樓宇財務管理實務指南

BUILDING FINANCIAL MANAGEMENT TOOLKIT

ICAC

Home Affairs Department

HONG KONG HOUSING SOCIETY 香港房屋協會

CPA Hong Kong Institute of Certified Public Accountants 香港會計師公會

THE HONG KONG ASSOCIATION OF PROPERTY MANAGEMENT COMPANIES 香港物業管理公司協會

Building Financial Management Toolkit

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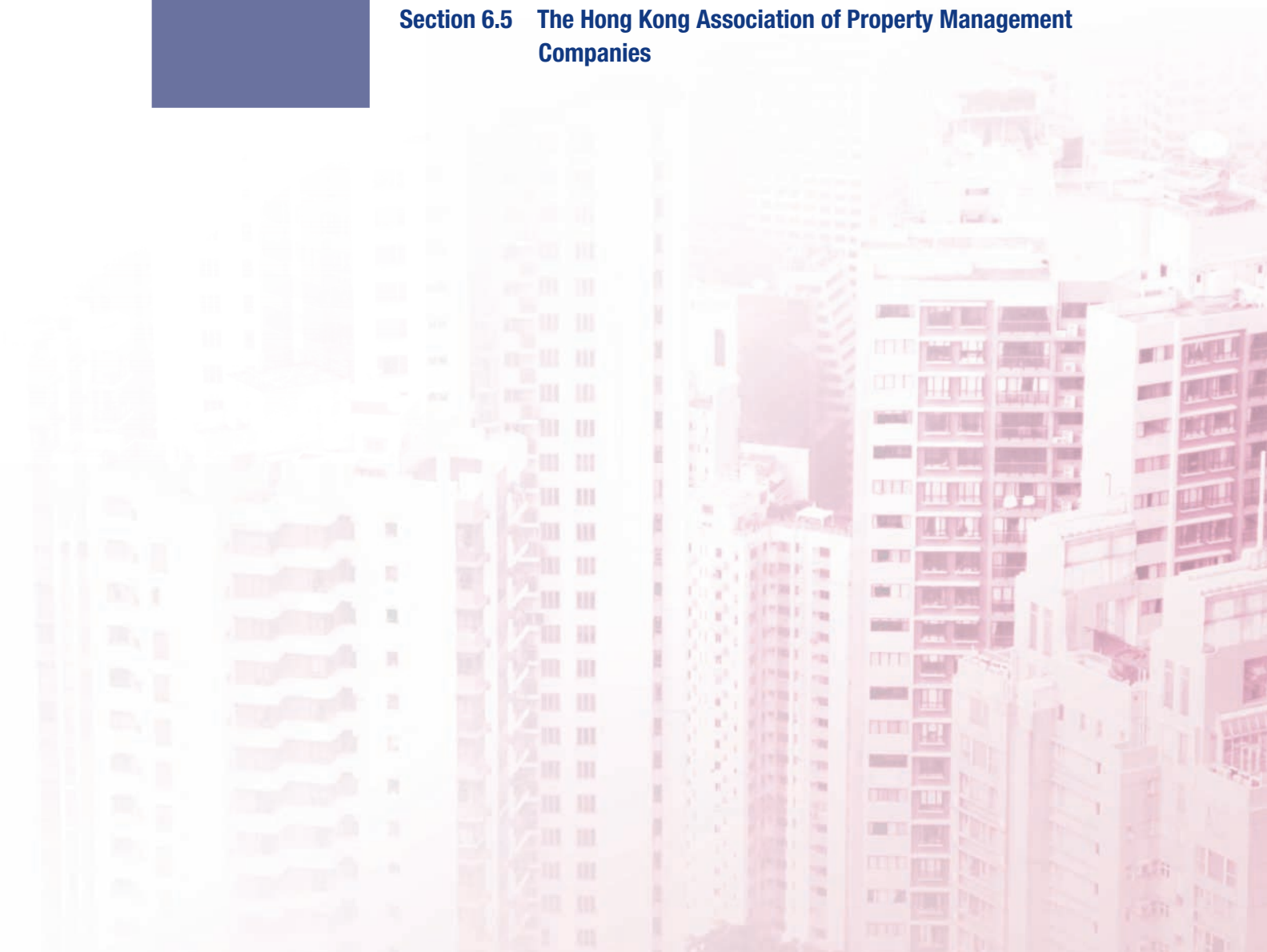

