

**PRACTICE NOTE
850
REVIEW OF FLAG DAY ACCOUNTS**

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The purpose of Practice Notes issued by the Hong Kong Institute of Certified Public Accountants (HKICPA) is to assist auditors in applying Auditing Standards of general application to particular circumstances and industries.

They are persuasive rather than prescriptive. However they are indicative of good practice and have similar status to the explanatory material in Statements of Auditing Standards (SASs), even though they may be developed without the full process of consultation and exposure used for SASs. Auditors should be prepared to explain departures when called upon to do so.

Introduction

1. In accordance with the conditions of the Public Subscription Permit ("the Permit") issued by the Social Welfare Department of the Government of the Hong Kong Special Administrative Region ("SWD"), an organisation that is allowed to organise a collection of donations on a flag day ("the charity") is required to prepare a statement of all monies received from the public subscription and every disbursement made from the monies so collected or received ("flag day accounts").
2. Flag day accounts have to be reviewed and reported on by a certified public accountant (practising) ("CPA (practising)") in Hong Kong.

Scope and approach

3. The purpose of this Practice Note is to provide guidance on the review procedures and reporting requirements in connection with flag day accounts so as to achieve a greater degree of uniformity. This Practice Note has been prepared after consultation with the SWD.
4. This Practice Note sets out the special considerations relating to the review of flag day accounts as required by the SWD. It is not intended to provide step-by-step guidance on the review of flag day accounts.

Special features of flag days

5. A common feature of flag days is the receipt of voluntary income by way of cash donations. Unlike the income of commercial entities, such voluntary income will not be supported by invoice or equivalent documentation. Obtaining assurance as to the completeness and accuracy of recorded donations can therefore be difficult.
6. The level of income from donations received on a flag day cannot be predicted with any great accuracy as people's pattern of giving may change. It is also difficult to establish a relationship between donations and other figures in flag day accounts as expenditure levels may not have any direct relationship to such income. As a result, the trustees of a charity need to make arrangements to institute appropriate controls to ensure that all income to which it is entitled is properly accounted for, and the CPAs (practising) are likely to rely on evidence concerning those controls in order to form a view on the completeness of income shown in flag day accounts.
7. Another feature is the use of volunteers in collecting cash donations on a flag day. A volunteer is normally less accountable than an employee of an organisation. Thus, it is important for charities to have controls not only over collecting monies, but also over the recruitment of collectors.

Engagement letters

8. The basic principles used in drafting engagement letters as set out in SAS 140 "Engagement letters" are applicable to the review of flag day accounts. Practical considerations arising from the particular characteristics of flag day accounts are considered below.

Addressee of engagement letter

9. It may not always be obvious to whom the engagement letter should be addressed. The CPAs (practising) will need to review the governing document of the charity to ascertain who is the appointing authority, as the engagement letter should be addressed to that authority; in most charities it will be the trustees. If the trustees are not engaged in the day-to-day running of the charity or the management of the flag day event, the CPAs (practising) may wish to send an additional copy of the engagement letter to the chief executive or the persons responsible for its day-to-day management or the management of the flag day event, if applicable.

Agreed upon procedures to be performed

10. The CPAs (practising) are sometimes unable to ensure that all cash donations received on a flag day were indeed recorded by the organisation due to the special features of flag days as mentioned above.
11. Given the nature of this revenue, the CPAs (practising) may sometimes find it impracticable or impossible to perform tests of controls and substantive procedures that are needed to reduce audit risk to the required level, and are then faced with a limitation in the scope of the examination of cash donations received on a flag day. In such a case, a reservation would have to be included in the standard "true and fair view" audit report explaining the limitation in the scope of the examination that revenues could only be verified from the time they were deposited and entered into the organisations' records.
12. A reader may question the usefulness of such auditors' reports with reservation since the CPAs (practising) are unable to determine and quantify the impact resulting from the scope limitation.
13. Furthermore, there would be considerable cost implications in performing a full scope audit. As some charities may not be able to afford a high fee and many CPAs (practising) currently perform such engagements free of charge in view of the charitable nature of the organisations, the cost implication is a crucial point for consideration. While it is important to ensure an acceptable level of quality of review work performed on flag day accounts, stringent reporting requirements which bring about disincentives for the charities to organise such events should be avoided. Balancing these issues, it would be more useful for the appointing authority to agree upon certain procedures to be performed by the CPAs (practising). In such cases, the extent of work is more definite and the level of assurance given by the report is more certain.
14. This Practice Note sets out certain minimum recommended agreed upon procedures to be considered by the appointing authority and the CPAs (practising) in relation to the review of flag day accounts.

