

## Integrity and Quality Building Financial Management

### Preventive Measures

Risks	Preventive Measures
Establishment and Maintenance of Funds	
<ul style="list-style-type: none"> <li>• Fraudulent use/transfer/ misappropriation of funds through               <ul style="list-style-type: none"> <li>- using signed blank cheques/ bank withdrawal forms</li> <li>- unauthorised use of/forging signatures/ altering amount in cheques and bank withdrawal forms</li> <li>- delay in payments/ deposits in bank</li> <li>- payment for personal items/services not related to OC operation</li> </ul> </li> <li>• PMCs fail to open an exclusive client account for the building and use the OC's funds to finance their business</li> </ul>	<ul style="list-style-type: none"> <li>• determine the nature of funds to be set up and the amount of contribution from owners based on the budget for the building</li> <li>• open bank accounts under the name of the respective funds, and appoint at least two signatories (e.g. designated MC members, usually includes the Treasurer and Chairman of MC) for any withdrawals from the bank accounts</li> <li>• for bank accounts opened by PMCs on behalf of OCs, the PMCs to be required to :               <ul style="list-style-type: none"> <li>- include one or more MC members as the mandatory bank signatories for withdrawal or transfer of funds of a significant amount</li> <li>- limit the bank balance to an amount sufficient for the daily operation of the PMC and transfer any excess fund to the bank accounts operated by the OC</li> <li>- provide monthly bank statements and bank reconciliations to the Treasurer and Chairman for checking</li> </ul> </li> <li>• set the limit for withdrawal or payment from each bank account, above which approval from a higher authority (e.g. OC's approval supported by a written resolution and minutes of meeting, or counter-signing by the OC Chairman) is required</li> <li>• ensure the bank accounts are for the exclusive use of the building</li> <li>• ascertain the use of the money and ensure that payments are supported by documentary proof (e.g. invoices, MC's approval if required) before signing cheques or withdrawal slips</li> <li>• don't sign blank cheques or withdrawal slips</li> <li>• review regularly the building's financial position, bank statements and accounting records (e.g. check the cheque register against the supporting documents to identify doubtful payments)</li> <li>• review the repair and maintenance plan/need with a view</li> </ul>

Risks	Preventive Measures
	to determine the need to cease collection of contingency funds when the funds accumulated have exceeded the amount required for the planned repair and maintenance
Preparation of Annual Budgets	
<ul style="list-style-type: none"> <li>• Over-budgeting to allow unwarranted/excessive purchases beyond the budget provision for illegal commission</li> <li>• Excessive in the budget provisions to pave way for abuse of funds</li> </ul>	<ul style="list-style-type: none"> <li>• approve the budget of a new financial year by the MC who will serve over the budgeted period so that they will be accountable for the financial performance during their term of office</li> <li>• send the draft budget to all owners or display it in a prominent location in the building to: <ul style="list-style-type: none"> <li>- explain the basis for the determination of contributions to the management funds</li> <li>- explain any significant variance from the previous year</li> <li>- state any assumptions made</li> </ul> </li> <li>• check the reasonableness of the expenditures to avoid over- or under-budgeting in approving the budget</li> <li>• ensure purchases made and expenses incurred are confined to the budget provisions and grant approval, on justifiable grounds, for any significant unbudgeted purchases or expenditures (e.g. exceeding a certain amount)</li> <li>• submit monthly /quarterly reports to compare actual incomes and expenditures against the budget, explain any significant deviations</li> </ul>
Collection of Incomes	
<ul style="list-style-type: none"> <li>• Embezzlement of cash receipts</li> <li>• Expropriation of rental income</li> <li>• Fraudulent write-offs</li> <li>• Acceptance of bribe to allow less payments/ unauthorised use of parking spaces / facilities</li> </ul>	<ul style="list-style-type: none"> <li>• where practicable, different MC or staff members to undertake the following duties on regular rotation: <ul style="list-style-type: none"> <li>- collection and banking of incomes</li> <li>- recording of official incomes</li> <li>- preparation of aging analysis of debts and taking recovery action</li> </ul> </li> <li>• vet and approve all fees and rentals by making reference to the market rates / pre-determined rates</li> <li>• ensure and require payments to be made by cheques, autopay or other electronic means as far as possible</li> <li>• remind residents, by notice and on the payment demand note, to: <ul style="list-style-type: none"> <li>- cross and mark their cheques payable to the OC and write down their address on the back of the</li> </ul> </li> </ul>

