the NGO's finance unit) to perform accounting and financial duties of the SEs, and/or provide relevant training to the staff concerned. | ✓ | |
| <ul style="list-style-type: none"> ❑ Ensure that the staff keep proper records of all financial transactions and the supporting documents. | ✓ | ✓ |

2.2 Control of Bank Accounts

- Maintain a bank account (or bank accounts) for the exclusive use of the SE, and clearly separate the funds of the SE from that of the NGO. ✓
- Require at least two signatories for withdrawals or signing of cheques, and notify the bank promptly of cessation of any person as an authorized signatory. ✓
- Prohibit the use of any staff's personal bank accounts to handle the SE's funds. ✓ ✓
- Prohibit the signing of a blank cheque with either payee or amount left blank. ✓ ✓
- Put in place proper controls on the use of cheques, e.g. issue of cheques in sequential order, certifying and accounting for unused/spoiled cheques, and safe-keeping of cheque books not in use. ✓

2.3 Budget

- Draw up annual budgets for the SE based on the SE's business plans, both of which should be vetted and approved by the NGO's Board/Oversight Committee or senior management. ✓
- Exercise prudent budget control by regularly comparing actual expenditure against the approved budget, reviewing the causes of variances, and seeking approval for revisions as necessary. ✓
- Specify the approving authority for unbudgeted expense items or expenses exceeding budget provision. ✓

2.4 Petty Cash

- Establish a formal petty cash system with a designated petty cash holder controlling a float of money and set upper limits for petty cash purchases and claims. ✓

- Ensure payments or reimbursements are made against invoices/receipts or *Petty Cash Vouchers* ([Appendix 3](#)) and properly recorded in a petty cash book/form. ✓
- Require the petty cash holder to submit the petty cash book and supporting receipts/vouchers in requesting replenishment of petty cash. ✓

2.5 Payments

- Ensure that all payments are supported by invoices/receipts or vouchers certified by the authorized user to signify receipt of the goods/services. ✓
- Make payments by cheque, autopay or other electronic means as far as possible if the recipient accepts such modes of payment. ✓
- Before signing a cheque or effecting payment, verify the payee and amount against the authorization documents and invoices, and make enquiry if the payee differs from the name of the supplier/service provider or party on the invoice or relevant procurement documents. ✓
- Stamp “Paid” or “Processed” on all invoices/receipts settled to prevent double claim. ✓

2.6 Receipts

- Where appropriate and practicable, receive payments by cheque or electronic means (e.g. bank deposit/transfer, payment cards). ✓
- Issue invoices/receipts to customers with description of the products/services provided, amount due and payment instructions (including the payee and methods of payment, and a reminder to customers/payers to cross their cheques, where appropriate). ✓
- Bank cash and cheque receipts promptly (e.g. daily or upon reaching a preset limit). ✓

	NGO	SE
<input type="checkbox"/> Conduct day-end supervisory checks on receipts issued and cash received, prepare a <i>Daily Cash Summary Sheet</i> (Appendix 4), and ensure all items tally.		✓

2.7 Checks and Management Review

<input type="checkbox"/> Require the SE manager/supervisor and/or the NGO's staff responsible to perform bank reconciliation monthly.	✓	✓
<input type="checkbox"/> Require the SE manager/supervisor and the NGO's staff to conduct surprise checks on cash on hand occasionally.	✓	✓
<input type="radio"/> Conduct supervisory checks on accounting records against operational records (e.g. sales, purchases).	✓	✓
<input type="checkbox"/> Devise standard financial reports/statements and exception reports, and devise benchmarks of performance (e.g. by benchmarking with the trade) for the SE, and require the SE's or NGO's staff responsible to submit such reports/statements on a regular basis to the Board/Committee or the NGO's senior management for review and monitoring.	✓	
<input type="checkbox"/> Investigate any discrepancies (e.g. missing receipt or cheque, discrepancies detected in checks on bank reconciliations and cheques) and report irregularities to the NGO's management.	✓	
<input type="radio"/> Arrange external audit of the SE's accounts.	✓	

Procurement is a key business function in all organisations and is also most prone to corruption. Corruption or favouritism in procurement, if any, may inflate the SE's operating cost and lower the quality of its products/services, and affect its sustainability. This chapter provides a checklist of recommended measures for SEs to enhance control and prevent possible corruption in the procurement process.

