

Workshop on Internal Control for Small Non- Governmental Organizations

8 August 2020



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House rules and instructions



Communication protocol

Throughout the virtual workshop, there will be knowledge sharing by speakers, group discussion and overall question & answer session. In order to create a good workshop experience for all, please:



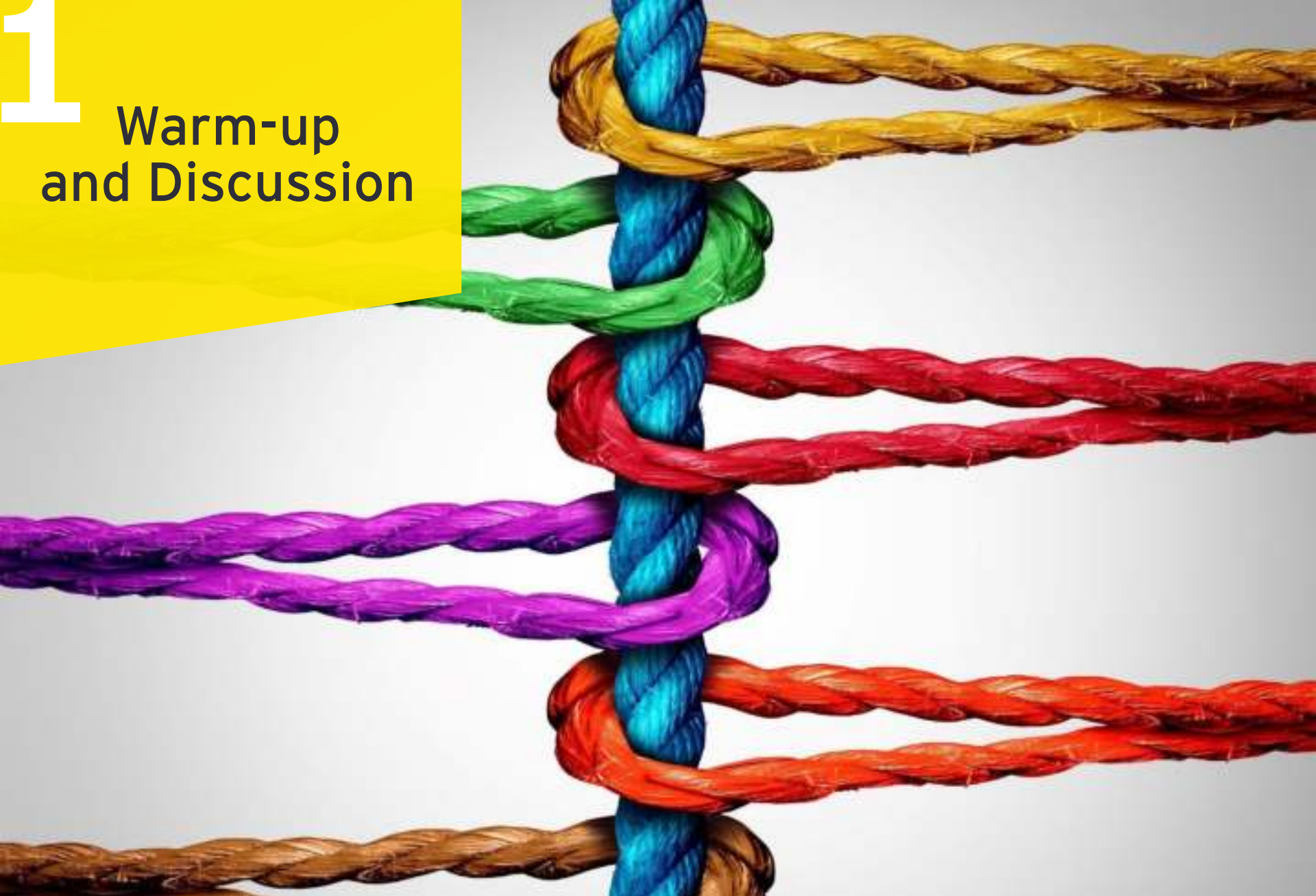
Agenda for today's workshop

	<i>Time (mins)</i>
1. Warm-up and Discussion	20
2. Principles of Internal Controls	20
3. Self-Assessment and Break	20
4. Risks and Controls & Case Studies	40
5. Q&A	20
<i>Total time: 2 hours 10:00AM - 12:00 Noon</i>	