Example of engagement letter

15. Appendix I gives a specimen engagement letter for the special purpose review of flag day accounts. This specimen engagement letter is consistent with the recommended agreed upon procedures and example report as set out in this Practice Note.

Control procedures on the completeness of income

16. The following sets out some common control procedures on the completeness of income which are applicable to flag days. Certain particular difficulties for charity trustees in establishing control procedures can stem from the use of volunteers (often on a part-time basis) who are not formally accountable to them, unlike employees, and the use of the collecting boxes and tins. Nevertheless, it is important for charities raising income through street collections undertaken by volunteers to

ensure that collectors are adequately supervised and controlled and the donations collected are complete and recorded. The procedures below are not intended to be comprehensive: there may be other control procedures which are of general application (such as segregation of duties) which are not included in the examples given below. The nature and extent of the procedures will clearly depend on the size of the charity.

- a. Recruitment and use of volunteers / collectors
 - i. Separate records of personal details (e.g. name and identity card number) should be kept for each collector.
 - ii. The conditions set out in the Permit (e.g. no children under 14 years of age are to be permitted to sell flags) should be adhered to.
 - iii. Collectors should be briefed on the policies and procedures for street collections.
 - iv. Collectors should be properly supervised.
 - v. In addition, for those charities that use cash collectors from outside their own organisations, additional controls would need to be considered to ensure that
 - the recruitment is properly approved by management, and
 - the recruited individual is a fit and proper person to conduct such collection.
- b. Collecting boxes and tins
 - i. Name of the charity should be printed prominently on collecting boxes and tins.
 - ii. Sufficient publicity coverage should be arranged for the flag day event so that the general public is aware of the event and who the organiser is.
 - iii. The charity should implement a numerical control over boxes and tins.
 - iv. There should be satisfactory sealing of boxes and tins so that any opening prior to recording cash is apparent.
 - v. Collectors (each has his own box or tin) should work in teams of more than one person. Identity of collectors should be checked and recorded before assigning boxes and tins to them (e.g. by checking their identity cards).
 - vi. Collectors should be required to sign to acknowledge both the initial receipt of the collecting box or tin and the return of the box or tin after the event.
 - vii. Boxes and tins should be opened in the presence of at least two persons approved by the management to be fit and proper. The counting and recording of receipts should be carried out by one staff of the charity and checked by a senior officer. The certificate of cash counts should be signed by the counter upon completion of counting and counter-signed by the other senior officer as evidence of checking. Where the opening of boxes and tins, and/or counting and recording of receipts are delegated to a third party, the trustees should ensure that the third party will have adequate controls in place to ensure that the functions will be carried out satisfactorily.

Recommended agreed upon procedures

17. The agreed upon procedures set out below constitute the minimum procedures which would need to be undertaken by the CPAs (practising) for the review of flag day accounts. The extent of procedures to be carried out is determined by the CPAs (practising)' professional judgement in each individual case. In general, the performance of the following procedures would be sufficient to enable the CPAs (practising) to draw reasonable conclusions on flag day accounts. However, if the CPAs (practising) are of the opinion that the procedures set out below are insufficient to enable them to draw reasonable conclusions in particular circumstances, they would consider extending the procedures or performing alternative review procedures in order to obtain sufficient evidence thereon.
- a. Completeness of cash donations
 - i. Review the policies and control procedures set up by the charity over the recruitment and use of volunteers/collectors and over the collecting boxes and tins to assess whether these policies and procedures would be adequate to ensure the completeness of cash donations, if they were adhered to in practice.
 - ii. Perform tests on controls implemented by the charity, in particular, the CPAs (practising) consider whether those suggested control procedures over the recruitment and use of volunteers/collectors and over the collecting boxes and tins as stated in this Practice Note have been properly implemented by the trustees.
 - iii. Observe the cash counting procedures and controls, in particular, perform tests of controls:
 - to establish whether all collecting boxes and tins have been returned, and
 - to establish whether all cash received was properly recorded.
 - b. Existence of cash donations
 - i. Check evidence of cash counts and double checking (e.g. the certificate of cash counts duly signed by the counters and counter signed by another senior officer of the charity).
 - ii. Check that cash receipts are deposited in the charity's own bank accounts within a reasonable time and included in the bank statements.
 - iii. Test check receipts from the bank statements to the cash book and to the copies of the bank paying in slips.
 - c. Completeness and existence of disbursements
 - i. Test check payments from the bank statements to the cash book.
 - ii. Test check payments to supporting documentation.
 - iii. Perform a search for unrecorded liabilities by reviewing the payments made subsequent to the flag day and the unpaid purchase invoices.
 - iv. Test check the analysis of payments in the cash book.
 - d. Disclosure
 - i. Agree balances as stated in flag day accounts to the underlying records.