NGO SE

3.1 Procurement Procedures and Duties

- | | | |
|--|---|---|
| <ul style="list-style-type: none"> ❑ Lay down procurement policies, procedures and guidelines (including the procurement methods and the minimum number of quotations required for different purchasing values of goods/services, the policy, criteria and method for selecting suppliers/service providers, handling free samples provided by service providers) and the approving authorities for making purchases of different values. | ✓ | |
| <ul style="list-style-type: none"> ❑ In general, adopt a competitive approach in procurement, except where justified in accordance with the NGO's laid down policy to meet specific social objectives (e.g. to purchase from an SE it operates). | ✓ | ✓ |
| <ul style="list-style-type: none"> ○ If it is the NGO's policy (endorsed by the Board) to allow purchases to be made or bids to be invited from its or other SEs instead of from the open market so as to assist the SEs, lay down appropriate guidelines to strike a reasonable balance between the objective of assisting the SEs and the interest of the NGO and its service users, for example: | ✓ | ✓ |

- ✧ require that the quality and price of goods or services provided by the SE should be commensurate with that of the open market, and the NGO's procurement requirements / specifications should not be so compromised that its interest or service users' interest is adversely affected;
 - ✧ set a limit on the value of a purchase that may be purchased from an SE without the normal competitive process for the above purpose;
 - ✧ require that SEs run by the NGO should not overly rely on the NGO for business, and encourage SEs to gain sufficient business volume in the open market as far as possible.
- Segregate duties in the procurement process (e.g. process in raising purchase requisition, sourcing and selecting suppliers/service providers, receipt and acceptance of goods/services) as far as practicable. ✓ ✓
 - In purchasing special goods/services of higher values, involve both the user/supervisory staff and the specialist/technical staff in the selection/procurement decision process (e.g. include both supervisory staff and catering staff (e.g. cook) in the selection of foodstuff suppliers). ✓ ✓
 - Where practicable and there are benefits from economy of scale, arrange bulk purchases from suppliers/service providers for goods/services frequently and commonly required by the SEs and other service units under the NGO, through an open and competitive means at the NGO level. ✓
 - Prohibit staff from accepting free samples provided by service providers for personal use (including personal retention of samples for evaluation purpose), and require staff to return them to the service providers. Where the service providers decline the receipt of returned samples, staff can donate them to charitable organisations or retain them for use of the SE. ✓

- Maintain proper records of purchases (e.g. quotation records) for a specified period.
 ✓ ✓

3.2 Suppliers / Service Providers Lists

- For frequently procured goods/services with a high annual cumulative purchase value, source suppliers/service providers based on pre-defined criteria and price comparison and draw up and maintain a suppliers/service providers list approved by the NGO, and review the list at least annually to include new competitive suppliers/service providers and remove uncompetitive or unsatisfactory ones.
 ✓
- For goods/services commonly and frequently required by a number of SEs or other service units under the NGO, consider drawing up and maintaining a central suppliers/service providers list through open means (e.g. open invitation on the NGO's website), to be approved by the NGO's senior management.
 ✓
- Remove suppliers/service providers with persistent poor performance from the lists (see also Section 3.7 on evaluation of the suppliers'/service providers' performance).
 ✓ ✓


3.3 Petty Cash Purchases

- Where the goods/services are available from suppliers/service providers on the approved suppliers/service providers lists, purchase from a supplier/service provider on the list selected on a fair share basis as far as practicable (unless otherwise justified, e.g. lowest price by track record).
 ✓
- See also Section 2.4.