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Abbreviations

A / C	Account
AGM	Annual General Meeting
BMO	Building Management Ordinance
Cr.	Credit
Dr.	Debit
DBMLT	District Building Management Liaison Team
DMC	Deed of Mutual Covenant
EMO	Estate Management Office
HAD	Home Affairs Department
HKAPMC	The Hong Kong Association of Property Management Companies
HKFRS	Hong Kong Financial Reporting Standards
HKICPA	Hong Kong Institute of Certified Public Accountants
HKHS	Hong Kong Housing Society
ICAC	Independent Commission Against Corruption
MC	Management Committee
OC	Owners' Corporation
OR	Official Receipt
PCRF	Petty Cash Replenishment Form
PCV	Petty Cash Voucher
PMC	Property Management Company
PO	Purchase Order
POBO	Prevention of Bribery Ordinance
PR	Purchase Requisition
PV	Payment Voucher
RV	Receipt Voucher

Acknowledgements

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Before this toolkit was put together, our colleagues met with all 18 District Councils to inform them of the plan and its objectives. We are grateful for the helpful views and suggestions from the District Councils.

From the Editorial Board

This Toolkit aims at providing general guidance only and does not purport to deal with all accounting issues that may arise in any given situation. Descriptions and explanations of the legal requirements under the relevant Ordinances and the accounting procedures are necessarily general and abbreviated to make this guide easy to understand from the layman's angle. Users of this Toolkit should seek legal or professional accounting advice as and when necessary. The ICAC, HAD, HKHS, HKICPA and HKAPMC will not accept any liability, legal or otherwise, for losses occasioned to any person acting or refraining from action as a result of any material in this publication.

Throughout this Toolkit, the male pronoun is used to cover references to both the male and female. No gender preference is intended.

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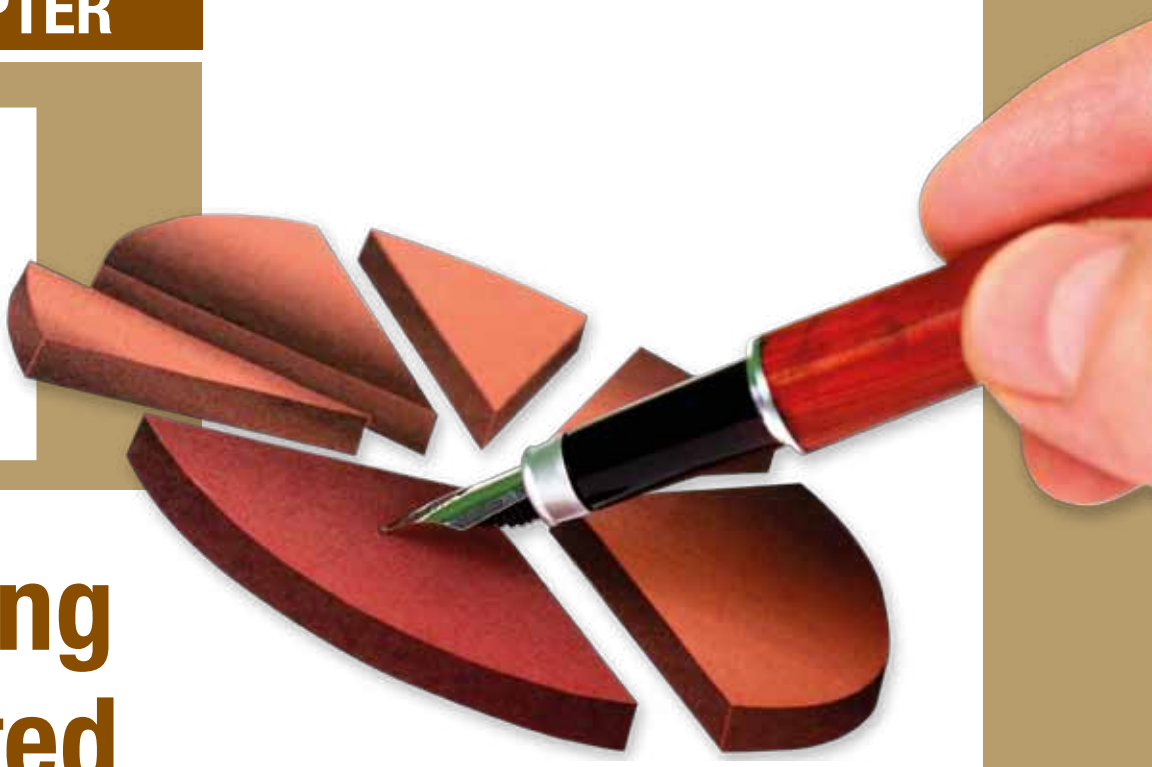
Foreword