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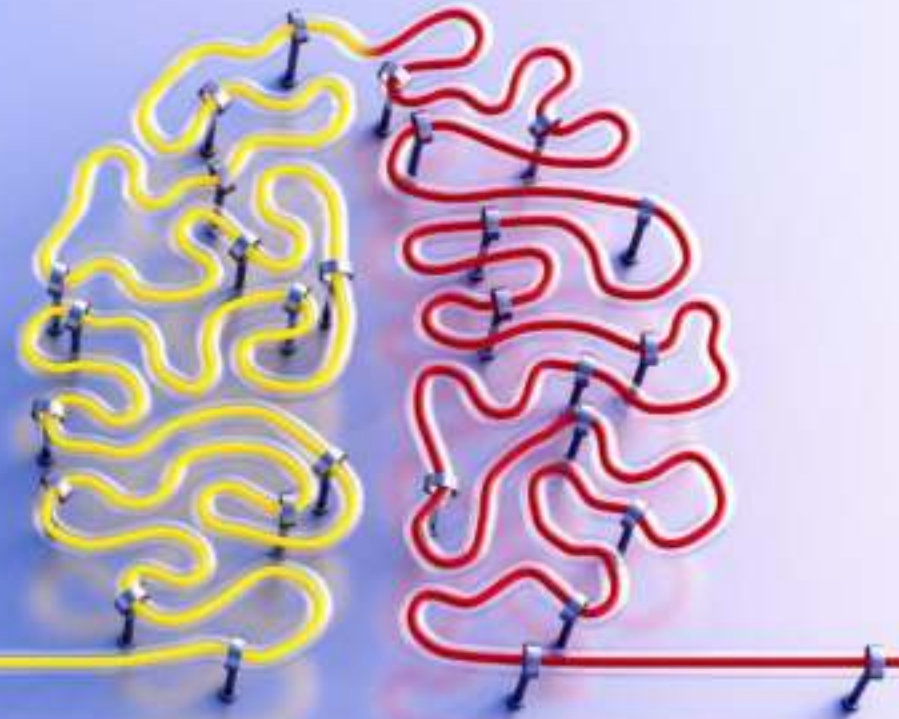
Warm-up and Discussion



Icebreaking

Talking points:

- ▶ Who are you?
- ▶ Where are you from?
- ▶ What are your organization's objectives?
- ▶ Are you facing any challenges in internal controls?



Why did we create the Internal Control Toolkit?

For small NGOs that may wish to...

1

Understand

more about the principles of risks and internal controls

2

Evaluate

risks faced by organization within key processes

3

Self check

sufficiency of relevant internal controls and determine efforts to improve



2 Principles of Risks and Controls



What are risks?

What are risks?

- ▶ Risks are effects of uncertainty on an organization's direction
- ▶ Negative risks can adversely affect an organization's ability to achieve its objectives and execute its strategies successfully
- ▶ Risk management should focus on securing the organization's value and objectives

Why do organizations face risks?

- ▶ Conduct Organization activities
- ▶ Deploy multiple strategies that generate risks and a continuing evolving risk profile
- ▶ Does not react effectively or sufficiently to threat situations
- ▶ Existence of internal and external influences

What should we know about risks?

- ▶ Need to understand the organization's objective and processes
- ▶ Risks cannot be eliminated
- ▶ Risks continue to exist, even with controls
- ▶ Controls can help reduce the impact or likelihood of risks occurring

What are likelihoods and impacts of risks?

Likelihood

Probability of the risk occurring over a defined time frame

“HOW OFTEN?”