3.4 Inviting and Receiving Quotations

- | | | | |
|---|---|---|---|
| ○ | Raise purchase requisition on a <i>Purchase Requisition Form</i> (Appendix 5), specifying clearly the specifications (which should be functional) of the goods/services required, for approval by the appropriate authority. | ✓ | |
| □ | Invite at least the minimum required number of quotations from the suppliers/service providers lists (if available) on a fair share basis as far as practicable (unless otherwise justified, e.g. lowest price or better performance by track record). | ✓ | |
| □ | Where a suitable suppliers/service providers list is not available, invite quotations from at least the minimum required number of suppliers/service providers sourced through various means (e.g. suppliers/service providers used by the NGO or other similar organisations, those which have approached the SEs themselves, those sourced by staff in the market) based on laid-down criteria (where applicable) and approved by the SE manager or appropriate approving authority in the NGO. | ✓ | ✓ |
| □ | Where practicable, require the suppliers/service providers to submit written quotations, otherwise properly record verbal quotations received (e.g. on the <i>Purchase Requisition Form</i>). | ✓ | |
| ○ | If criteria apart from price will be assessed in the selection of suppliers/service providers, make known to the bidders the selection criteria in the invitation. | ✓ | |
| □ | For staff handling procurement, keep quotation information confidential, and put in place suitable security measures to safeguard quotation information, e.g. receiving written quotations by a designated staff member. | ✓ | |


3.5 Selecting Suppliers / Service Providers, Ordering and Receipt of Goods / Services

- Recommend the bidder with the lowest offer or otherwise based on pre-determined selection criteria, and submit the recommendation with records of the quotations received (e.g. record the quotations received on the *Purchase Requisition Form* attaching the written quotations if any) to the procurement approving authority for approval. ✓
- Issue serially-numbered *Purchase Orders* ( *Appendix 6*) specifying the items of goods/services to be purchased and detailed requirements. ✓
- Check the goods delivered against the *Purchase Orders* and certify receipt on the invoices or delivery notes if in order. ✓
- For high value purchases, assign a supervisor to monitor and counter-sign the receipt of goods. ✓

3.6 Tendering and Bulk Purchases

- High-value purchases through tendering should be arranged or assisted by the NGO⁴. ✓

3.7 Checks and Management Review

- Periodically evaluate the suppliers’/service providers’ performance using a standard performance evaluation form listing the attributes for assessment (e.g. responsiveness to calls for quotations, quality of goods, promptness in goods delivery) ( *Appendix 7*), where resources permit; ✓

or

record and report adverse performance using a standard form, if a comprehensive performance evaluation system is impractical.

⁴ Readers may refer to the ICAC publication “Best Practice Checklist: Governance and Internal Control in Non-Governmental Organisations” (Chapter 4.7 on “Purchases by Tender”).

- Collect customer feedback on goods/services provided by the SE which should be used in the evaluation of the suppliers'/service providers' performance. ✓
- Conduct random checks by supervisory staff on procurement transactions (e.g. ensuring the quotations received are genuine by spot checking with the suppliers/service providers, comparing the price of purchased goods with the market prices occasionally to ensure that the price of goods procured is reasonable, checking whether there are split orders⁵, etc.) ✓
- Conduct random checks on the SE's purchases and quality of goods/services delivered (e.g. food quality) by supervisory/independent staff of the NGO. ✓
- Produce regular management and exception reports on purchases made (e.g. repeated purchases, most frequently used suppliers/service providers, purchases of substantial value, purchases from suppliers not on the approved list) to the senior management for review. ✓
- Investigate problems/complaints and report irregularities to the NGO's management. ✓

⁵ That is, intentionally breaking up a larger purchase into smaller orders so as to evade the controls and approving authority required for a larger purchase.

An SE's assets include inventory items (goods for sale, materials/parts for production) and other asset items such as equipment. Staff having access to or control over such inventory/asset items might be tempted to misappropriate or misuse them for personal gain if the control is lax. This chapter provides a checklist of control measures for enhancing the control of inventory/asset items, which SEs are advised to adopt as appropriate depending on the value and quantity of their inventory/asset items.

