

Survey on Information Disclosure in NGO Annual Reports

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1. Background

Supported by the Lotteries Fund, The Hong Kong Council of Social Service (HKCSS)'s NGO Governance Platform Project (The Project) was launched in mid 2016. The Project encourages mutual learning among NGOs and among NGO governors, and promotes best practices in NGO governance. Without a doubt, for any best practices to be identified for subsequent sharing and promotion in the sector, it is essential to first develop a basic understanding of the background and current practices i.e. an overview.

This research, which concerns itself with information disclosure in the annual reports of social service NGOs, is an endeavor of such fundamental purpose; it looks into three things:

1. existing legislatures that govern social service NGOs and their reporting behavior i.e. the legal and regulatory context;
2. guidelines and other materials available that may shape annual report contents i.e. the extralegal circumstances;
3. contents of annual reports of all HKCSS agency members available i.e. the practices.

The first two parts translate into two reviews, respectively on the local regulatory regime for NGOs and the guidelines or standards available, both of which may guide NGOs' reporting behavior in particular their use of annual reports; the last part is operationalized by a survey of all HKCSS members' annual reports relevant and available. The first two parts of background review produce a survey framework that is necessary for the use in the last part of the survey of hundreds of reports.

This exploratory research study of both the shapers and the contents of the annual reports of social service NGOs attempts to not only increase the sector's knowledge on how the sector as a whole is using annual reports as one of the main channels of communications and disclosure, but also to encourage enhancement in effective communications and transparency by introducing a framework informed by relevant resources, and bringing to light good practices already adopted by sector forerunners.

2. Shapers of annual reports

This section looks at, first, the regulatory regime that governs local social service NGOs, with an attempt to identify requirements concerning reporting; and second, other materials or factors that may shape the contents of their annual reports.

2.1. The legal and regulatory context: regulatory regime for NGOs in Hong Kong

2.1.1. Inland Revenue Ordinance

In Hong Kong, the majority of social service NGOs has obtained a charitable status from Inland Revenue Department, which, according to Section 88 of the Inland Revenue Ordinance (Cap 112), connotes a legal privilege of tax exemption.¹ This is testified by the fact that 451 out of the 458 agency members of HKCSS have obtained such status i.e. 98.5% (figures as of 31 March 2017).²

Considering that HKCSS agency members provide about 90% of all social services in Hong Kong, the above establishes that the vast majority of social service NGOs are charities i.e. possess the charitable status. Therefore, in considering the regulatory regime, it is useful to refer to the consultation paper on charities published by The Law Reform Commission of Hong Kong in 2011. According to this paper:

- “Depending on the type of charity, Government monitoring in Hong Kong ranges from ‘*stringent statutory overall control*’ to limited scrutiny of specified activities only”, “a comprehensive legal framework for regulating charities does not yet exist”^{3,4}
- Regardless of their type of incorporation, “[c]harities receiving Government subvention [...] are regulated by the Government to the extent that the relevant bureau or department to which they report monitors the use of their Government

¹ Cap. 112 Inland Revenue Ordinance - 88.Exemption of charitable bodies.

https://www.elegislation.gov.hk/hk/cap112!en@2016-12-31T00:00:00? lang=en&xpid=ID_14384025852_44_004 (accessed May 4, 2017).

² Inland Revenue Department. *List of charitable institutions and trusts of a public character, which are exempt from tax under Section 88 of the Inland Revenue Ordinance as at 31 March 2017.*

http://www.ird.gov.hk/eng/tax/ach_index.htm (accessed on May 4, 2017).

³ The Law Reform Commission of Hong Kong Charities Sub-committee. (June 2011). *Consultation Paper Charities.* <http://www.hkreform.gov.hk/en/publications/charities.htm> (accessed Apr 20, 2017), P.18, P.1.

⁴ According to the Paper (P.5), charities “are most commonly created in the form of one of the following: a company incorporated under the Companies Ordinance (Cap 32), which may be a company limited by shares or by guarantee, or a company incorporated overseas and registered under Part XI of the Companies Ordinance; an unincorporated association which may or may not be required to be registered under the Societies Ordinance (Cap 151); a trust; or a statutory body established under a specific Hong Kong Ordinance.”

subvention”⁵

- “Subject to the oversight [by the Inland Revenue Department, Companies Registry, Secretary for Justice and other Government departments], other types of charities are generally allowed to operate autonomously under their own governing bodies and according to their own rules and regulations. These organisations include private charities and non-governmental charitable organisations which are neither statutory nor subvented, and overseas charities established in Hong Kong”⁶

In short, in Hong Kong, there is no one set of laws that governs all charities, but charities abide by respective ordinances and Government departments per their types of incorporation and activities. And, in terms of finances, the Government only monitors the use of Government subvention, and not other funding such as funds raised from the general public or private sources – it can be viewed that such monitoring is that of a funder’s.

As for ‘annual reports’, the target document for surveying in this research, it is found that they are not legally required; instead, only ‘accounts’ (of financial information) *maybe* requested, and, depending on the type of incorporation of the NGO, the request may even come without a legal basis. Charities submit to the Government different types of ‘accounts’ per their type of incorporation:

- “There is also no statutory requirement in Hong Kong for charitable organisations to submit annual reports or accounts to report on their finances. Instead, the Inland Revenue Department will only call for accounts, annual reports or other documents for the purpose of conducting a periodic review of the exemption status of a particular organisation so as to ensure that the organisation is still charitable and its activities are compatible with its objects. The Inland Revenue Department has noted, however, that this inspection of accounts of charitable organisation is not mandatory under the existing law”⁷
- “A charity which exists in the form of an incorporated company would need to submit audited accounts to the Inland Revenue Department, usually once every four years, as part of the Department’s periodic review of charities noted above. In contrast, charities existing in the form of societies or unincorporated associations are only required to submit copies of self-certified accounts”⁸

⁵ Ibid., P.18-20.

⁶ Ibid., P.18-20.

⁷ Ibid., P.19.

⁸ Ibid., P.19.

2.1.2. Various governing documents per types of incorporation: Companies Ordinance, Societies Ordinance, Education Ordinance, Trustee Ordinance (specific Hong Kong Ordinances excluded)

Since charities are governed by laws of their respective types of incorporation and activities, it would be necessary to also review these ordinances to see if there is any reporting requirements:

- Under Companies Ordinance, any companies, including charitable ones, are obliged to deliver their annual returns to the Companies Registry, which are then made publicly accessible.^{9,10} An annual return is defined as “a return, in a specified form, containing the particulars of the company such as the address of the registered office, shareholders, directors, company secretary, etc. as at the made up date of the return.”¹¹ Certified true copies of the company's accounts, the report of the auditors and the report of the directors are required to be delivered with the annual return.¹²
- Under Education Ordinance, Incorporated Management Committees of aided schools and Direct Subsidy Scheme Schools are required to submit the statement of audited accounts to the Permanent Secretary.¹³
- Societies Ordinance and Trustee Ordinance do not stipulate similar requirements of annual submission.