- ▶ Increased number of activities
- ▶ Increased number of types of payment and receipt
- ▶ Increased number of assets
- ▶ Different receipt channels available

Impact

The extent to which, if realized, the risk would affect the Organization; may be expressed in qualitative or quantitative terms

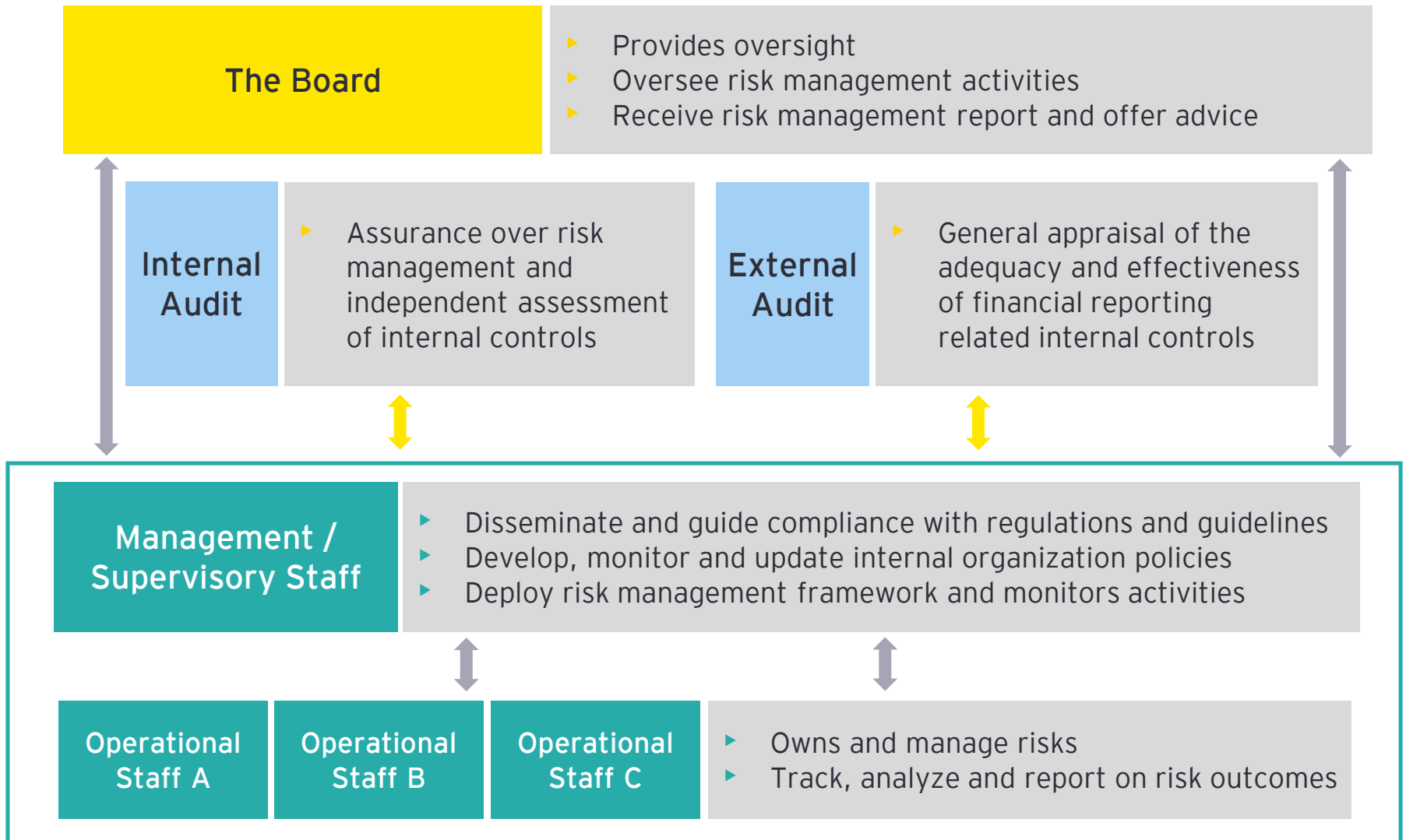
“SO WHAT?”