Owners' Corporations (OCs) have the statutory responsibility under the Building Management Ordinance (BMO) (Cap. 344) to properly maintain funds established for the management of their buildings. The management of OC's funds and accounts is a key function of the Management Committee (MC) as many building management activities, such as procurement, hiring of staff and undertaking of maintenance works, involve the use of funds. Any mismanagement or misuse of OC's funds may lead to allegation of abuse and corruption against the MC.

This Toolkit provides building owners, and those acting on their behalf such as MCs and property managers, with a step-by-step guide on the basic procedures for managing a building's funds and accounts. It also alerts them to the risks of malpractice and recommends preventive measures. In doing so, we hope the toolkit will balance the incentives for good building management with proper guidance and avoid misunderstandings which often led to problems in the past. Sample forms are also provided to help them perform the recommended procedures.

CHAPTER

1



Getting Started

Chapter Objectives

- Know the governance structure for building management
- Know the legal framework for building fund management
- Know the restrictions under the Prevention of Bribery Ordinance and integrity requirements

Section 1.1

Governance Structure for Building Management

The governance structure for the management of a building is set out below :

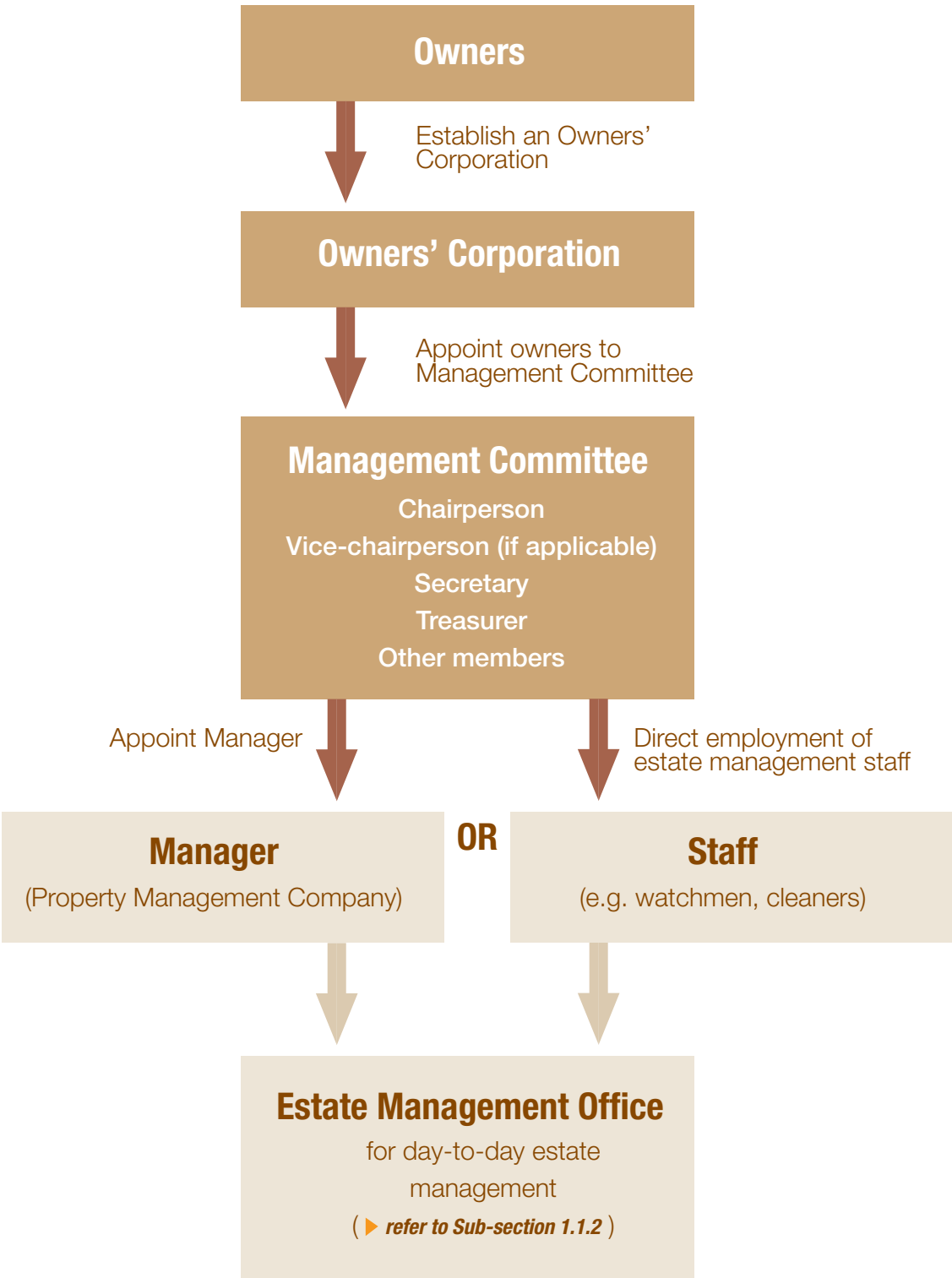


Figure 1.1