In short, for charities in Hong Kong, those incorporated as companies or schools are subject to government monitoring, with the scope of which mainly confined to finances. And this is fulfilled by the submission of ‘accounts’, ‘annual returns’ or ‘annual reports’ by NGOs, as applicable.

Central to this research, the above findings confirm that, in the local NGO sector, annual report is not a legally required document; there is neither an official definition for the document, nor standards of what contents it should have. This likely results in a wide

⁹ Companies Registry. *Obligations of a Company*. <http://www.cr.gov.hk/en/compliance/obligations.htm> (accessed Apr 25, 2017).

¹⁰ Companies Registry. *Image Record Search*. https://www.icris.cr.gov.hk/csci/help/DIS_SearchCompany_en_US.jsp (accessed on Apr 26, 2017).

¹¹ Companies Registry. *Compliance – Frequently Asked Questions*. <http://www.cr.gov.hk/en/compliance/faq.htm#03> (accessed Apr 26, 2017).

¹² Companies Registry. *Forms – Specified Forms*. <http://www.cr.gov.hk/en/forms/specified.htm> (accessed Apr 26, 2017); Companies Registry, *Annual Return*, http://www.cr.gov.hk/en/companies_ordinance/docs/NAR1_fillable.pdf, P. 18, Point 9.

¹³ Education Ordinance - 40BB.Accounts of incorporated management committee. https://www.elegislation.gov.hk/hk/cap279!en@2016-05-27T00:00:00?lang=zh-Hant-HK&xpid=ID_1438_402920879_001 (accessed Apr 26, 2017).

diversity of contents (and formats) of annual reports, which makes this landscaping research more meaningful, and the survey framework potentially beneficial for agencies by providing reference.

While annual reports as a type of document has no legal standing in its own right, it is nonetheless important to know that agencies may choose to use their annual reports to disclose certain information per funders' requirements, possibly rendering the report a tool (or channel) to achieve contractual compliance. Despite such non-specification of disclosure or communicative channel i.e. *could be* but not *must be* annual reports, these items (of information or contents) of required disclosure from funders, comprise part of the background review and the survey framework, so do disclosure recommendations from other stakeholders such as the Government and relevant professional bodies, as well as international standards.

2.2. The extralegal circumstances: guidelines on annual reports and related materials

2.2.1. Local reference

This part covers existing materials available that might shape the contents of annual reports published by local social service NGOs. Unfortunately, a search on guidelines concerning annual report reveals that there is extremely limited resource, with Efficiency Unit's *Guide to Corporate Governance for Subvented Organizations* (June 2015) (the *Guide*) being the only available.¹⁴ According to "Chapter 5: Transparency and Disclosure" of the *Guide*, there are five areas of general contents and disclosures a good report should include: the organization (which is understood as organization background), board structure, performance, internal control and risk management, and corporate citizenship.¹⁵

Apart from this formal *Guide*, the judging criteria of the Best Corporate Governance Awards, organized by The Hong Kong Institute of Certified Public Accounts (HKICPA), and the Best Annual Reports Awards, organized by The Hong Kong Management Association (HKMA), both of which select annual reports as *the* material for review in assessing an organization's governance, might also shape annual report contents, assuming that at least some NGOs are interested in enrolling in their "Public sector / Not-for-profit

¹⁴ Efficiency Unit. (2015). *Guide to Corporate Governance for Subvented Organizations*. http://www.eu.gov.hk/en/reference/publications/guide_to_cg_for_so_2015.pdf (accessed 31 Mar, 2017).

¹⁵ *Ibid.*, P.71-73.

organizations” or “Non-Profit-Making and Charitable Organizations” categories respectively.^{16,17} Expectedly, the criteria of the two award schemes have similarities and differences, also partly echoing the contents of the *Guide*, which are summarized in the appendix 1.

Lastly, Social Welfare Department (SWD) has published manuals for NGOs receiving government subvention which also touch on disclosure, possibly through the means of annual reports.

- *Best Practice Manual (BPM)* stipulates that “NGOs [receiving Lump Sum Grant (LSG)] are required to, through appropriate channels, disseminate information about the utilisation of the LSG reserve in the past year to the public. Such information should include briefly a plan on how the reserve will be used in the future”.¹⁸
- Also without specifying any channel, *BPM* recommends that “NGOs should also have documents spelling out the [governing board’s] succession mechanism, including the term of office, number of consecutive terms, etc., which should be made public”.¹⁹
- *Lump Sum Grant Manual (October 2016) (LSG Manual)* notes that “[t]he [Annual Financial Report (AFR) that records the financial information of all activities funded under SWD’s Lump Sum Grant Subvention System] [...] must be an integral part of the NGO’s Annual Report. If any NGO chooses not to provide the AFR in its Annual Report, it has to upload the full set of the latest AFR onto its website and specify the website address linking to the AFR in its Annual Report. For NGOs not publishing Annual Report, they have to [...] disclose the AFRs in one or more of the following ways: (a) posting up a copy of the latest AFR prominently on the notice board(s) at the Central Administration Unit/ Head Office at all times; (b) uploading the latest AFR to the NGO’s website; or (c) publishing the latest AFR through special circular(s), newsletter(s) or whatever means”.^{20,21,22}

¹⁶ Hong Kong Institute of Certified Public Accounts. *Best Corporate Governance Awards*. <http://www.hkicpa.org.hk/en/about-us/best-corporate-governance-disclosure-awards/> (accessed Mar 31, 2017).

¹⁷ The Hong Kong Management Association. *2016 Beat Annual Reports Awards*. <https://www.hkma.org.hk/bara-award/introduction.html> (accessed Mar 31, 2017).

¹⁸ Social Welfare Department. *Best Practice Manual*. <http://www.swd.gov.hk/doc/ngo/BPM/Best%20Practice%20Manual-E.pdf> (accessed 31 Mar, 2017), P.10-11.

¹⁹ *Ibid.*, P.14.