Increased in the amount of receipts handled by organization
Easier access to news through online media
Increased public awareness as well as attentions

Four types of risk actions

Accept	Agree that the risk cannot or should not be mitigated, and that the management will manage the impact should it come to pass. The strategic and operation plans will not be changed to deal with the negative risk.	▶ Documenting the risk and setting aside resources in case the risk occurs
Avoid	Eliminate the risk entirely by changing the operations (e.g., extend the project schedule, cease transactions, increase the budget, shut down the program or project, acquire expertise).	▶ Suspending organization activities during COVID-19 pandemic
Mitigate	Controls are put in place to reduce the probability (likelihood) of occurrence and/or impact of the risk to be within limits tolerable to the program or project.	▶ Using back-up supplier to minimize the impact of loss from one supplier due to economic recession
Transfer	Shift some or all of the impact to a third party (e.g., warranties, guarantees, and contracts) together with ownership of the response. This type of response is often effective with financial risks.	▶ Buying insurance - public health; fire and safety

Risk management framework



What is the relationship between risks and controls?

Risks

Threat from an event, action, or circumstance that may negatively affect an organization

Controls

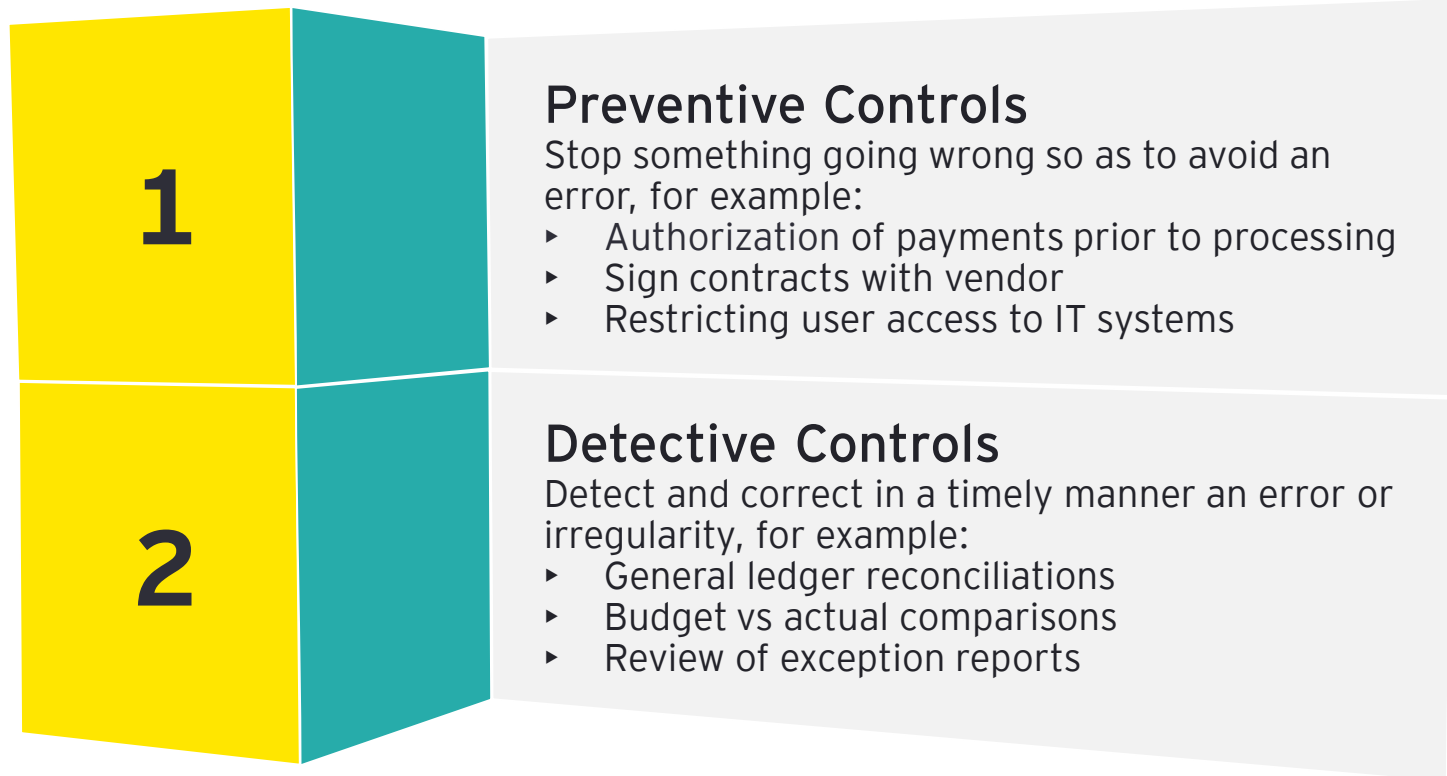
Mechanisms, procedures, and rules to mitigate or reduce risks to an acceptable level