NGO SE

4.1 Inventory / Asset Control Procedures and Duties

- | | | |
|---|---|---|
| <ul style="list-style-type: none"> ❑ Define the items regarded as assets⁶ and valuable stock items which would require proper recording, control and accounting treatment. | ✓ | |
| <ul style="list-style-type: none"> ❑ Lay down procedures, instructions or guidelines and the approving authorities (where applicable) for inventory/asset control covering the receipt, record-keeping, storage, issue, disposal and writing-off of items. | ✓ | |
| <ul style="list-style-type: none"> ❑ Segregate inventory/asset control duties (e.g. safe-keeping, authorisation for issue and record-keeping) as far as practicable. | ✓ | ✓ |

4.2 Inventory Records / Asset Register

- | | | |
|---|--|---|
| <ul style="list-style-type: none"> ❑ Maintain proper records of assets and valuable stock items, which may include, as necessary: <ul style="list-style-type: none"> ✧ identification information or description of each item or batch of items (e.g. model number, serial number, if any), and useful information such as purchase price, expiry date, etc.; ✧ location and movement records (e.g. stock-in, issue and disposal information including identities of the handling staff, staff issued with the asset item) and stock balance. | | ✓ |
|---|--|---|

⁶ The NGO should define asset items according to general accounting practices, including the estimated lifespan (e.g. more than one year) and value (e.g. exceeding \$1,000), etc.

	NGO	SE
○ Label asset and valuable stock items with identification information or the identities of staff issued with the asset items where practicable.		✓
▣ Require accounting unit/staff to maintain separate accounting records on assets and inventory.		✓
▣ Require adjustments to inventory/asset records (i.e. to align with physical count) or write-offs of missing items be approved by the SE's manager or a supervisor at the NGO.	✓	✓

4.3

Receipt, Storage and Issue of Inventory / Asset Items

▣ Require staff to check goods/asset items received from suppliers against the <i>Purchase Orders</i> for product specification and quantity and certify receipt on the invoices or delivery notes if in order, and supervisors to spot check high-value goods/asset items ⁷ .		✓
▣ Ensure adequate physical security to safeguard valuable inventory/asset items (e.g. keep valuable inventory items in a storeroom under lock and with control access).		✓
○ Take out insurance on asset and valuable stock items.		✓
○ For valuable or large quantity of inventory items, require users to raise requests for issue using a standard request form with approval by a supervisor who should ensure that the request is justified (e.g. supported by sales orders), and the receiving staff to acknowledge receipt on the form.		✓
▣ Ensure that the staff responsible for maintaining inventory/asset records promptly update the inventory/asset records based on the relevant documents if any.		✓

⁷ For donated items, require staff to issue a receipt/acknowledgement listing the items received to the donor.

4.4 Disposal of Inventory / Asset Items

- Lay down procedures and guidelines on the disposal of inventory/asset items, including conditions for disposal (e.g. expired/damaged, poor service condition or beyond repair), disposal methods for various types of items (e.g. donation, resale, disposal as waste), and the approving authority and procedure. ✓
- Require staff to obtain approval from the designated supervisors using an *Inventory/Asset Disposal Form* (Appendix 8). ✓
- Approving supervisor to inspect or conduct random checks on the items to verify their conditions, quantity and supporting evidence if any (e.g. inspection report by a technician in case of an equipment), and to witness or spot check the disposal process. ✓
- Ensure that the staff responsible record the disposal on the *Inventory/Asset Disposal Form* and provide supporting documents (e.g. receipt from the recipient or second-hand goods dealer if available). ✓
- Ensure that the staff responsible for maintaining inventory/asset records verify approval documents before updating disposal records. ✓

4.5 Checks and Management Review

- Conduct regular stock-taking of inventory and asset items, and regularly check the inventory consumption records against the sales records to ensure reasonable correction. ✓ ✓
- Assign staff of the NGO to conduct surprise checks on valuable inventory and asset items. ✓
- Produce periodic inventory reports (e.g. stock in-take and issue/sale, wastage/disposal/write-off, etc.) for the NGO management's monitoring and review. ✓
- Investigate discrepancies such as abnormal stock depletion or missing asset items and report irregularities to the NGO's management. ✓

Sales and marketing activities are important business functions which directly affect the income and sustainability of the SEs. There are risks of corruption or other malpractices associated with sales processes such as misappropriation of cash receipt and favouring related customers by staff. This chapter provides a checklist of basic control measures that SEs can adopt to mitigate such risks.