Owners' Corporation (OC)	• A body corporate set up under the Building Management Ordinance (BMO) by the owners and registered with the Land Registrar. • It exercises and performs the rights, powers, privileges and duties of the owners, and acts legally on behalf of the owners in respect of any liabilities, in relation to the common parts of the building.
Management Committee (MC)	• The MC is appointed by the OC to exercise and perform its powers and duties. • The members are appointed by the owners in an annual general meeting (AGM). • The MC employs paid staff or property management company (PMC) and/or contractors to provide estate management services.
Manager	• A PMC or any other person appointed by the OC to perform day-to-day estate management duties.

1.1.1 Formation of Owners' Corporation

For assistance in forming an OC, please contact either of the following bodies:

(a) The Home Affairs Department:

- Website: http://www.buildingmgt.gov.hk
- District Offices

Contacts of HAD's District Building Management Liaison Teams ▶ **Annex 31**

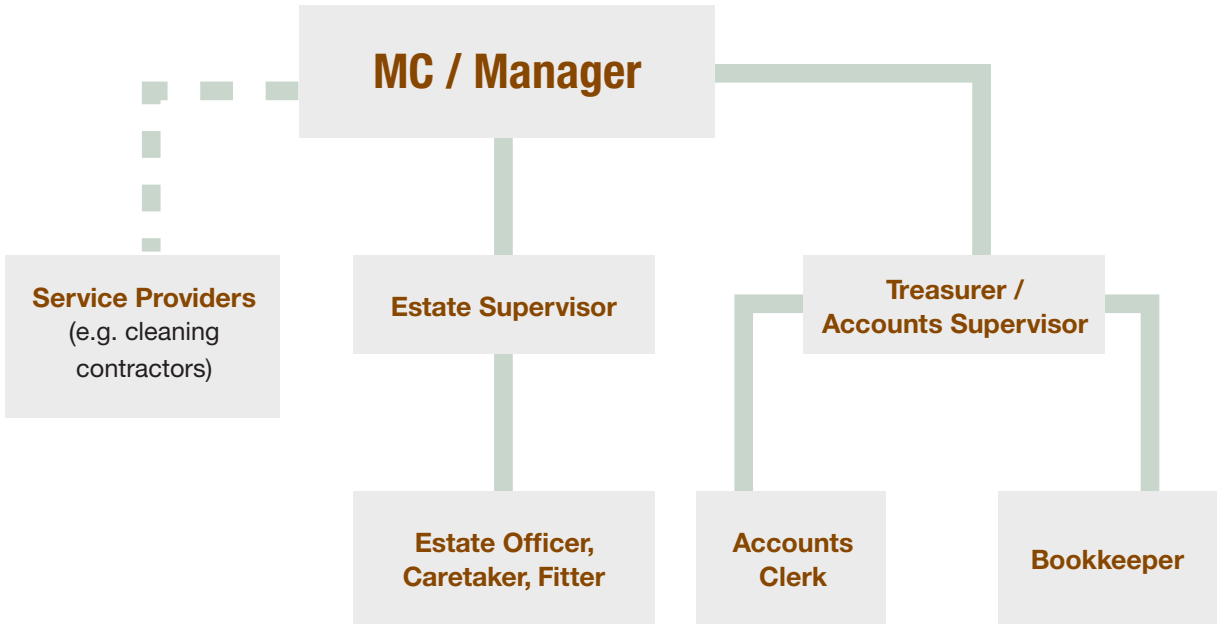
(b) The Hong Kong Housing Society:

- Website http://bmms.hkhs.com
- Property Management Advisory Centres

Contacts of HKHS's Property Management Advisory Centres ▶ **Annex 31**

1.1.2 Estate Management Office

A building may need an estate management office (EMO) to deal with its day-to-day management and operations. This may be set up and managed by the Manager, where appointed, or by the MC with directly employed staff (e.g. estate manager, caretaker). Figure 1.2 shows a small EMO setup, based on which this Toolkit describes and illustrates the financial management procedures.