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	<p style="text-align: center;">cheques</p> <ul style="list-style-type: none"> <li>- collect an official receipt for every payment made</li> <li>• instruct the bank not to pay cash for cheques drawn to the order of the OC</li> <li>• conduct site audit checks on the utilization of the income-generating facilities or its resources (including parking spaces) against income records to ensure they tally</li> <li>• review management reports on monthly income, refunds and debts</li> <li>• conduct or arrange internal audit checks on accounting records, receipt vouchers, bank records and overdue receipts</li> </ul>
<b>Expenditures</b>	
<ul style="list-style-type: none"> <li>• Bribery/conflict of interest in selection of goods/services</li> <li>• Manipulation of the quotation process (e.g. tampering and leakage of quotations, bogus quotations to make up for the minimum number of quotations required)</li> <li>• Split/excessive orders</li> <li>• Inflated costs/false reimbursement</li> </ul>	<p><u>General</u></p> <ul style="list-style-type: none"> <li>• where practicable, different MC or staff members to undertake the following duties on regular rotation: <ul style="list-style-type: none"> <li>- raising purchase requisitions</li> <li>- inviting quotations / tenders</li> <li>- approving purchases</li> <li>- placing orders</li> <li>- receiving goods</li> <li>- preparing and recording cheques for payment</li> <li>- signing cheques and bank withdrawal forms</li> <li>- holding the petty cash fund</li> <li>- replenishing the petty cash fund</li> <li>- recording payments</li> </ul> </li> </ul> <p><u>Procurement</u></p> <ul style="list-style-type: none"> <li>• set out the delegated approving authorities for purchases of various values that comply with the requirements laid down in the Code of Practice on Procurement of Supplies, Goods and Services for the invitation and approval of quotations or tenders</li> <li>• ensure a probity clause is included in the invitation for bids</li> <li>• require the MC or tender evaluation committee members to declare whether they have any conflict of interest at the beginning of a meeting to discuss procurement matters</li> <li>• lay down the evaluation criteria prior to the invitation</li> </ul>

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	<p>for bids</p> <ul style="list-style-type: none"> <li>• require quotations to be invited from an approved list of suppliers or service providers for frequently purchased goods and services</li> <li>• conduct spot checks on the quotations received to verify their bona fide (e.g. by calling the supplier of a quotation to verify its authenticity)</li> <li>• certify acceptance of goods or services upon delivery</li> <li>• replenish the petty cash fund regularly and review the nature of petty cash expenditures to detect irregularities</li> <li>• compare actual expenditures against the budget regularly to detect excessive or unbudgeted expenditures</li> <li>• review procurement records regularly to detect irregularity</li> <li>• audit the procurement and payment procedures by an MC or staff member independent of the procurement process or an external auditor</li> </ul> <p><u>Payment</u></p> <ul style="list-style-type: none"> <li>• keep the OC's cheque books, bank books and official chop in a secure place</li> <li>• promptly notify the bank of cessation of any person as an authorized signatory (e.g. retirement of an MC member)</li> <li>• establish limits for cheque payment above which approval from a higher authority (e.g. counter-signing by another authorised person) is required</li> <li>• ensure the payment documents or forms to state the monetary amounts in letters and numbers to prevent alteration</li> <li>• use cross cheques and mark them as "Account Payee Only"</li> <li>• issue cheques in sequence and stamp "void" on spoiled/voided cheques and retain them for audit</li> <li>• ensure invoices or receipts are stamped "paid" to avoid double payment</li> <li>• ensure all cheques are verified against invoices (payee and amount) before signing, and never sign a blank cheque (with either payee or amount left blank)</li> <li>• don't involve the Treasurer or accounts supervisor in</li> </ul>

Risks	Preventive Measures
	processing of payments reviews of the cheque register, autopay register and bank statements for payments made
<b>Fixed Assets</b>	
<ul style="list-style-type: none"> <li>• Misappropriation of OC's asset</li> <li>• Under-reporting the receipt arising from resale of fixed assets</li> </ul>	<ul style="list-style-type: none"> <li>• where practicable, different MC or staff members to undertake the following duties on regular rotation: <ul style="list-style-type: none"> <li>- safekeeping of assets</li> <li>- maintenance of fixed asset register and accounting records</li> <li>- on site inspection of assets</li> <li>- approval of disposal of assets</li> </ul> </li> <li>• approve: <ul style="list-style-type: none"> <li>- the criteria for recording certain types of assets as fixed assets</li> <li>- the depreciation policy or method for different fixed assets</li> <li>- authority for approving disposal of fixed assets</li> </ul> </li> <li>• ensure the assets are labeled for identification purpose</li> <li>• maintain a fixed assets register as a formal record</li> <li>• inspect the fixed assets on site periodically</li> <li>• ensure the annual depreciation on fixed assets is charged where appropriate</li> <li>• properly control the disposal of fixed assets</li> </ul>
<b>Preparation of Bank Reconciliations</b>	
<ul style="list-style-type: none"> <li>• Delay in sending out cheques or depositing income of OC in order to cover up misappropriation of the OC's funds</li> </ul>	<ul style="list-style-type: none"> <li>• where practicable, different MC or staff members to undertake the following duties on regular rotation: <ul style="list-style-type: none"> <li>- preparing bank reconciliations</li> <li>- checking and approving bank reconciliations</li> </ul> </li> <li>• prepare bank reconciliations on a periodic basis (at least monthly) to detect any discrepancies between bank statements and accounting records for possible causes of discrepancies</li> <li>• investigate the discrepancies and take action to rectify the discrepancies and adjust the relevant accounting records Common examples of discrepancies are unrepresented cheques, bank direct debit items, bank charges and interest</li> <li>• review or audit bank transactions: <ul style="list-style-type: none"> <li>- check computation to confirm the balance of the</li> </ul> </li> </ul>