	NGO	SE
5.1 Sales Procedures and Duties		
<input type="checkbox"/> Lay down sales-related policies, such as pricing, discount, credit, sales commission policies, etc. where applicable, and the approving authorities and procedures.	✓	
<input type="radio"/> Adopt a simple pricing system to make customers easy to understand.		✓
<input type="checkbox"/> Lay down clear policy (e.g. criteria) on offering discounts and the discount authorization limits of each level of staff or post.	✓	
<input type="checkbox"/> For SEs in businesses where it is customary for customers to offer tips to the staff, lay down policy and system for dealing with tips offered (e.g. sharing of tips among the staff).	✓	
<input type="checkbox"/> Segregate sales duties (e.g. making sales, maintaining sales records, day-end checking and banking of sales receipts) as far as practicable.	✓	✓
5.2 Sales Activities		
<input type="checkbox"/> Make sure updated sales information such as price and promotional offers (including the eligibility conditions) is promptly made known to all customers and the NGO.		✓
<input type="checkbox"/> Ensure that staff keep proper records of all sales transactions, including details such as date, items sold, price, discount offered (if any), staff responsible, etc.		✓

- Require sales staff to maintain activity logs on sales-related activities, such as customers contacted/visited and their response. ✓
- Safeguard customer data from abuse and remind staff that customer data can only be used in connection with the SE's business. ✓

5.3 Handling of Sales Receipts

- Issue receipts with pre-printed serial numbers for sales transactions. ✓
- Allow only designated staff to have access to the cash register and handle sales receipts (preferably one designated staff member during each shift). ✓
- Place the cash receipt point (the cashier) in an open, visible area to facilitate monitoring by supervisors or other staff. ✓
- Remind and encourage customers to obtain receipts after making purchases, e.g. by posting a reminder notice near the cashier. ✓
- Install a point-of-sale system⁸ to enhance control over sales transactions and cash handling. ✓

5.4 Checks and Management Review

- SE manager and supervisors to monitor sales activities and spot check sales transactions to ensure that sales prices, discounts and promotional offers, etc. comply with laid down policies and guidelines. ✓
- Require the SE to produce regular reports on sales activities (e.g. sales volume of different products/services) and exception reports (e.g. accounts overdue or written off) for monitoring of sales performance by the NGO's management. ✓

⁸ A point-of-sale system is a computer system used in place of a cash register for recording sales transactions, with the additional functions of updating and tracking inventory as sales are recorded and printing detailed receipts. It may also include a barcode scanner, weight scale, credit/payment card processing system.

	NGO	SE
○ Conduct checks/audits on the SE's sales performance against relevant costs (e.g. sale of goods against inventory records, services sold against staff's service records and related wages) to ensure reasonable correlation.	✓	✓
▣ Investigate discrepancies and report irregularities to the NGO's management.	✓	

Management of human resources, including the hiring and dismissal of staff, allocation of duties and overtime work, performance monitoring and appraisal, etc. is important to the well-being of any organisation. This chapter recommends measures to ensure that such processes are properly controlled and managed in a fair and open manner.

NGO SE

6.1 Staff Administration Procedures and Duties

- | | | |
|--|---|---|
| <ul style="list-style-type: none"> ❑ Draw up a (or adopt the NGO's) staff handbook setting out all staff-related policies, matters and procedures (e.g. recruitment, promotion, working hours, pay adjustment, payroll, outside work, conditions for taking disciplinary actions and the disciplinary actions) and make this transparent to all SE staff. | ✓ | |
| <ul style="list-style-type: none"> ○ Retain important staff administration functions (e.g. maintenance of official personnel records, determining salary ranges or rates, payroll processing) at the NGO's level where practicable. | ✓ | |
| <ul style="list-style-type: none"> ❑ Segregate staff administration duties (e.g. day-to-day supervision and monitoring of staff attendance, payroll processing) as far as practicable. | ✓ | ✓ |

6.2 Recruitment

- | | | |
|---|---|---|
| <ul style="list-style-type: none"> ❑ Lay down the minimum requirements (e.g. qualification and experience) for each post, approved by the NGO's management. | ✓ | ✓ |
| <ul style="list-style-type: none"> ❑ If one of the SE's objectives is to provide employment to the NGO's service targets (e.g. socially disadvantaged persons), define clear, specific and as far as possible objective criteria for the service targets, which should be approved by the NGO's senior management. | ✓ | |