²⁰ Social Welfare Department. *Lump Sum Grant Manual (October 2016)*. Chapter 3 Financial Management. [http://www.swd.gov.hk/doc/ngo/Manual/LSG%20Manual%20\(October%202016\)%20\(Reference%20Copy\)%20-%20CHAPTER%203.pdf](http://www.swd.gov.hk/doc/ngo/Manual/LSG%20Manual%20(October%202016)%20(Reference%20Copy)%20-%20CHAPTER%203.pdf) (accessed 31 Mar, 2017); Social Welfare Department. *Lump Sum Grant Manual (October 2016)*. Chapter 4 Public Accountability. [http://www.swd.gov.hk/doc/ngo/Manual/LSG%20Manual%20\(October%202016\)%20-%20CHAPTER%204.pdf](http://www.swd.gov.hk/doc/ngo/Manual/LSG%20Manual%20(October%202016)%20-%20CHAPTER%204.pdf) (accessed 31 Mar, 2017).

²¹ Annex 5 of *Lump Sum Grant Manual (October 2016)* is an AFR template.

- Also from *LSG Manual*, apart from the AFR, “[a]s a measure to enhance transparency and public accountability, NGOs are required to make the information in their Review Report [on Remuneration Packages for Staff in the Top Three Tiers] available to the public upon request and to disclose it through one or more of the following channels: (a) posting the information prominently on notice board(s) at the Central Administration Unit/ Head Office; (b) uploading the information to the NGO’s website; (c) reporting the information in the NGO’s Annual Report; or (d) publishing the information through special circular(s), newsletter(s) or whatever means”.^{23,24}

As mentioned, despite the lack of specificity in the disclosure channel, these recommendations (of disclosure) may be realized in annual reports and therefore inform the survey framework.

2.2.2. Overseas reference

Looking abroad, BBB Wise Giving Alliance, an American nonprofit that focuses on promoting high standards of conduct among organizations that solicit contributions from the public, suggests that an annual report includes “a) the organization’s mission statement, b) a summary of the past year’s program service accomplishments, c) a roster of the officers and members of the board of directors, and d) financial information that includes (i) total income in the past fiscal year, (ii) expenses in the same program, fund raising and administrative categories as in the financial statements, and (iii) ending net assets.”²⁵

Accountable Now, a global platform formed by civil society organizations that aims at promoting transparency in the sector, also sets out a reporting guideline with ten areas of disclosures: four areas under profile disclosures, which are 1. Strategic Commitment to Accountability, 2. Organisational Profile, 3. Report Parameters, and 4. Governance and Stakeholder Engagement; and six areas under performance indicators, which are I.

[http://www.swd.gov.hk/doc/ngo/LSGSC/LSG%20Manual%20\(October%202016\)%20-%20Annexes%20V3.pdf](http://www.swd.gov.hk/doc/ngo/LSGSC/LSG%20Manual%20(October%202016)%20-%20Annexes%20V3.pdf) (accessed 2 Jun, 2017).

²² AFRs of organizations receiving Lump Sum Grant are being made available on the website of Social Welfare Department at http://www.swd.gov.hk/en/index/site_ngo/page_AFRandRR/ (accessed Apr 27, 2017).

²³ Social Welfare Department. *Lump Sum Grant Manual (October 2016)*. Chapter 4 Public Accountability. [http://www.swd.gov.hk/doc/ngo/Manual/LSG%20Manual%20\(October%202016\)%20-%20CHAPTER%204.pdf](http://www.swd.gov.hk/doc/ngo/Manual/LSG%20Manual%20(October%202016)%20-%20CHAPTER%204.pdf) (accessed 31 Mar, 2017).

²⁴ Review Report on Remuneration Packages for Staff in the Top Three Tiers of organizations receiving Lump Sum Grant are being made available on the website of Social Welfare Department at http://www.swd.gov.hk/en/index/site_ngo/page_AFRandRR/ (accessed Apr 27, 2017).

²⁵ Give.org BBB Wise Giving Alliance. *How We Accredit Charities*. <http://www.give.org/for-charities/How-We-Accredit-Charities/> (accessed Apr 13, 2017).

Programme Effectiveness, II. Financial Management, III. Environmental Management, IV. Human Resource Management, and V. Management of Impacts on Wider Society, and VI. Ethical fundraising and communication.²⁶

Lastly, in 2004, Charity Commission, the registrar and regulator of charities in England and Wales, published a research cum survey report on charity annual reports from the perspective of transparency and accountability (RS8 report). Its surveyed contents encompass **inputs (people, property, finance and income), activities and achievements (expenditure, impact, achievements against targets), organizational structure and processes (details about trustees and committees, organizational structure), disclosure of strategy, policies and plans.** It is nonetheless important to bear in mind when taking reference from RS8's survey framework that the UK has a regulated charity sector, covering also annual report disclosure, which does not exist in Hong Kong.²⁷

All the above requirements, recommendations, and assessment criteria concerning NGO reporting or disclosure, regardless of channel specificity, provide a basis for putting together the framework for the surveying of HKCSS agency members' annual reports.

²⁶ Accountable Now. *Reporting Standards and Process*.

<http://accountablenow.org/accountability-in-practice/reporting-standards-process/> (accessed Apr 13, 2017).

²⁷ Charity Commission for England and Wales. (2004). *Transparency and Accountability (RS8)*. Liverpool UK: Charity Commission for England and Wales.

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/284721/rs8text.pdf (accessed Mar 31, 2017).

3. Contents of annual reports: survey

This section reports on the survey of annual reports, from the survey framework compiled to sampling and (quantitative) data collection, and from survey findings to limitations.

3.1. Methodology: survey framework

Shapers of annual reports reviewed in section 2 contribute to the framework used to survey annual reports, which is comprised of the below five areas:

1. Basic information on the organization and its governance
2. Service performance, capacity building and strategies
3. Financials and use of resources
4. Internal control and risk management
5. Distribution and accessibility

The five areas are manifested by 28 survey categories, detailed in table 3.1.1.

3.2. Methodology: sampling and data collection

Drawing the cut-off line on 31 March 2017, this research surveyed all annual reports of HKCSS agency members then readily available in the HKCSS Reference Library (physical copy) or in organizations' website (electronic copy), that are dated 2014 or after. Again, considering that HKCSS agency members provide about 90% of all social services in Hong Kong, such sampling is assumed to be representative of the sector.

Of the 458 HKCSS agency members as of 31 March 2017, 374 annual reports were available and met the criteria laid out above, and therefore surveyed. The remaining had not been surveyed because of the below reasons:

- Latest annual report available dated before 2014
- Use of template provided by HKCSS (see template in appendix 2)^{28,29}
- Annual report contents do not fit survey scope on social service NGOs e.g. annual report is on only one of the multiple services provided by the agency, hence is not

²⁸ The Hong Kong Council of Social Service. *Annual Report – Template*.

http://www.hkcss.org.hk/uploadfileMgmt/0_201587154939.doc (accessed Apr 26, 2017).