Risks	Preventive Measures
	<p>cash book</p> <ul style="list-style-type: none"> <li>- investigate delays in the presentation of cheques and deposit of incomes to the bank</li> <li>- check unused/voided cheques</li> <li>- stop payment of missing cheques</li> <li>- randomly check the supporting documents of selected payment transactions</li> </ul> <ul style="list-style-type: none"> <li>• present the bank reconciliation statements to the Chairman for approval and to the MC for information</li> </ul>
<b>Preparation and Inspection of Financial Statements</b>	
<ul style="list-style-type: none"> <li>• False accounting</li> <li>• Non-disclosure of questionable transactions/audit findings</li> <li>• Covering up the control weaknesses/practices reported in the auditor's management letter to the OC</li> </ul>	<ul style="list-style-type: none"> <li>• where practicable, different MC or staff members to undertake the following duties on regular rotation: <ul style="list-style-type: none"> <li>- preparation of financial statements</li> <li>- approval of financial statements</li> </ul> </li> <li>• invite the auditor to attend annual general meetings to present and answer questions about his audit report and other audit findings</li> <li>• the owners should: <ul style="list-style-type: none"> <li>- ensure that the MC displays/presents annual and quarterly financial statements as required</li> <li>- regularly review the financial statements and take the following action</li> </ul> <p><u>Income and Expenditure Account</u></p> <ul style="list-style-type: none"> <li>◆ check any item of expenditure that exceed 20% of the budget was not approved by the owners in a general meeting</li> <li>◆ require the MC to account for any unreasonable income or expenditure items, and any significant deviations compared with the previous year or the approved budget</li> <li>◆ check the reasonableness of the manager's remuneration package, MC members' allowances and staff salaries, but without disclosing the personal data of the staff members</li> </ul> <p><u>Balance Sheet</u></p> <ul style="list-style-type: none"> <li>◆ note any significant changes in the balance sheet items in comparison with the previous year and find out the reasons</li> <li>◆ review the gain or loss upon the disposal of the</li> </ul> </li> </ul>

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	<p>fixed assets and ask for information on the method of disposal (e.g. whether the disposed assets have been opened up for purchase by the residents)</p> <ul style="list-style-type: none"> <li>◆ check whether goods purchased by the OC have been recorded as fixed assets according to the OC's accounting policies, and conduct random inspections on the fixed assets</li> <li>◆ review the payments made to ensure they match the purposes of the funds</li> <li>◆ check that the funds are sufficient but not excessive to meet the operational and maintenance needs of the building</li> <li>◆ ask for information on the cash flow forecast in case the current assets are insufficient to meet the current liabilities</li> </ul> <ul style="list-style-type: none"> <li>- exercise the owners' rights to examine the accounting books and records and other related documents as necessary</li> <li>- require the MC to arrange an audit of the financial statements if necessary</li> <li>- review the auditor's report and management letter</li> <li>- attend the annual general meeting for discussion of the financial statements and auditor's report</li> <li>- require the MC or Manager to take appropriate action on any special opinions and management weaknesses expressed by the auditor</li> </ul>
<b>Working with Property Managers</b>	
<ul style="list-style-type: none"> <li>• Bribery for lax supervision</li> <li>• Conflict of interest/related party transactions</li> <li>• Bogus workers/false attendance records</li> </ul>	<ul style="list-style-type: none"> <li>• clearly set out the service requirements and the terms and conditions in the management agreement, seeking legal advice if necessary</li> <li>• include probity clauses in the management agreement</li> <li>• require the Manager to declare and seek approval for any related party transactions</li> <li>• discuss and agree on the financial management procedures and key controls, including: <ul style="list-style-type: none"> <li>- the opening and operation of bank accounts exclusively for the OC</li> <li>- consultation and approval of the annual budget</li> <li>- procurement approving authorities and procedures</li> <li>- controls in handling incomes and payments</li> </ul> </li> </ul>

<b>Risks</b>	<b>Preventive Measures</b>
	<ul style="list-style-type: none"><li>- management and control of fixed assets</li><li>- maintenance of accounting records</li><li>- displaying and auditing of the financial statements</li><li>- arrangements for the owners to access the financial records and statements</li><li>• specify in the agreement matters requiring approval by or consultation with the MC</li><li>• lay down complaint handling procedures for owners to direct any complaints against the Manager to the MC</li><li>• ensure that the Manager's remuneration and charges commensurate with the market rates</li></ul>