Note: In a small building, some of the roles may be performed by an MC member or performed by an appointed accounts clerk or bookkeeper.

Figure 1.2

Section 1.2
Building Management Ordinance

The Building Management Ordinance (BMO) (Cap. 344) provides a legal framework for the formation and operation of OCs.

In performing its duties, the OC shall be guided by the BMO, Deed of Mutual Covenant (DMC), and Codes of Practice issued by the Secretary for Home Affairs under the BMO.

In relation to the management of a building's finance, the following provisions of the BMO are relevant:

- establishment and safekeeping of management funds
  ▶See summary of legal requirements in ***Section 3.1***

- preparation of budget and owners' contributions
  ▶See summary of legal requirements in ***Section 3.2***

- maintenance of accounts and financial records
  ▶See summaries of legal requirements in ***Sections 3.3 and 3.4***

- procurement of supplies, goods and services
  ▶See summary of legal requirements in ***Section 3.4***

- preparation and approval of financial statements
  ▶See summary of legal requirements in ***Chapter 4***

Extracts of BMO Provisions Relating to Building Financial Management ▶ **Annex 1**

For further guidance, please refer to the publications on the BMO and related Code of Practice issued by the HAD at ***http://www.buildingmgt.gov.hk.***

Section 1.3
Prevention of Bribery Ordinance

Members of the MC and employees of the OC, including the EMO staff, and other owners or persons acting on behalf of the OC in carrying out the OC's business, are ***agents of the OC*** and must observe Section 9 of the Prevention of Bribery Ordinance (Cap. 201), which prohibits:

- the solicitation or acceptance of advantage by agents in performing duties in relation to their principal's (i.e. the OC's) business without permission of the principal; and

- the use of any false receipt, account or document with the intent to deceive their principal.

Section 9 of the Prevention of Bribery Ordinance ▶ **Annex 3**

Examples of Breaches of the Prevention of Bribery Ordinance

(a) An MC member / a staff member solicits or accepts unauthorised commission from a supplier for recommending to the MC the purchase of goods from the latter.

(b) An MC member / a staff member solicits or accepts monies, loans or free service such as home renovation or cleaning service from a contractor in return for conniving at the latter's substandard service.

(c) An MC member / estate manager solicits or accepts "recommendation fees" for employing an estate management staff.

(d) In procuring goods and services for the OC, an MC member / a staff member prepares false quotations to make up the minimum number of quotations required.

Section 1.4
Integrity of MC Members and EMO Staff

Members of the MC and any persons acting on its behalf, and the Manager and his staff, including the EMO staff, carrying out any business relating to the building, must:

- act in the interest of the OC of the building;
- not solicit or accept any advantage in connection with the building / OC's business; and
- avoid and declare any conflict of interest.

Sample Form for Declaration of Conflict of Interest ▶ **Annex 6**

Examples of Conflict of Interest

(a) An MC member takes part in the selection of a contractor and one of the bidders is his family member, relative or close personal friend.

(b) An OC Chairman leases a shop unit owned by the OC to a company for which himself, his family member, relative or close personal friend has shares in the business.

(c) A PMC has an interest in one of the tenderers bidding service / supply contracts of the OC.

The OC should lay down its probity requirements for its members and staff, and the Manager in a ***Code of Conduct.***

Sample Code of Conduct for OCs ▶ **Annex 4**

Section 1.5
Key Controls

- ☐ There is a code of conduct or guideline on integrity management.
- ☐ The code has been endorsed by a resolution in a meeting of owners held in accordance with the BMO.
- ☐ The code / guideline covers essential issues including :
  - offering, solicitation and acceptance of advantage;
  - acceptance of entertainment;
  - declaration of conflict of interest;
  - protection of information and keeping of proper accounts / records; and
  - channel of complaint.
- ☐ There is a form for declaration of conflict of interest.
- ☐ Records are kept on decisions on managing conflict of interest.
- ☐ The records are opened for inspection.
- ☐ The code / guideline has been effectively communicated to all agents.
- ☐ There is a person / committee delegated to deal with conflict of interest declarations, enquiries, complaints and disciplinary actions relating to the code / guideline.