²⁹ HKCSS makes available a basic annual report template to possibly help its agency members fulfill one of the membership obligations, which is to submit copies of their annual reports after the end of their financial year. Source: The Hong Kong Council of Social Service. *Rights and Obligations*. http://www.hkcss.org.hk/e/fc_detail2.asp?fc_id=28 (accessed Apr 26, 2017).

representative of the agency's overall performance in services; annual reports belonging to the entire institute, of which only the social work department / division is a member of HKCSS

Table 3.1.1 Survey framework informed by local and overseas reference on annual report contents

survey category / item	local				overseas		
	EU's Guide to Corporate Governance for Subv. Orgs	HKICPA's Judging criteria of Best Corporate Governance Awards	HKMA's Judging criteria of Best Annual Reports Awards	SWD's Best Practice Manual and Lump Sum Grant Manual	BBB Wise Giving Alliance accreditation scheme	Accountable Now's Reporting Guidelines	Charity Commission's research cum survey report
1. basic information on the organization and its governance							
1.1 information on legal form of incorporation						√	√
1.2 information on charitable nature		√				√	√
1.3 information on governance structure	√	√				√	√
1.4 information on size of or membership in the highest governing body	√			√	√	√	√
1.5 statement of vision, mission and values	√				√	√	√
1.6 information on staff size						√	√
1.7 information on name of agency head							√
1.8 remark by chairperson or agency head						√	
1.9 acknowledgement of partners and supporters	√	√				√	√
1.10 a separate session on governance		√	√				

2. service performance, capacity building and strategies							
2.1 report on or highlights of main activities	√		√		√	√	√
2.2 information on output	√		√				√
2.3 statement of evidence-based performance outcome	√		√			√	√
2.4 information on professional development for staff						√	√
2.5 information on capacity building						√	√
2.6 information on development strategies	√					√	√
2.7 information on execution plan for the development strategies		√				√	
3. financials and use of resources							
3.1 information on income and expenditure in annual report	√			√	√	√	√
3.2 information on asset, liability and reserve	√			√	√	√	√
3.3 information in annual report or organization website*	N/A						
4. internal control and risk management							
4.1 information on adoption of governance and management guidelines	√					√	
4.2 statement of compliance with Companies Ordinance	√						
4.3 statement of compliance with other local legislations and regulations related to the organization's operation	√						

4.4 information on internal control or risk management system(s)	√					√	√
5. distribution and accessibility							
5.1 availability in both traditional Chinese and English			√				
5.2 availability in organization's website			√				
5.3 accessibility of online annual report (excl. financial statements if integral to annual report)**	N/A						
5.4 accessibility of financial statements when integral to online annual report**	N/A						

** this survey item falls outside of the primary survey scope on information disclosure in annual reports, but is added as an attempt to show that there are other channels organizations use to disclose information, hence the emphasis that this study does not represent surveyed organizations' disclosing behavior (see also section 3.7.1.).*

***survey items concerning web accessibility are added with reference to requirements on equal information access under The Disability Discrimination Ordinance (Cap 487) and OGCIO's web accessibility guidelines and best practice. ^{30,31}*

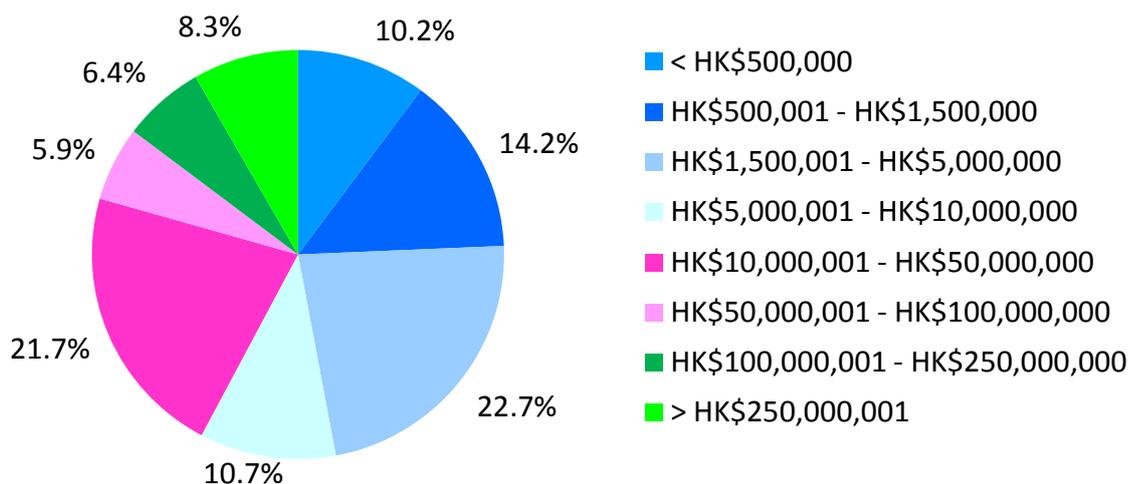
³⁰ Equal Opportunities Commission. *I.T. and EO*. <http://www.eoc.org.hk/eoc/graphicsfolder/showcontent.aspx?content=it%20and%20eo> (accessed Apr 27, 2017).

³¹ Office of the Government Chief Information Officer. *Web Accessibility*. https://www.ogcio.gov.hk/en/community/web_accessibility/index.htm (accessed Apr 27, 2017).

3.3. Profiles of surveyed organizations

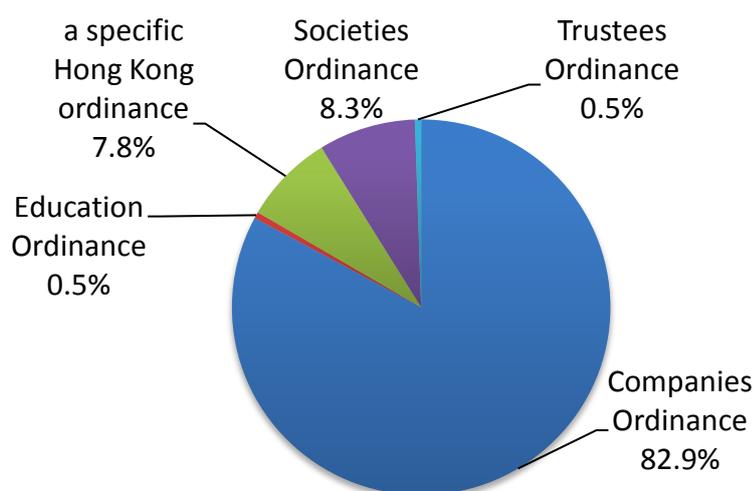
This section presents the basic profiles of the organizations of the 374 annual reports surveyed, covering their scale, type of incorporation, status of receipt of regular subvention from SWD, report year, and channel of availability of their annual reports.