RISKS

What are controls?

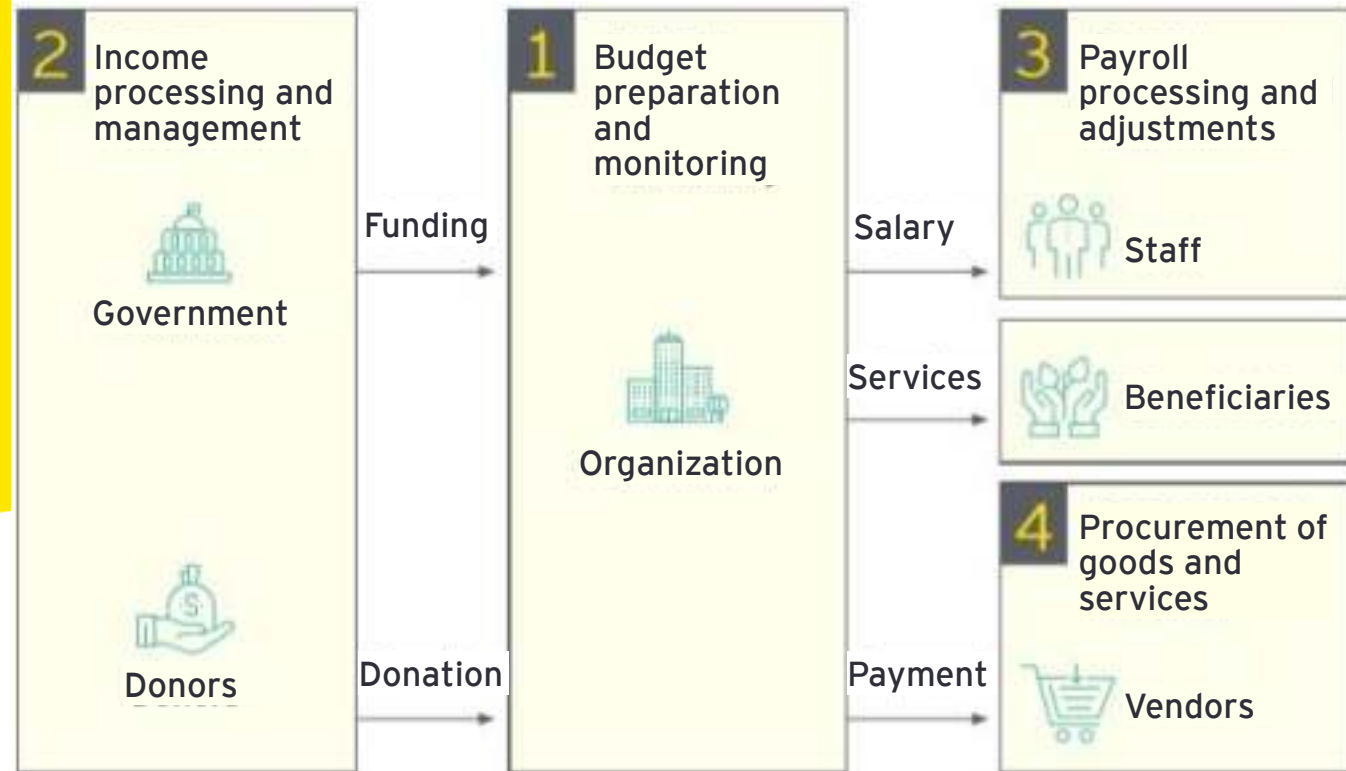
- ▶ A control is defined as an action taken to mitigate risk and to increase the probability that the business or process will achieve its goals and objectives
- ▶ Based on the purpose, there are two types of controls:



Why do small NGOs need good internal controls?