	NGO	SE
○ Adopt open recruitment of staff where practical (e.g. placing recruitment advertisements at the Labour Department's job centres or on the SE/NGO's website, announcement of openings through relevant NGOs for recruitment of service targets).	✓	✓
□ State clearly in the advertisement the job descriptions and entry requirements, and other essential information, such as application deadline and ways of submitting applications.	✓	✓
□ Require candidates to be interviewed and assessed by at least two staff of the appropriate ranks. In the case of a service target candidate, one of the assessors should have suitable social work background or training to assess the candidates' suitability.	✓	✓
□ Ensure the interview and assessment are based on pre-approved assessment attributes and the results documented on an interview assessment form.	✓	✓
○ If the number of candidates exceeds the number of vacancies, consider using a scoring method in the interview to rank the candidates.	✓	✓
○ Verify relevant qualifications claimed by the candidates during the interview, and where practicable verify working experience of the successful candidates before offer of appointment.	✓	✓
□ Sign an employment contract with every SE staff setting out the employment conditions and the requirement for staff to comply with the staff handbook and <i>Code of Conduct</i> .	✓	

6.3 Staff Attendance

- | | | |
|---|---|--|
| □ Where SE staff are required to work in shifts, establish a fair and transparent system for the allocation of duties (including overtime duties) to staff, and use a duty roster approved by the SE manager. | ✓ | |
|---|---|--|

- Put in place a system for recording staff attendance, e.g. electronic staff card system, clocking machine, attendance register, in particular where remuneration is based on the number of hours/days worked, and remind staff not to make false attendance records, for themselves or others (e.g. clocking for a fellow worker), which could amount to a criminal offence.
 ✓

6.4 Remuneration and Payroll Processing

- Lay down standard salary range or rates for each post or job, and the criteria and approving authority for determining the salaries of individual employees, and make these known to the staff.
 ✓
- Lay down the criteria, mechanism and approving authority for salary adjustments and granting of any non-standard remuneration (e.g. year-end bonus, sales commission), and make these known to the staff.
 ✓
- Where remuneration is time-based, require the SE manager/supervisor to certify staff attendance records and supervisory staff at the NGO to spot check salary payments against staff attendance records.
 ✓ ✓
- Pay salaries by bank transfer as far as practicable, or by cheque.
 ✓

6.5 Performance Appraisal, Promotion, Disciplinary Action

- Lay down the duties, core competencies / performance standards for each post, and make these known to all staff.
 ✓
- Conduct annual/semi-annual performance appraisals, and skill tests if any, using standard appraisal forms based on the laid down core competencies / performance standards.
 ✓ ✓

	NGO	SE
○ Require a two-tier appraisal, i.e. appraisal reports made by the immediate supervisor and counter-signed by a more senior staff, and require skill tests to be monitored by two qualified staff or in the presence of the SE manager.	✓	✓
□ If there are promotion opportunities in the SE, lay down the basic requirements and criteria for consideration of promotion and make these known to the staff, and require promotion to be considered by a panel of at least two supervisory/managerial staff.	✓	
□ Investigate any poor performance or misconduct and report serious cases and the recommended actions to the NGO's management or senior staff.	✓	

6.6 Checks and Management Review

○ Require the NGO staff to conduct occasional spot checks on staff attendance at the SE, including operating hours of the SEs which fall outside the NGO's office hours.	✓	
○ Regularly analyse business output/volume of the SE against reported man-hours and overtime work records to see if they reasonably correlate.	✓	✓

Sample Code of Conduct for Board and Committee Members of NGO & Sample Code of Conduct for Staff Members of NGO

The above sample Codes of Conduct have been updated in 2015. Although they are designated for NGOs in Social Welfare Sector, NGOs from other sectors are also recommended to refer to them.