Figure 3.3.1 Distribution by size of annual recurrent expenditure (N=374)



The size banding follows that of the HKCSS membership fee schedule.³² More or less reflecting the actual distribution in size of all HKCSS agency members, the majority is small- (defined as HK\$10m or less) and medium-(defined as HK\$100m or less but more than HK\$10m) sized organizations, of 57.8% and 27.6% respectively.

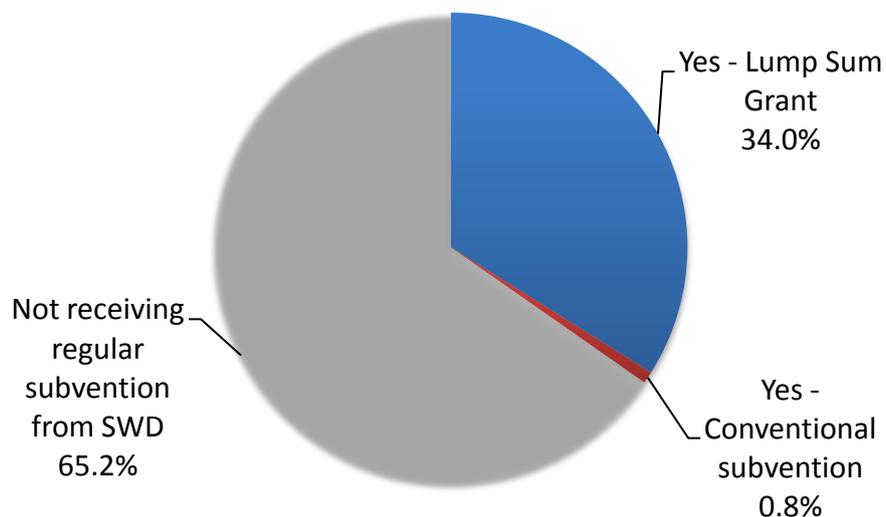
Figure 3.3.2 Distribution by type of incorporation (N=374)



³² The Hong Kong Council of Social Service, *Membership Fee Schedule*, http://www.hkcss.org.hk/e/fc_detail2.asp?fc_id=29 (accessed on Mar 17, 2017).

Over 80% of the organizations the annual reports surveyed are incorporated as companies, the figure of which also corresponds to the actual distribution (in types of incorporation) of all HKCSS agency members.

Figure 3.3.3 Distribution by status of receipt of regular subvention from SWD (N=374)



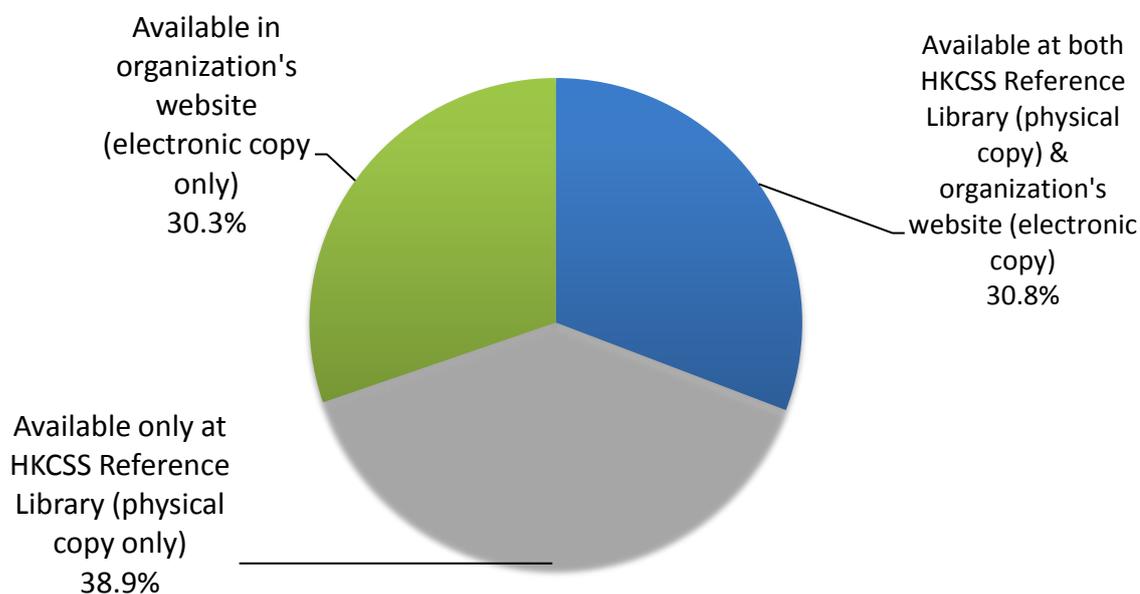
In terms of status of receipt of regular subvention from SWD, that of surveyed organizations also matches that of the entire HKCSS agency membership, with about two-third being non-recipients.

Table 3.3.1 Year of report available as of March 31, 2017 (N=374)

Temporal coverage (in units of years)	No. of organizations	Percentage (%)	
2013-2015	5	1.3	
2014-2014	1	0.3	
2014-2015	92	24.6	
2014-2016	9	2.4	Totaling 276 (73.8%) – timely available
2015-2015	51	13.6	
2015-2016	212	56.7	
2016-2016	4	1.1	
Total	374	100.0	

As of March 31, 2017, of the 374 annual reports surveyed, about three quarters cover the latter half year of 2015 or later, reflecting a high degree of timeliness.

**Figure 3.3.4 Distribution by annual report distribution channel as of March 31, 2017
(N=374)**



Lastly, also as of March 31, 2017, about 39% of the surveyed annual reports were available at HKCSS Reference library and not in respective organization's website, and 30% the other way. The rest were available through both channels.

3.4. Findings

Table 3.4.1 presents the survey findings. Apart from the overall performance (with the bases of most surveyed categories being 374, except for two to which some surveyed organizations do not apply), it also contains size-group- and subvention-status-specific figures. Key observations follow.