To...

- ▶ Reduce fraudulent activities
- ▶ Use resources transparently and effectively
- ▶ Comply with laws and regulations
- ▶ Build reputation and trust



3

Self-Assessment



How mature are your internal controls?

Things to consider when taking the survey:

- ▶ Does the control exist?
- ▶ Is it performed in a timely manner by appropriate personnel?
- ▶ Is there adequate documentation retained?

Three ways to access the survey

1 Scan the QR code



2 Click the survey link in the email you received with subject "EY Self-Assessment Survey"

3 Click the survey link we will now send in the chat box, or copy and paste it into the web browser

Break Time



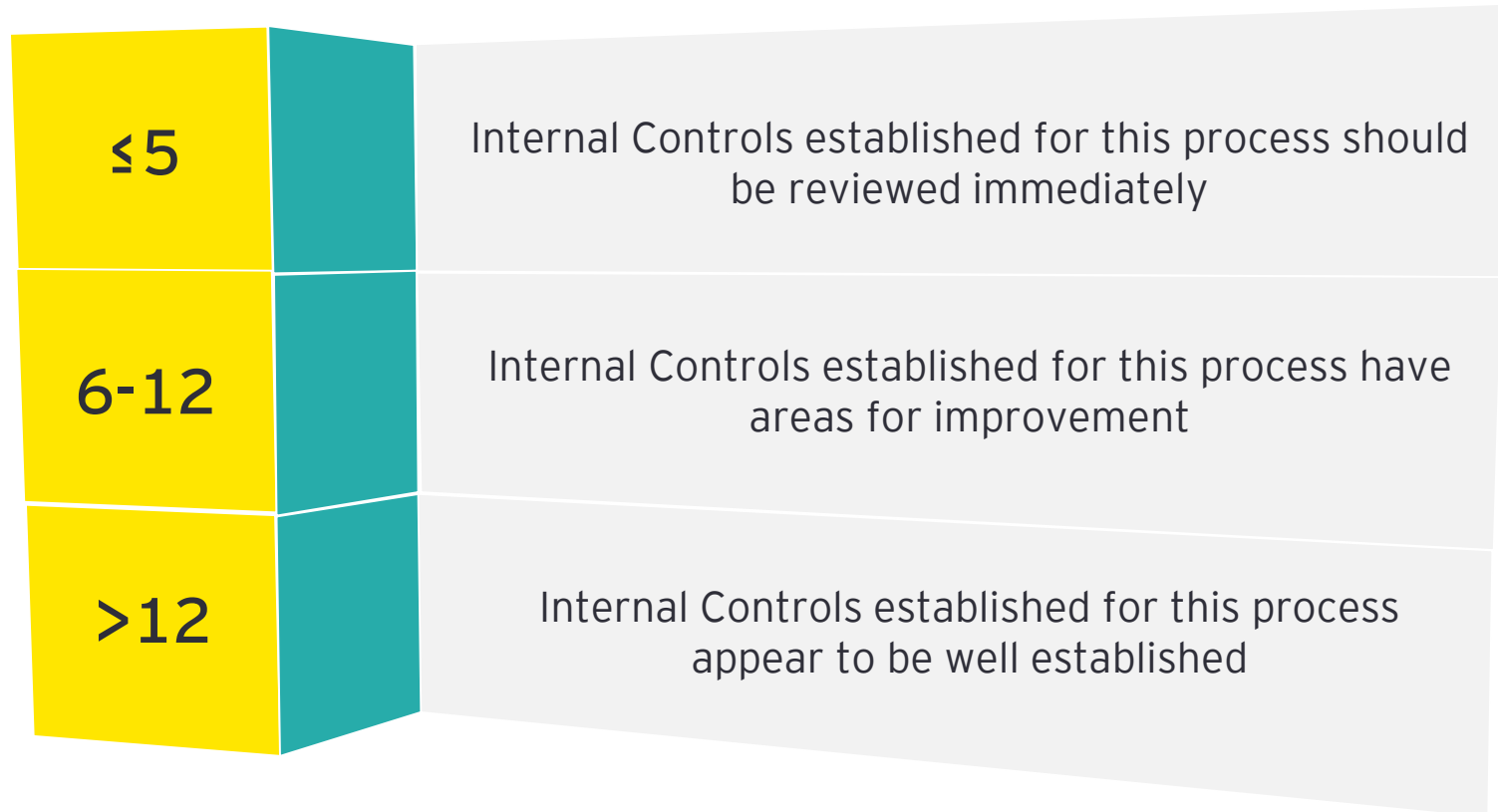
What did you score?