For details of the updated sample Codes of Conduct, please visit our website at:

http://www.icac.org.hk/en/corruption_prevention_department/pt/nse/index.html

Sample Petty Cash Voucher

PETTY CASH VOUCHER

Department : _____ Voucher No. : _____

Date : _____

Particulars	Account Code	Amount (HK\$)
Total :		

Received the sum of HK\$ _____

For _____

Approved by

Received By

[Name and signature]

[Name and signature]

Issued By

[Name and signature]

Sample Purchase Requisition Form

PURCHASE REQUISITION FORM

Form No. _____

PART A

Period of Goods/Services to be Purchased : From _____ To _____ Date : _____

Item	Quantity	Description of Goods/Services	Last Purchase Price	
			Unit Price (HK\$)	Total (HK\$)
			TOTAL	

Budgeted Expenditure – Yes / No* Funds Available – Yes / No* (*Delete as appropriate)

Requested by : _____ Signature : _____ Date : _____

Endorsed / Not Endorsed* (*Delete as appropriate)

Reason(s) if not endorsed : _____

Endorsed by : _____ Signature : _____ Date : _____

PART B

Quotations Received and Opened :

Supplier / Service Provider	Date Received	Contact Person & Phone no. (if verbal)	Price Offered (HK\$)	Special Conditions / Remarks

Quotations attached / not attached (please as applicable)

Recommended supplier / service provider : _____
Reason(s) if lowest bid not selected : _____
Recommended by : _____ Signature : _____ Date : _____

Approved / Not Approved* (*Delete as appropriate)
Reason(s) if not approved : _____
Approved by : _____ Signature : _____ Date : _____

Sample Purchase Order

PURCHASE ORDER

Order No. : _____

Date : _____

To : _____

Goods / Services	Description/Specification	Quantity	Unit Price (HK\$)	Total (HK\$)
Total				

Deliver to:

Delivery Date:

Shipping Instructions:

Special Terms/Conditions/Remarks:

Issued by : _____ Signature : _____ Date : _____

IMPORTANT NOTICE

{Name of NGO/SE} prohibits its directors and staff from soliciting or accepting advantages including rebates from any supplier/service provider without the permission of {Name of NGO/SE}. Suppliers/service providers therefore should not offer any advantages to any director or staff of {Name of NGO/SE} in any business dealings. {Name of NGO/SE} may report any suspected corruption to the ICAC and debar the supplier/service provider concerned from future business with {Name of NGO/SE}.

Sample Supplier/Service Provider Performance Evaluation Form

SUPPLIER/SERVICE PROVIDER PERFORMANCE EVALUATION FORM

Name of Supplier / Service Provider : _____

Goods / Services Provided : _____

Date of Purchase / Contract Period : _____

Purchase Amount / Contract Sum : _____ HK\$

Performance Evaluation		
Rating		Remarks
0 – Very Poor 3 – Good	1 – Poor 4 – Excellent	
1. Quality of Goods/Services		
2. Delivery and timeliness		
3. Responsiveness to request(s)		
4.		
5. Others (<i>Please specify</i>) :		
Overall		
Major defects (if any) :		

Recommendation
<input type="checkbox"/> Continue to invite for quotation or tender in the future <input type="checkbox"/> Need advice for improvement (please provide information on areas for improvement) <input type="checkbox"/> Issue warning letter (please provide further information) <input type="checkbox"/> Not recommended for future employment (please provide further information/evidence)

Prepared by:
 Signature : _____
 Name : _____
 Position : _____
 Date : _____

Endorsed by :
 Signature : _____
 Name : _____
 Position : _____
 Date : _____

Sample Inventory/Asset Disposal Form

INVENTORY/ASSET DISPOSAL FORM

Form No. _____

PART A

QUANTITY	DESCRIPTION OF INVENTORY / ASSET ITEMS	MODEL	CODE

Job Ref : _____

Reason For Disposal : _____

Recommendation Method of Disposal : _____

Initiated by : _____ Signature : _____ Date : _____
(Name of Requesting Staff)Endorsed by : _____ Signature : _____ Date : _____
(Supervisor of Requesting Staff)

PART B

Approved / Not Approved* (*Delete as appropriate)

Alternate method of disposal if approved: _____

Reason(s) if not approved:

Approving Staff: _____ Signature: _____ Date: _____

PART C

Recording Staff: _____ Signature: _____ Date: _____

Disposed of on _____ (date) by _____



Corruption Prevention Department

Independent Commission Against Corruption

303 Java Road, North Point, Hong Kong

Internal Control Self-Assessment Checklist for Social Enterprises

Name of Organisation : _____ Name of Social Enterprise : _____

This self-assessment checklist is compiled based on some of the recommendations in the “Best Practice Checklist : Internal Control in Social Enterprises” (the BPC), and aims at assisting social enterprises (SEs) and their parent organisations to assess preliminarily whether basic internal control and corruption preventive measures are in place. If any recommended measure is not in place, the organisation or SE should evaluate the reason or justification for not having implemented the measure and consider putting it in place. The Corruption Prevention Department recommends that SEs or their parent organisations should also adopt other recommendations in the BPC appropriate to the SE’s business nature, risk exposures, resource capability and operational need.