- ii. Check the classification and disclosure of items in flag day accounts.

Management representations

- 18. Guidance on management representations is set out in SAS 440 "Representations by management".
- 19. Representation letters as such are not mandatory; however, the CPAs (practising) are encouraged to obtain written confirmation of appropriate representations on matters material to the flag day accounts when those representations are necessary to obtaining sufficient appropriate evidence. For example, it will generally be necessary for the CPAs (practising) to obtain management representations that the controls to ensure completeness of cash donations were implemented on the day of collection as it would usually be impracticable for the CPAs (practising) to observe the operations of those controls given that the collections frequently take place at various different locations and involve a large number of teams of collectors.
- 20. The body of trustees of a charity as a whole is responsible for the contents and presentation of flag day accounts. Consequently, approval of the content of any written representation by the body of trustees is necessary. Where the trustees are not involved in the day-to-day running of the charity or the management of the flag day event, representations would be given by the persons responsible for the running of the charity or the management of the flag day event, if applicable. In such circumstances, the CPAs (practising) may wish to obtain evidence that such representations have been considered and approved by the trustees.

Reporting

Addressee of review report

- 21. The review report by the CPAs (practising) on flag day accounts would be addressed to the same appointing authority as the engagement letter.

Example of review report

- 22. An example of the review report on flag day accounts is set out in Appendix II.

Appendix I

**EXAMPLE ENGAGEMENT LETTER FOR REVIEW OF
FLAG DAY ACCOUNTS**

The Trustees
XYZ Charity ("the Charity")

[Date]

Dear Sirs

We have been requested by you to perform a review of the flag day accounts of the Charity prepared in respect of the flag day fund raising event held on [] ("flag day event"). We understand that our report is prepared solely for the purpose of satisfying the conditions stated in the Public Subscription Permit ("Permit") issued by the Social Welfare Department of the Government of the Hong Kong Special Administrative Region ("SWD").

In this regard, we herein set out below the respective responsibilities of the trustees and of ourselves and our understanding of the scope of work you require us to perform and to highlight our key procedures.

Respective responsibilities of the trustees and of ourselves

In applying for the Permit for collecting donations in a public place, you are responsible, as the permit holder, for closely monitoring the flag day event and accounting for the monies collected which the public have contributed and complying with conditions stated in the Permit. You are obliged to prepare the flag day accounts showing all monies received from the public subscription and the disbursements made from the monies so collected or received.

As trustees of the Charity, you are responsible for ensuring that the Charity maintains appropriate accounting records. You are also responsible for making available to us, as and when required, all of the Charity's accounting records on the flag day event and all other relevant records and related information.

We have the responsibility as stated in the conditions of the Permit to report to you, as permit holder, any findings, based on the performance of the agreed upon procedures, that indicate that the flag day accounts do not reflect all monies received from the public subscription by the Charity and the disbursements made from the monies so received (see below). We have also the responsibility to report to you whether, in our opinion, the flag day accounts have been properly prepared from the books and records of the Charity as made available to us and the gross proceeds raised from the flag day event as reflected in the flag day accounts have been deposited into the Charity's own bank accounts.

Scope of work

Our review will be conducted in accordance with Practice Note 850 "Review of flag day accounts" issued by the Hong Kong Institute of Certified Public Accountants. We shall expect to obtain appropriate evidence as we consider sufficient to enable us to draw reasonable conclusions on the flag day accounts.

The procedures that we will perform are solely to assist you in satisfying the conditions of the Permit. Our report is not to be used for any other purposes and is solely for your information and for submission to the SWD. We will not perform an audit of the flag day accounts and, accordingly, will not express an audit opinion on the accounts.