CHAPTER

2

Building Financial Management Process

Chapter Objectives

- Get an overview of the building financial management process
- Know the accounting books and records of a formal accounting system
- Know the basics and key control procedures in financial management

Section 2.1
Building Financial Management Process

The following is an outline of the building financial management process discussed in this Toolkit. Detailed information on each step is given in the relevant Chapters and Sections as shown for easy reference.

Figure 2.1

Section 2.2
Accounting Books and Records

The following are accounting books and records that are normally kept in a formal accounting system:

General Accounting Documents

- General Ledger (book of accounts that records receipts and payments and lists the assets, liabilities, debtors and creditors) ▶ Annex 28
- Cash Book ▶ Annex 28
- Cheque book and cheque stub
- Bank statements and bank advices (e.g. fund transfer, pay-in slip)

Expenditure

- Purchase Requisitions ▶ Annex 14
- Quotations, Tenders
- Purchase Orders ▶ Annex 15
- Invoices
- Petty Cash Vouchers ▶ Annex 12
  and Petty Cash Replenishment Forms ▶ Annex 13
- Payment Vouchers ▶ Annex 16
- Cheque Register ▶ Annex 17

Income

- Demand Notes (e.g. management fees, carpark rental)
- Official Receipts Annex 9
- Receipt Summaries Annex 10
- Receipt Vouchers Annex 11

Fixed Assets

- Fixed Assets Register Annex 18
- Invoices for purchase of fixed assets
- Receipts for disposal of fixed assets

Figure 2.2

Section 2.3
Key Controls

To prevent abuse of funds and other malpractice, the sub-sections below set out the key controls, in the form of checklists, for each step of the building financial management. The legal requirements and detailed procedures of the steps are quoted and described in the relevant Chapters for easy reference.

2.3.1 Key Controls on Establishment and Maintenance of Funds (▸ Section 3.1)

- ☐ The MC determines the nature of funds to be set up and the amount of contribution from owners based on the budget for the building.
- ☐ The MC / Manager opens bank accounts under the name of the respective funds, and appoints ***at least two signatories*** (e.g. designated MC members, usually include the Treasurer and Chairman of MC) for any withdrawals from the bank accounts.
- ☐ For bank accounts opened by the PMC on behalf of the OC, the PMC should be required to :
  - include one or more MC members as the mandatory bank signatories for withdrawal or transfer of funds of a significant amount;
  - 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; and
  - provide monthly bank statements and bank reconciliations to the Treasurer and Chairman for checking.
- ☐ The MC sets 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.
- ☐ The MC ensures the bank accounts are for the exclusive use of the building.
- ☐ Before signing cheques or withdrawal slips, the signatories ascertain the use of the money, ensuring that payments are supported by documentary proof (e.g. invoices, MC's approval if required). ***No blank cheques or withdrawal slips*** should be signed in advance.
- ☐ The MC ***regularly reviews*** the building's financial position, bank statements and accounting records (e.g. check the cheque register against the supporting documents to identify doubtful payments).
- ☐ When the funds accumulated have exceeded the amount required for the planned repair and maintenance, the MC should critically review the repair and maintenance plan / need with a view to determine the need to cease collection of contingency funds.

2.3.2 Key Controls on Preparation of Annual Budgets

(▸ Section 3.2)

- ☐ The MC / Manager charges all building management expenses incurred before the issue of occupation permit to the developer.
- ☐ The MC of a new building reviews the budget for the first year to ensure there is no transferring of the developer's liability to the owners.
- ☐ The budget of a new financial year to be approved 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.
- ☐ The MC sends the draft budget to all owners or displays it in a prominent location in the building to:
  - explain the basis for the determination of contributions to the management funds;
  - explain any significant variance from the previous year; and
  - state any assumptions made.
- ☐ In approving the budget, the MC checks the reasonableness of the expenditures to avoid over- or under-budgeting.
- ☐ The MC ensures purchases made and expenses incurred are confined to the budget provisions and grants approval, on justifiable grounds, for any significant unbudgeted purchases or expenditures (e.g. exceeding a certain amount).
- ☐ The Treasurer submits monthly / quarterly reports to the MC comparing actual incomes and expenditures against the budget, explaining any significant deviations.