		Yes	No	Reference Chapter
Part 1 – Governance and Internal Control				
1.	Have you laid down a Code of Conduct for compliance by the Board members, advisors and staff members?			1.1
2.	Have you laid down policies, procedures and guidelines for the SE’s key business processes (e.g. purchasing, sales and financial control)?			1.2(i)
3.	Have you devised standard forms for use by staff in carrying out important transactions to facilitate proper documentation?			1.2(iii)
4.	Have you segregated duties in important business processes as far as practicable?			1.2(iv)
Part 2 – Financial Control				
5.	Have you laid down the financial authorisation limits for purchases and payments of different posts or levels of personnel?			2.1
6.	Have you engaged staff with knowledge / experience in accounting and finance or who have received relevant training to perform accounting and financial duties of the SEs?			2.1
7.	Have you put in place proper controls on the use of cheques?			2.2
8.	Have you required that all payments to be supported by invoices or vouchers?			2.5
9.	Have you conducted day-end supervisory checks on receipts issued and cash received by supervisors and prepared daily cash summary?			2.6
Part 3 - Procurement				
10.	Have you adopted a competitive approach in general procurement?			3.1
11.	In purchasing goods/services of higher values, have you involved the user, supervisory staff and technical staff in the selection / procurement decision process?			3.1
12.	Have you maintained a suppliers/service providers list for frequently procured goods/services?			3.2
13.	Have you put in place suitable measures to safeguard quotation information and reminded staff to keep quotation information confidential?			3.4
14.	Have you checked the goods delivered against the specifications and certified receipt on the invoices or delivery notes?			3.5

		Yes	No	Reference Chapter
15.	Have you evaluated the performance of the suppliers/service providers and reviewed the suppliers/service providers list periodically?			3.7
16.	Have your supervisors conduct random checks on the SE's procurement transactions and quality of goods/services delivered?			3.7
Part 4 – Control of Inventory and Assets				
17.	Have you defined the items regarded as assets and valuable stock items and exercised proper recording, control and accounting treatment on these items?			4.1
18.	Have you required adjustments to inventory/asset records or write-offs of items to be approved by the SE's manager or a supervisor?			4.2
19.	Have you laid down procedures and guidelines on the disposal of inventory/asset items and deployed supervisors to vet and inspect the disposal process?			4.4
20.	Have the supervisors conducted regular stock-taking of inventory and asset items?			4.5
Part 5 – Sales				
21.	Have you laid down sales-related policies, such as pricing, discount, discount authorization limits of each level of staff and handling of tips?			5.1
22.	Have you ensured that updated information such as price and promotional offers is made known to all customers?			5.2
23.	Have you issued receipts with pre-printed serial numbers for sales transactions?			5.3
24.	Have you put in place adequate control measures in the handling of sales receipts?			5.3
25.	Have your supervisor spot check sales transactions?			5.4
Part 6 – Staff Administration				
26.	Have you laid down the requirements for each post (e.g. qualification and experience), and defined clear, specific and objective criteria (if you aim to employ the service targets) in recruiting staff of SE?			6.2
27.	Have you stated clearly in the job advertisement the entry requirements, ways of submitting applications and the application deadline?			6.2
28.	Have you laid down the interview and assessment attributes and required at least two staff of the appropriate ranks to conduct the interviews and assessments and document the results?			6.2
29.	Have you put in place a system for recording staff attendance properly?			6.3
30.	Have you laid down the criteria, mechanism and approving authority for devising and adjusting salary range and granting non-standard remuneration (e.g. bonus) for each post?			6.4
31.	Have you laid down the criteria for appraising the performance of different posts and conducted annual/semi-annual performance appraisals?			6.5

Name of Reporting Staff : _____

Date : _____

Name of Approving Staff : _____

Date : _____