Table 3.4.1 Findings of survey on information disclosure in HKCSS agency members' annual reports

Survey category / item	overall	base	size			subvention status	
			S (<10m) (N=216)	M (10m-100m) (N=103)	L (>100m) (N=55)	Subvented (N=130)	Non-subvented (N=244)
1. basic information on the organization and its governance							
1.1 information on legal form of incorporation	59.6%	374	63.4%	50.5%	61.8%	60.0%	59.4%
1.2 information on charitable nature**	46.2%	370	49.5%	42.7%	40.0%	42.3%	48.3%
1.3 information on governance structure	85.0%	374	81.0%	86.4%	98.2%	94.6%	79.9%
1.4 information on size of or membership in the highest governing body	84.5%	374	79.6%	88.3%	96.4%	92.3%	80.3%
1.5 statement of vision, mission and values	76.5%	374	71.3%	77.7%	94.5%	84.6%	72.1%
1.6 information on staff size	42.2%	374	36.6%	45.6%	58.2%	56.9%	34.4%
1.7 information on name of agency head	65.0%	374	52.8%	74.8%	94.5%	85.4%	54.1%
1.8 remark by chairperson or agency head	72.5%	374	61.1%	83.5%	96.4%	86.2%	65.2%
1.9 acknowledgement of partners and supporters	86.4%	374	79.2%	94.2%	100.0%	97.7%	80.3%
1.10 a separate session on governance	6.7%	374	2.8%	3.9%	27.3%	12.3%	3.7%
2. service performance, capacity building and strategies							
2.1 report on or highlights of main activities	98.7%	374	98.6%	98.1%	100.0%	100.0%	98.0%
2.2 information on output	89.0%	374	83.0%	96.1%	98.2%	97.7%	84.4%

2.3 statement of evidence-based performance outcome	38.8%	374	28.7%	48.5%	60.0%	47.7%	34.0%
2.4 information on professional development for staff	32.1%	374	11.6%	47.6%	83.6%	68.5%	12.7%
2.5 information on capacity building	37.4%	374	17.6%	54.4%	83.6%	72.3%	18.9%
2.6 information on development strategies	23.5%	374	14.8%	32.0%	41.8%	36.2%	16.8%
2.7 information on execution plan for the development strategies	14.4%	374	9.3%	18.4%	27.3%	22.3%	10.2%
3. financials and use of resources							
3.1 information on income and expenditure in annual report	70.6%	374	63.4%	72.8%	94.5%	86.2%	62.3%
3.2 information on asset, liability and reserve	50.5%	374	48.1%	48.5%	63.6%	63.8%	43.4%
3.3 financial information in annual report or organization website*	75.1%	374	69.0%	77.7%	94.5%	89.2%	67.6%
4. internal control and risk management							
4.1 information on adoption of governance and management guidelines	15.5%	374	4.2%	25.2%	41.8%	40.8%	2.0%
4.2 statement of compliance with Companies Ordinance***	8.4%	310	4.3%	5.7%	34.2%	19.0%	3.3%
4.3 statement of compliance with other local legislations and regulations related to the organization's operation	5.1%	374	1.9%	6.8%	14.5%	10.0%	2.5%
4.4 information on internal control or risk management system(s)	9.6%	374	3.7%	8.7%	34.5%	18.5%	4.9%

5. distribution and accessibility							
5.1 availability in both traditional Chinese and English	35.6%	374	17.1%	46.6%	87.3%	60.0%	22.5%
5.2 availability in organization's website	61.0%	374	47.2%	73.8%	90.9%	76.2%	52.9%
5.3 accessibility of online annual report (excluding financials statements if integral to annual report)*	52.7%	374	42.1%	60.2%	80.0%	60.8%	48.4%
5.4 accessibility of financial statements when integral to online annual report*	5.6%	374	3.2%	9.7%	7.3%	9.2%	3.7%

* please refer to the same remark in table 3.1.1

** only 370 of the 374 organizations possess charitable status

*** only 310 of the 374 organizations are incorporated as companies

3.5. General observations

3.5.1. Comparing surveyed areas / categories

- All except a few annual reports include a '2.1 report on or highlights of main activities' (98.7%); the second most fulfilled (or popular) category is '2.2 information on output' (89.0%).
- Of the five main areas, area '4. Internal control and risk management' is the least covered in annual reports (categories range from 5.1% to 15.5%).
- In terms of financial information, more annual reports give information on income and expenditure (70.6%), than asset, liability and reserve (50.5%).
- Only a bit more than one third (35.6%) of the surveyed annual reports are in both traditional Chinese and English; the others are in either one of the two languages.
- Less than two thirds (61.0%) of the annual reports are available in respective organizations' websites; the rest is only available in physical format.

3.5.2. Comparing organizations of different sizes and subvention statuses

- In general, larger organizations tend to be more likely to disclose contents of the surveyed categories. Exceptions include '1.1 information on legal form of incorporation' and '1.2 information on charitable nature'.
- Smaller NGOs seem to be slightly more willing to mention their charitable nature in their annual reports.
- In general, subvented organizations tend to be more likely to disclose contents of the surveyed categories. '1.2 information on charitable nature' is an exception.

3.6. Other observations and notable good practices

Even though this survey harnesses only report contents and in a categorical manner, throughout the course of surveying, the research team had identified certain features of the reports beyond their contents, or of the organizations, that seem to be key factors affecting the contents. This section discusses these other observations as well as the notable good practices found in the surveyed reports that fell outside of the survey framework.

3.6.1. Annual reports seemed to be given different purposes, reflected by their different formats and distribution channels

The first concerns the formats of annual reports, which were found to be extremely diverse. Surveyed annual reports were in formats of books, booklets (few pages stitched together), PowerPoint slides, leaflets, newsletters, information on a webpage, videos, even transcripts of chairperson's speeches delivered at annual general meetings (AGMs); and, certain formats sometimes intrinsically imply particular distribution channels.

The above may point to the fact that NGOs assigned different purposes to the document (albeit the purposes overlap), which include communications with different groups of stakeholders, acknowledgement (for funders, partners, volunteers and other supporters), compliance (legal or other types of contractual ones); and that the documents' primary readers (or audiences) were differently thought of. For instance, while annual reports in the format of chairpersons' speeches seemed to mainly target members and persons already affiliated with the organizations i.e. AGM attendees, leaflets seemed more suited for marketing and brand-building use through distribution at fundraising events or other open occasions. Needless to say, reports available electronically were presumed to be public-facing, given the internet's open nature.

3.6.2. Some annual reports gave information on the editorial membership, some of which involved organization governors

Some annual reports spelt out who was involved in the preparation of the annual report, with some including even organization governors; some organizations have annual report committees. These reflected that these organizations acknowledged governors' role of oversight in respects of reporting and transparency.

