

HKCGI Public Governance Guidance Note (Fourteenth Issue) - NGOs and Governance Professionals' Contributions (Part 2)

Under part 1 of this guidance, we have noted how the governance professional can impress on an NGO the need for a properly constituted board, including helping identify gaps and seeking board members, and the importance of implementing an NGO's purpose. We now turn to some governance issues that the governance professional could contribute to NGOs in this part.

Transparency and Financial Oversight

Financial transparency is crucial for maintaining the public trust that NGOs rely on. NGOs must demonstrate that they use funds responsibly and achieve their stated goals as organisations that manage public donations and sometimes government funding. This requires robust financial oversight, strong internal controls, and transparent reporting practices. In an environment where scrutiny is high, a failure in financial management—even an unintentional oversight—can severely damage an NGO's reputation and ability to attract future support.

Case example:

A small charity collecting donations for disaster relief was found to have inadequate financial controls. Although funds were being used appropriately, a lack of transparency in accounting practices led to allegations of mismanagement. This, in turn, eroded donor confidence and led to a reduction in future contributions.

Where governance professionals can assist:

- **Establishing and monitoring financial controls**

Governance professionals can help implement internal financial controls that properly handle donations, expenses, and grants. Even small NGOs benefit from systems such as segregation of duties (e.g., having different individuals responsible for approving payments, managing funds, and reconciling accounts). This helps prevent errors or fraud, ensuring financial resources are used as intended.

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- **Advising on financial reporting systems**

Transparency doesn't just mean publishing financial statements; it also involves ensuring they are clear, accurate, and accessible to stakeholders. Governance professionals can assist in developing or refining financial reporting systems that meet legal requirements while also providing a transparent picture of the organisation's financial health. This may include advising on formats for annual reports, ensuring they include financial data and impact assessments, and helping to present key figures.

- **Creating expense approval policies**

Governance professionals can assist in developing simple yet effective policies for approving expenses within the organisation. These policies ensure that spending is aligned with the organisation's mission, is adequately documented, and is subject to appropriate oversight. These systems prevent misuse of funds, create a clear audit trail, and build donor and stakeholder confidence.

- **Developing whistleblowing policies**

Governance professionals can help design and implement whistleblowing policies to strengthen trust and deter potential financial misconduct. This encourages employees, volunteers, and stakeholders to report unethical or illegal financial practices without fear of retaliation. By setting up an independent reporting mechanism, governance professionals ensure that the NGO has a proactive system for identifying and addressing potential issues.

- **Ensuring compliance with donation regulations**

NGOs are subject to various regulations regarding handling donations, particularly in sectors like charity fundraising and government grants. Governance professionals can ensure the organisation complies with these regulations, helping to protect its tax-exempt status and ensuring that donors' money is handled according to relevant laws and ethical standards.

The governance professional helps protect the NGO's financial integrity by implementing strong financial oversight and transparency practices. This ensures that funds are used efficiently and for their intended purpose and bolsters the NGO's reputation among donors, regulators, and the public, leading to continued support and growth.

Compliance with Legal and Regulatory Obligations

Like those worldwide, NGOs in Hong Kong operate within a complex web of legal and regulatory frameworks. Compliance with these regulations is a legal requirement and vital to maintaining trust with donors, regulators, and the public. Non-compliance can lead to reputational damage, legal penalties, and even the revocation of tax-exempt status. Given the ever-evolving nature of regulations, NGOs must remain proactive in ensuring they meet their obligations while continuing to focus on their core mission.

Case example:

A small charity focused on community development collected sensitive personal data from beneficiaries during its programme registration. However, the charity inadvertently exposed personal information due to inadequate data protection practices, leading to reputational damage and potential legal action for breaching data privacy laws.

Where governance professionals can assist:

- **Maintaining an updated compliance calendar**

Governance professionals can develop and maintain a comprehensive compliance calendar to ensure the NGO meets all filing deadlines, such as tax filings, annual returns, and regulatory submissions. This calendar helps the NGO stay on top of its obligations and avoid last-minute scrambles that can lead to errors or missed deadlines. It is a crucial tool for avoiding non-compliance due to oversights, particularly when the NGO has multiple regulatory touchpoints.

- **Working with legal advisers to draft and update governing documents**

As laws and regulations evolve, so must an NGO's governing documents, such as its articles of association, policies, and bylaws. Governance professionals can work alongside legal advisers to ensure these documents remain compliant with the latest requirements, such as changes in tax laws, data protection regulations, or fundraising rules. These updates help safeguard the organisation's status and ensure its internal operations align with current legal standards.

- **Conducting regular compliance health checks**

Governance professionals can perform periodic "health checks" to assess the NGO's overall compliance status. These assessments help identify potential gaps in compliance with tax exemptions, reporting requirements, or employment laws. By regularly reviewing internal processes, governance professionals help ensure the organisation adapts to regulatory changes and addresses potential risks before they become significant problems.

- **Advising on data protection and privacy**

Data protection has become one of the most scrutinised areas for NGOs, particularly when they collect and process sensitive personal information. Governance professionals can assist NGOs in implementing robust data protection policies that comply with local data privacy laws. They can help design data security protocols, provide staff training on best practices, and recommend strategies for ensuring that personal data is handled ethically and legally.

Compliance is not only about adhering to legal requirements and anticipating and mitigating risks. Governance professionals can guide NGOs in identifying potential legal and regulatory risks and help them take proactive steps to manage these risks. This could include advising on appropriate insurance coverage, risk assessments, or contingency planning to protect the NGO in case of unforeseen legal issues or crises.

By ensuring that an NGO complies with all relevant legal and regulatory obligations, governance professionals protect the organisation from legal liabilities and enhance its credibility and reputation. Regular compliance checks and proactive legal guidance help the NGO avoid costly fines, regulatory scrutiny, or the loss of its non-profit status. As a result, the NGO can focus on its mission confidently, knowing that it is operating within the boundaries of the law.

Guiding risk management

In the dynamic and often resource-constrained environment that NGOs operate in, governance is not just a set of administrative tasks—it is the foundation that enables them to fulfil their purpose sustainably. While a passion for social impact drives NGOs, effective governance ensures that their resources, efforts, and reputations are managed with the highest standards of integrity and accountability. Strong governance enables

NGOs to manage risks, navigate legal complexities, and build trust with stakeholders, ultimately helping them to continue their work in the long term.

Governance professionals play an indispensable role in this process. By applying their expertise in board composition, financial oversight, regulatory compliance, and strategic alignment, they guide NGOs towards better decision-making, enhanced transparency, and stronger relationships with donors and beneficiaries. Importantly, governance professionals do not simply offer abstract advice—they provide practical, actionable insights that can directly improve the effectiveness and sustainability of NGOs, regardless of their size or focus.

In the next part of the guidance note, we will continue with the contributions that the governance professional can make in terms of NGO governance, apart from the black letter compliance topics, to the overall NGO operating environment.