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Chairman of Community Services Working Group, HKICPA

Venue: Auditorium, Duke of Windsor Social Service Building

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NGO Governance Forum 2018

Plenary Session II:

Reserve for Stability & Sustainability

*Response to the key findings of the
“Survey on Financial Reserves of Social
Service Agencies”*



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What is **CPA for NGO**?

- a strategic initiative to make a difference in the community
- supporting voluntary non-governmental organizations to improve their financial reporting and governance with CPAs' expertise
- a series of seminar to help NGOs better understand the best practices of managing financial systems, internal controls and organizational governance to achieve sustainable development
- Also, HKICPA supports the HKCSS as the sole strategic partner of its NGO governance platform project and advocates best governance practices to board members of NGOs



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Agenda

1. Purpose of Reserve Policy
2. Overview of Survey Findings
3. Developing a Reserve Policy
4. Updating the reserve policy if necessary
5. Approving the Use of Reserve
6. Accountability and Governance
7. Support from HKICPA



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1. Purpose of Reserve Policy

- Enables **sound financial management**
- **Demonstrates the financial and service sustainability** of an NGO
- Ability to **undertake forward planning** for strategic use of funds
- Indicator of **future funding needs**
- **Manage the reputational risk** associated with holding substantial reserves
- Strengthens **corporate governance** and **accountability**



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2. Overview of Survey Findings

- **3 months of LSG reserves** (the maximum allowed, as reserves are capped at 25% of operating expenditure)
- Non-designated reserves are **higher**, but amounts still not large:
 - **7.7 months** for NGOs **with recurrent funding** from government/Jockey Club/Community Chest
 - **12.7 months** for NGOs **without** recurrent funding
- Top reason for reserves:
 - **LSG reserves**: HR reasons (e.g. staff turnover or fewer/less experienced staff)
 - **Non-LSG reserves**: higher donations/fund raising
- Reserves allocated for **staff and operating costs**
- 61% of respondents had (48%) or were developing (13%) reserve policies. **A significant number had no policies**



3. Developing a Reserve Policy

- A reserve policy is developed through following **five key steps**:



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4. Updating the reserve policy if necessary

- Reserve policies should be **regularly reviewed**, to ensure they are still effective and relevant
- Review **income and expenditure patterns** with a target reserve level
- Conduct **detailed cash flow forecasts** on a regular basis
- Consider **short term volatility, seasonal variation** or long term **structural problems**
- Perform **stress tests** with a base case scenario and a worst case scenario
- **Change** the reserve policy if necessary



5. Approving the Use of Reserves

- 62% of survey respondents have **finance and/or investment committee**
- **3.1 levels** involved in preparing and approving the use of reserve on average
 - 96% involved **at least 2** levels
 - 97% involved **Board of Directors**
- **Before deploying reserves**, it is vital that NGOs have thorough discussions among the committee/board and prepare documentation to support the decision
- A **CPA** on the committee/board can help NGOs achieve **effective financial management**



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6. Accountability and Governance

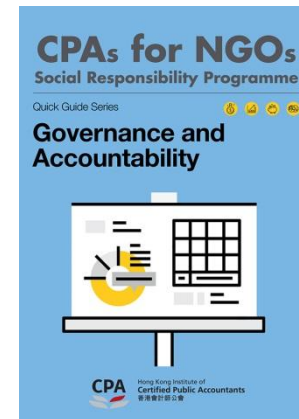
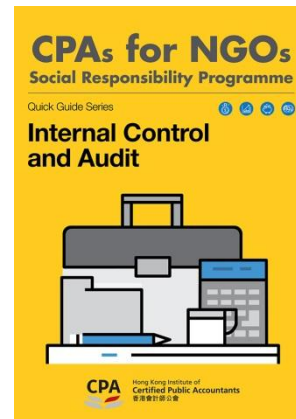
- Careful financial planning is **vital** to meeting future uses of reserves
- Committees and Boards should develop **clearly laid down responsibilities and authorization** for decision making
- **Safe custody and regular reviews of investment operations** develops trust in an NGOs' reserves management
- NGOs should **disclose internal policies and guidelines** in managing and investing reserves to demonstrate their financial and service sustainability



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7. Support from HKICPA

- **CPA for NGO** supports NGOs through educating them on the best practices of managing financial systems, internal controls and organizational governance to achieve sustainable development
- **Quick Guide Series** for NGOs:



- Visit <https://preprod.hkicpa.org.hk/CPAforNGO>



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