3.6.3. Notable good practices in annual reports

- Being explicit about the legal and financial positioning, such as the organization's type of incorporation, charitable status, size of reserves and assets, could help readers better understand the context the organization was in, legal, financial and beyond, for their proper evaluation of the organization and consideration of support
- Basic information on the organization's governing body, such as its formation mechanism and the meetings held, could increase readers' confidence by highlighting the organization's open governance
- For certain information, comparison with those of the previous years or the pledged

targets could allow for a fairer and more comprehensive assessment of the organization's performance

- If excluded in the annual report, the signposting of certain important information, such as financials, business review, and constitution i.e. Memorandum and Articles of Association, through the provision of web links or QR codes, could achieve more effective communication of information, conducive to transparency and accountability enhancement

Despite the many insights this survey reveal, it is most important to acknowledge the numerous limitations of this research, which could much affect the understanding and interpretation of the survey results. The next section elaborates.

3.7. Limitations

3.7.1. Annual report as one of, not the exclusive, channels of communications and disclosure

Readers of this survey report should avoid misinterpreting the figures in this report as representative of the surveyed organizations' overall disclosing behavior, since this survey concerns only selected information in annual reports, which is one of the many channels of communications and disclosure. Other channels include website, electronic or physical mails or newsletters, announcement at open occasions or annual general meetings, posts on notices boards at offices and possibly more.

How organizations release their financial information provides a good example. As an attempt to avoid giving the impression that a significant portion of organizations do not disclose their financial information – which is impossible to verify or falsify through this survey, item '3.3 financial information in annual report or organization website' is added to the survey framework, which shows that some organizations have chosen to release their financial information not through their annual reports, but in their websites. Not covered in the survey but already commended in the previous part, some organizations also signpost in their annual reports that their full audited report is available for access upon request.

3.7.2. Information in annual reports that falls outside of the survey framework uncaptured

Again, as already noted, a major methodological constraint of this research is the

exclusion of contents that fall outside of the survey framework, even though it was put together with reference to the comprehensive review of the regulatory regime and the desktop research of the guidelines and reference available. This refers to the fact that the surveyed categories are not exhaustive, and is impossible to be i.e. limitation in survey breadth. The excluded survey categories are extensive, including particular organizational features such as mutual-help-natured and faith-based; as well as organizational structure such as presence of subsidiary and parent organization, information on corporate social responsibilities, and many more.

Taking organizational features as an example, their being excluded in the framework is based on two reasons: first, even though such features may have huge implications for the organization's governance and operation - consider the fact that most mutual-help groups have board directors primarily comprised of the target service group, and that the majority of catholic organizations are governed by the Vatican *de jure* - these features are those of the minority of organizations; second, it is too laborious, if not impossible at all, to distinguish, one by one, if all surveyed organizations do not have particular features, or that some of them do but with the detail not given away in their annual reports or even any other channels.

3.7.3. Depth of surveyed contents left unmeasured

Even when a piece of information in a surveyed annual report falls under the survey framework, its detailedness, when applicable, most likely remains measured; this makes another methodological constraint of this survey i.e. in terms of survey depth.

For example, the survey results do not show, of the 70.6% of the 374 annual reports that contains information on income and expenditure (item 3.1), what proportion is such information given away as part of financial highlights (which are usually consolidated and simplified information, but more reader-friendly), or in audited statements (which tend to contain a great deal of details, but possibly less easy to understand by laypersons), or in any other formats implying varied levels of detailedness.

Mindful of such constraint, a relaxed standard is adopted in assessing the presence of information in annual reports; for example, any mentioning of volunteers in an annual report would be considered containing '1.9 acknowledgement of partners and supporters', and organization objectives or goals are considered equivalent of vision, mission and values, therefore counted under item 1.5.

For information of which a differentiation in detailedness is deemed essential, the gauging of the different levels of detailedness is attempted through having more than one survey items, exemplified by the pair of item 2.6 and item 2.7 pair. '2.7 information on execution plan for the development strategies' supplements '2.6 information on development strategies' by attempting to check for details concerning execution.

4. Concluding remark

This exploratory research reveals that the regulatory regime with regard to social service NGOs' reporting practices is almost non-existent, and the limited shapers identified do not seem to have much impact on actual practices, since the framework put together with reference to these shapers record quite numerous low scoring categories or items.

However, fully acknowledging that for social service NGOs, annual reports does not have a legal positioning, hence a lack of standard in terms of contents as well as formats, possibly even an absence of consensus in the sector on the purpose of the document, this research does not intend to impose any standard regarding information disclosure in annual reports, but only to crystallize knowledge on sector practices, shed light on resource and reference available as well as good practices for organizations' consideration for adoption or adaptation, taking into account their unique contexts and needs.

It is hoped that this review on the use of annual reports makes only a start in a more comprehensive study of social service NGOs' disclosing behavior and communicative practices, which would only be more indicative of how well the sector fare in achieving high transparency and effective communications with stakeholders.

Appendix 1 - Criteria of judging of HKMA’s 2016 Best Annual Reports Awards and HKICPA’s 2016 Best Corporate Governance Awards - a Comparative View

Professional Body organizing Award Scheme	HKMA’s 2016 Best Annual Reports Awards	HKICPA’s 2016 Best Corporate Governance Awards
Award purpose	<ol style="list-style-type: none"> To encourage the publication of timely, accurate, informative and well-presented annual reports for shareholders, stakeholders, employees and others who may have an interest in the performance and activities of the organizations in question To recognize and honor the organizations for their exemplary achievement in producing such reports. 	<ol style="list-style-type: none"> Promote awareness of corporate governance Encourage improvements in the standard of corporate governance disclosure and practices in Hong Kong Recognize companies and organizations that set the standard in terms of their corporate governance disclosures and practices
Category Name	“Non-Profit-Making and Charitable Organizations” category	“Public sector / Not-for-profit organizations” category
Criteria of Judging related to the contents of disclosure (and their quality)		
Basics of organization	<i>Purpose, general description of activities and performance</i>	
<i>Performance</i>	<i>Provision of information relating to environmental and social</i>	<i>Corporate social responsibility and environmental reporting</i>
Governance	<i>Provision of information relating to governance</i>	<i>Corporate governance statement and practice</i>
<i>Board structure</i>	-	<i>Board structure and functioning, including board composition and diversity</i>
<i>Board recruitment &</i>	-	<i>Nomination committee’s work and policies and nomination</i>