Key score trends

Average score from each process	<ol style="list-style-type: none">1. Budget preparation and monitoring: 1.82. Income processing and management: 2.63. Payroll processing and adjustments: 3.14. Procurement of goods and services: 3.1
Most confident process	Payroll processing and adjustments Procurement of goods and services
Least confident process	Budget preparation and monitoring
How many "No idea" responses in each process	<ol style="list-style-type: none">1. Budget preparation and monitoring: 172. Income processing and management: 183. Payroll processing and adjustments: 184. Procurement of goods and services: 19

What did you score?

Refer to your cumulative score from each section:



4 Risks and Controls & Case Studies



Cases for discussion

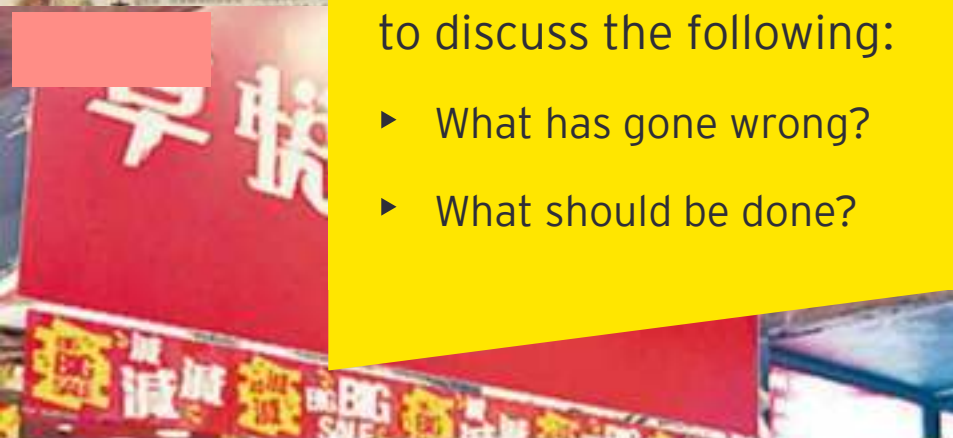
Apple Daily, 5 Oct 2018

Apple Daily, 7 Oct 2018



We will break into groups to discuss the following:

- ▶ What has gone wrong?
- ▶ What should be done?



HK01, 3 Jan 2019

Apple Daily, 16 Jan 2019

1. Budget Preparation and Monitoring

【整筆撥款·一】兩成機構財務見紅 鄰舍輔導會續兩年虧逾二千萬



[HK01, 3 Jan 2019](#)

Risks

Budget Monitoring

- ▶ Key deviations from approved annual and activity budget not identified and analyzed for cause
- ▶ Key changes to annual operations not timely updated and reflected in latest annual budget

Controls

- Regular comparison of actual year-to-date performance against approved annual budget
- Prepare summary of income and expenses with supporting documents and justifications within a designated period after completion of activities
- Report results of comparison and revision to budgets to relevant approval authority for endorsement

■ Authorization

■ Documentation

■ Safeguarding of Assets

■ Segregation of Duties

2. Income Processing and Management



[Apple Daily, 5 Oct 2018](#)