2.3.3 Key Controls on Collection of Incomes

(▸ Section 3.3)

- ☐ The following duties should ***not be performed by a single person***, and where practicable, should be undertaken by different MC or staff members on regular rotation:

Duties	***Examples of persons to be appointed for the duty***
☐ collection and banking of incomes	accounts clerk
☐ recording of official incomes	bookkeeper
☐ preparation of aging analysis of debts and taking recovery action	prepared by the bookkeeper and checked by the Treasurer / accounts supervisor

- ☐ The MC vets and approves all fees and rentals by making reference to the ***market rates / pre-determined rates.***
- ☐ The MC ensures and requires payments to be made by cheques, autopay or other electronic means as far as possible.
- ☐ The MC reminds residents, by notice and on the payment demand note, to:
  - cross and mark their cheques payable to the OC and write down their address on the back of the cheques; and
  - ***collect an official receipt*** for every payment made.
- ☐ The MC instructs the bank not to pay cash for cheques drawn to the order of the OC.
- ☐ The MC conducts site audit checks on the utilization of the income-generating facilities or its resources (including parking spaces) against income records to ensure they tally.
- ☐ The MC reviews management reports on monthly income, refunds and debts.
- ☐ The MC conducts or arranges internal audit checks on accounting records, receipt vouchers, bank records and overdue receipts.

2.3.4 Key Controls on Expenditures
(▶ Section 3.4)

General

☐ The following duties should ***not be performed by a single person***, and where practicable, should be undertaken by different MC or staff members on regular rotation:

Duties	*Examples of persons to be appointed for the duty*
☐ raising purchase requisitions	user
☐ inviting quotations / tenders	accounts clerk / responsible MC member / estate officer
☐ approving purchases	Chairperson / designated MC member / Manager other than user
☐ placing order	accounts clerk / responsible MC member / estate officer
☐ receiving goods	user
☐ preparing and recording cheques for payment	accounts clerk / responsible MC member / estate officer
☐ signing cheques / bank withdrawal forms	at least two signatories
☐ holding the petty cash fund	designated MC member, estate supervisor
☐ replenishing the petty cash fund	accounts clerk
☐ recording payments	bookkeeper

☐ *Procurement*

The MC sets 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*** ▶ Annex 2 for the invitation and approval of quotations or tenders.

☐ The MC ensures a ***probity clause*** is included in the invitation for bids (▶ ***Paragraph 3.4.3(3)(c) and (e)***).

Procurement (continued)

- ☐ The MC or tender evaluation committee members are required to declare whether they have any ***conflict of interest*** at the beginning of a meeting to discuss procurement matters.

Sample Form for Declaration of Conflict of Interest ▶ **Annex 6**

- ☐ The MC lays down the ***evaluation criteria*** prior to the invitation for bids.
- ☐ For frequently purchased goods and services, the MC requires quotations to be invited from an ***approved list*** of suppliers or service providers.
- ☐ The MC conducts ***spot checks*** on the quotations received to verify their bona fide (e.g. by calling the supplier of a quotation to verify its authenticity).
- ☐ The user ***certifies acceptance*** of goods or services upon delivery.
- ☐ The accounts clerk ***replenishes the petty cash fund*** regularly and reviews the nature of petty cash expenditures to detect irregularities.
- ☐ The MC ***compares actual expenditures*** against the budget regularly to detect excessive or unbudgeted expenditures.
- ☐ The Treasurer ***reviews*** procurement records regularly to detect irregularities (such as splitting of orders and excessive orders).
- ☐ An MC or staff member independent of the procurement process, or an external auditor, ***audits*** the procurement and payment procedures.

Payment

- ☐ The Treasurer ***keeps*** the OC's cheque books, bank books and official chop in a secure place.
- ☐ The Treasurer or Chairman ***promptly notifies*** the bank of cessation of any person as an authorized signatory (e.g. retirement of an MC member).
- ☐ The MC establishes ***limits for cheque payment*** above which approval from a higher authority (e.g. counter-signing by another authorised person) is required.
- ☐ The Treasurer ensures the payment documents or forms state the monetary amounts in ***letters*** and ***numbers*** to prevent alteration.
- ☐ The Treasurer uses cross cheques and marks them as "Account Payee Only".
- ☐ The Treasurer issues cheques in sequence and stamps "void" on spoiled / voided cheques and retains them for audit.
- ☐ The Treasurer ensures invoices or receipts are ***stamped "paid"*** to avoid double payment.
- ☐ The cheque signatories 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).
- ☐ The Treasurer or accounts supervisor not involved in processing of payments ***reviews*** the cheque register, autopay register and bank statements for payments made.