<i>nomination</i>		<i>processes</i>
<i>Internal controls and risk management</i>	-	<i>Internal controls and risk management</i>
<i>Conflict of interest</i>	-	<i>Connected transactions and relationship</i>
Finance	<i>General presentation of financial statements</i> - <i>Balance sheets</i> - <i>Income statements</i> - <i>Analysis of assets/liabilities</i> - <i>Analysis of income/expenses</i>	<i>Capital structure</i>
<i>Expenditure on personnel emoluments</i>	-	<i>Remuneration policy and details of directors' and senior management's remuneration packages</i>
Outlook	<i>Indication of prospects/ forward looking statements</i>	<i>Management discussion and analysis, including operating and financial affairs and strategic outlook</i>
Others	-	<i>Other voluntary disclosures relating to, e.g. board committees, internal audit, shareholder communications and investor relations</i>
Criteria of Judging that are not content related		
<i>Overall presentation</i>	<i>General presentation such as design, general layout, photographs, graphs, charts, diagrams and indexing</i>	<i>Overall presentation</i>
	<i>Understandability, clarity and conciseness</i>	
<i>Promptness of reporting</i>	<i>Promptness of reporting</i>	<i>Promptness of reporting</i>
<i>Accessibility / availability</i>	<i>Availability in both English and Chinese</i>	-

	<i>Availability of the annual report on the organization's website</i>	-
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Appendix 2 – HKCSS Annual Report Template

香港社會服務聯會

THE HONG KONG COUNCIL OF SOCIAL SERVICE

年報範本

Annual Report – Template

編號 No.	資料名稱 Field Name	內容 Contents	填寫資料提示 Explanatory Notes
基本資料 Basic Information			
1	年報年份 Year of the annual report		例如 2008-2009 eg. 2008-2009
2	機構名稱 Name of Organization		請使用機構的正式名稱，例如在商業登記或社團註冊之法定名稱 Please use the official name of the organization, e.g., the legal name for company registry or society registry.
3	成立年份 Year of Establishment		
4	註冊類別 Registration Type		請註明註冊登記的性質，例如公司註冊或社團註冊等 Please specify the nature of registration, e.g., registry under Companies Ordinance or Societies Ordinance

5	註冊證書編號 Reference Number of the Certificate		請提供上述註冊證書或文件編號 Please provide reference number of mentioned registration certificate
6	是否獲豁免繳稅的慈善團體? Tax Exempted Charitable Institute ?		依據香港稅務條例第 88 段，獲稅務局認可的慈善團體 Charitable institutes exempted from taxes under Section 88 of the Inland Revenue Ordinance
7	機構地址 Organization address		機構常用之通訊地址 Organization address for general correspondence.
8	電話 Telephone No.		請選擇機構接受公眾查詢的最常用電話號碼 Please select the most commonly used phone number for public enquiries.
9	傳真 Fax		請選擇最常用的傳真號碼 Please select the most commonly used Fax number
10	電郵 Email		請選擇最常用的電郵地址 Please select the most commonly used

			Email address.
11	機構網址 Organization's Website		

宗旨及使命 Mission & Objectives

12	宗旨及使命 Mission & Objectives		<p>請簡述機構的宗旨及使命。通常是機構在年報及章程所列的宗旨或使命宣言</p> <p>Please briefly state the mission and objectives of the organization. It could be the aim or mission as stated in the annual report or the constitution of the agency.</p>
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管治 Governance

13	管治組織 Governing Body		<p>這裡所指的是專掌社會福利服務的最高管治組織。請提供管治組織的名稱，例如董事會、執行委員會等</p> <p>This refers to the highest governing body of the agency directly related to welfare services. Please provide the name of the governing body, e.g., Board of Directors,</p>
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			Executive Committee.
14	機構主席姓名 Chairperson		如職位有不同名稱，請註明 If the name of post is different, please specify.
15	義務司庫姓名 Hon Treasurer		如職位有不同名稱，請註明 If the name of post is different, please specify.
16	其他管治組織成員 Other Members of Governing Body		
17	機構主管姓名 Agency Head		如職位有不同名稱，請註明 If the name of post is different, please specify.
18	周年大會舉行月份 Month of AGM		

組織架構 (可插入組織架構圖)**Organization Chart (you may insert the organization chart)**

19

21	服務中心/單位總數 No. of Service Centres/Units		機構負責管理的服務中心及單位數目 Please provide the total number of service centers managed by the organization. Services provided in other settings or non-social welfare services are excluded, e.g., schools, hospitals, overseas service.
22	未來發展 Future Development		請介紹機構的未來發展及動向 Please introduce the new development and future direction of the organization.

職員資料 Staff Information

23	全職員工總數 No. of Full Time Staff		
24	註冊社工總數 No. of Registered Social Workers		

財政 Finance

機構如能提供核數報告便無需填寫財政資料

If your organization can provide audited financial statement, you may ignore this part.

25	財政年度 Period of Financial Year		
Income 收入			
26	政府常費資助 - 社會福利署		獲社會福利署常費資助金

	Government Recurrent Income – SWD		額，例如整筆撥款 Receiving recurrent income from Social Welfare Department, e.g. Lump Sum Grant.
27	政府常費資助 - 其他政府部門 Government Recurrent Income – Other Departments		獲其他政府部門常費資助金額 Receiving recurrent income from other government departments.
28	政府項目計劃 - 社會福利署 Government Project Fund – SWD		以項目計劃形式獲社會福利署資助的金額 Receiving funding from Social Welfare Department on project basis.
29	政府項目計劃 - 其他政府部門 Government Project Fund – Other Departments		以項目計劃形式獲其他政府部門資助的金額 Receiving funding from other government departments on project basis.
30	基金/非政府項目計劃 Foundation/Non-Government Project Fund		以項目計劃形式獲基金/非政府組織資助的金額 Receiving funding from Foundation/Non-Governmental Organization on project basis.
31	獎券基金 Lotteries Fund		
32	公益金 Community Chest		
33	香港賽馬會慈善信託基金 HK Jockey Club Charities Trust		
34	捐款及籌款活動 Donation & Fund Raising		

	Events		
35	服務及活動收費 Service & Programs Fee		
36	賺取收入 Earned Income		
37	投資及利息 Investment & Interest		
38	其他收入 Others Income		請註明項目名稱 Please specify the name of the item
39	總收入 Total Income		
40 Expenditure 支出			
項目 item		金額 Amount	
服務/活動支出 Service & Program Expenditure			
籌款開支 Fundraising Costs			
行政開支 Administrative Expenditure			
社會企業 Social Enterprise			
其他開支 (如有) Other Expenses (If any) 請註明項目名稱 Please specify the name of the item			
總開支 Total Expenditure			

負責主管姓名: Authorized by:		
職位: Position:		
簽署: Signature:		機構印章 Agency Chop
日期: Date:		

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