Representations by management/Trustees

As part of our review procedures, we may request written confirmation of oral representations which we have received during the course of the review on matters having a material effect on the flag day accounts.

Access to information and documents

In order to carry out our review effectively and efficiently, we will require access to all relevant records and documents of the Charity.

Fees

[In view of the charitable nature of the organisation, the review work is carried out on an honorary basis.] OR
[Our fees are computed on the basis of the time spent on your affairs by the partners and our staff, and on the levels of skill and responsibility involved plus out-of-pocket expenses. Fees will be due and payable on presentation.]

Agreement of terms

The terms of this letter shall constitute the entire terms of the agreement between [name of addressees] and [name of CPA (practising) firm]. No variation to the terms hereof shall be effective or binding on either party unless they are agreed to in writing by both [name of addressees] and [name of CPA (practising) firm].

We should be grateful if you would confirm in writing your agreement to these terms, by signing and returning the enclosed copy of this letter, or let us know if they are not in accordance with your understanding of our terms of engagement.

Yours faithfully,

.....
ABC & Co.
Certified Public Accountants (Practising) [or Certified Public Accountants]

We agree to the terms of this letter.

.....
Signed, for and on behalf of XYZ Charity

.....
Date

.....
Position

Appendix II

**EXAMPLE REVIEW REPORT ON FLAG DAY ACCOUNTS
- UNQUALIFIED OPINION**

REVIEW REPORT TO THE TRUSTEES OF XYZ CHARITY ("the Charity")

We have performed the agreed upon procedures and reviewed the attached income and expenditure account ("IEA") of the Charity's flag day fund raising event held on _____ in accordance with Practice Note 850 "Review of flag day accounts" issued by the Hong Kong Institute of Certified Public Accountants. This report is made solely in relation to the above fund raising event of the Charity and does not relate to any other part of the operations of the Charity. The agreed upon procedures and review we have carried out did not constitute an audit and accordingly they cannot be relied upon to provide the same level of assurance as an audit.

Use of this report

This report is intended solely for the purpose of satisfying the conditions stated in the Public Subscription Permit issued by the Social Welfare Department of the Government of the Hong Kong Special Administrative Region.

Review conclusion

On the basis of the results of the agreed upon procedures performed by us:

- a. in our opinion:
 - i. the attached IEA of the Charity has been properly prepared from the books and records of the Charity made available to us; and
 - ii. the gross proceeds raised from the Charity's flag day fund raising event as reflected in the attached IEA of the Charity have been deposited into the Charity's own bank accounts; and
- b. no matters have come to our attention which indicate that the attached IEA of the Charity does not reflect all the monies collected by the Charity from the above fund raising event of the Charity and the disbursements made from the monies so collected.

ABC & Co.
Certified Public Accountants (Practising) [or Certified Public Accountants]
Hong Kong
Date

賣旗日帳目之審閱報告書樣本 – 無保留意見

審閱報告書

致 XYZ 慈善機構 (以下簡稱「該慈善機構」) 信託人

我們已根據香港會計師公會頒佈的實務說明第 850 號「賣旗日帳目之審閱」進行雙方協定程序，並審閱隨附慈善機構於____年__月__日舉行的慈善賣旗籌款活動的收支帳 (以下簡稱「收支帳」)。我們僅就上述慈善籌款活動出具本報告書，其與該慈善機構其他事務無關。我們已進行的雙方協定程序和審閱，並不同核數，因此，絕不可期望確信程度與核數相同。

本報告書的用途

本報告書只供該慈善機構用以履行香港特別行政區政府社會福利署公開籌款許可證內所載的條件。

審閱結論

根據已進行的雙方協定程序之結果：

- 甲. 我們認為：
 - 一. 隨附的收支帳是根據該慈善機構向我們提供的帳簿和紀錄適當地編製；和
 - 二. 隨附的收支帳所反映之慈善賣旗籌款活動籌得的款項總額，已悉數存入該慈善機構名下的銀行帳戶內；和
- 乙. 我們並沒察覺任何事項，足以顯示隨附的收支帳沒有完全反映上述慈善籌款活動所收集的所有款項和從中所扣除的支出。

甲乙丙會計師事務所
香港執業會計師
香港
日期