Risks

Income collection

- ▶ Income (e.g. donations and activity fees) not deposited into organization's bank account and/or not reflected in records

Controls

- Income should only be transferred or deposited to organization's bank, never personal bank
- Issue pre-numbered receipt slips as soon as incomes are received. Receipt should at least have 2-ply and include details such as names of the payor, staff processing the receipt, purpose, amount, time and date
- Receipt slips only issued by relevant approval authority to ensure validity

■ Authorization

■ Documentation

■ Safeguarding of Assets

■ Segregation of Duties

3. Payroll Processing and Adjustments



[Apple Daily, 16 Jan 2019](#)

Risks

Payroll processing

- ▶ Unauthorized or inaccurate payroll payment is processed

Controls

- Prepare bank autopay instruction/cheques after payroll amounts have been reviewed and approved by authority
- Implement access control/independent checking to ensure final payroll amount is same as approved amount.
- Obtain copy of bank card/bank book from staff during onboarding process for verification.
- Divide conflicting duties for payroll processing to different staff.

■ Authorization

■ Documentation

■ Safeguarding of Assets

■ Segregation of Duties

4. Procurement of Goods and Services



[Apple Daily, 7 Oct 2018](#)

Risks

Controls

Single-sourced or small purchases

- ▶ Repetitive single-sourced or small purchases are made without price comparison or competitive bidding, leading to reduced effectiveness in use of resources

- Tendering procedures such as obtaining the required number of tenders should be followed to ensure competitiveness of price
- Criteria in assessing quotations (e.g. price and/or technical elements) should be stated
- Enter into term contract with vendor where repetitive high-value purchases are expected for lower overall price
- Quotation/ tender records should be used as supporting document for purchase approval

■ Authorization

■ Documentation

■ Safeguarding of Assets

■ Segregation of Duties

5

Q & A



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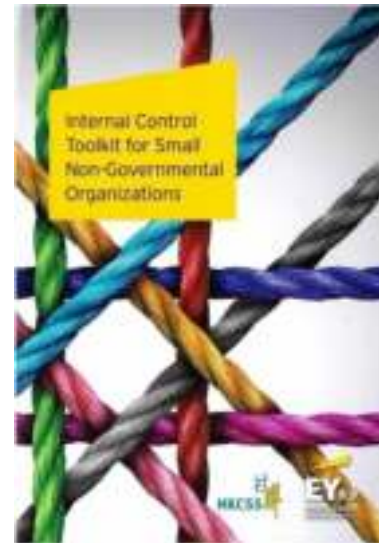
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Foreword

Non-governmental organizations (NGOs) play a critical role in our society. Promoting transparency and accountability in their operations is essential for their credibility and effectiveness. Supply chains, procurement, human resources, ICT, security, and data protection.

Each NGO's structure, size and the complexity of its activities may vary significantly from those of a for-profit organization. However, a common goal is to ensure that their operations are conducted in a transparent and accountable manner, and that they are held to the same standards of integrity and responsibility as their counterparts in the private sector.

For NGOs to maintain and gain trust from their stakeholders, it is essential to establish and implement robust internal controls. This toolkit was developed to help NGOs assess and improve their internal control systems, and to provide a framework for their development.

This toolkit can serve as a foundation for NGOs to develop their own internal control systems and to ensure that they are held to the same standards of integrity and accountability as their counterparts in the private sector.

As of March 2023, HKCSS has
 9,096
 members and staff, and has received over
 1,100 or 13%
 of the government grant income in 2022.

Target of this Internal Control Toolkit

This toolkit is designed for use by small NGOs that are not-for-profit.

1. Understand more about the principles of internal controls and assess whether the internal controls of your organization meet your needs and objectives.
2. Evaluate the risks faced by the organization within the governance areas and develop a plan to address the risks and enhance the internal controls.
3. Self-test the effectiveness of internal internal controls and determine the follow-up that can be taken to address any internal control weaknesses and deficiencies.

Thank you for your
participation!



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ED None.

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