2.3.5 Key Controls on Fixed Assets

(▸ Section 3.5)

☐ The following duties should ***not be performed by a single person***, and where practicable, should be undertaken by different MC or staff members on regular rotation:

Duties	***Examples of persons to be appointed for the duty***
☐ safekeeping of assets	users
☐ maintenance of fixed assets register and accounting records	bookkeeper
☐ on site inspection of assets	Treasurer, accounts supervisor
☐ approval of disposal of assets	Chairman, designated MC member

☐ The ***MC*** approves:

- the criteria for recording certain types of assets as fixed assets;
- the depreciation policy or method for different fixed assets; and
- authority for approving disposal of fixed assets.

☐ The MC ensures the assets are ***labeled*** for identification purpose.

☐ The MC maintains a ***fixed assets register*** ▸ Annex 18 as a formal record.

☐ The Treasurer ***inspects*** the fixed assets on site periodically.

☐ The MC ensures the annual depreciation on fixed assets is charged where appropriate.

☐ The MC properly controls the disposal of fixed assets.

2.3.6 Key Controls on Preparation of Bank Reconciliations (▶ Section 4.1)

- ☐ The following duties should ***not be performed by a single person***, and where practicable, should be undertaken by different MC or staff members on regular rotation:

Duties	***Examples of persons to be appointed for the duty***
☐ preparing bank reconciliations	Treasurer / accounts supervisor
☐ checking and approving bank reconciliations	Chairman / MC Member

- ☐ The Treasurer prepares bank reconciliations on a ***periodic basis*** (at least monthly) to detect any discrepancies between bank statements and accounting records (▶ **Sub-section 4.1.2(a)** for possible causes of discrepancies).

- ☐ The Treasurer ***investigates the discrepancies*** and takes action to rectify the discrepanies and adjust the relevant accounting records. Common examples of discrepancies are unpresented cheques, bank direct debit items, bank charges and interest.

- ☐ The Treasurer ***reviews or audits*** bank transactions (▶ **Sub-section 4.1.2**):
  - checks computation to confirm the balance of the cash book;
  - investigates ***delays*** in the presentation of cheques and deposit of incomes to the bank;
  - checks unused / voided cheques;
  - stops payment of missing cheques; and
  - randomly checks the supporting documents of selected payment transactions.

- ☐ The Treasurer presents the bank reconciliation statements to the Chairman for ***approval*** and to the MC for information.

2.3.7 Key Controls on Preparation and Approval of Financial Statements (▶ Section 4.2)

☐ The following duties should ***not be performed by a single person***, and where practicable, should be undertaken by different MC or staff members on regular rotation:

Duties	***Examples of persons to be appointed for the duty***
☐ preparation of financial statements	Treasurer / accounts supervisor
☐ approval of financial statements	MC

☐ The MC invites the auditor to attend annual general meetings (AGMs) to present and answer questions about his audit report and other audit findings.

☐ The owners should:

- ☐ ensure that the MC displays / presents annual and quarterly financial statements as required;
- ☐ regularly review the financial statements and take the following action;

Income and Expenditure Account

- check any item of expenditure that exceeded 20% of the budget was not approved by the owners in a general meeting;
- 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;
- check reasonableness of the manager's remuneration package, MC members' allowances and staff salaries, but without disclosing the personal data of the staff members;

Balance Sheet

- note any significant changes in the balance sheet items in comparison with the previous year and find out the reasons;
- review the gain or loss upon the disposal of the 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);
- 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;
- review the payments made to ensure they match the purposes of the funds;
- check that the funds are sufficient but not excessive to meet the operational and maintenance needs of the building; and
- ask for information on the cash flow forecast in case the current assets are insufficient to meet the current liabilities.

☐ exercise the owners' rights to examine the accounting books and records and other related documents as necessary *(at the request of not less than 5% of the owners or upon instruction of the court, the owners may examine the OC's accounting records and related documents (e.g. invoices, receipts and vouchers) at any reasonable time);*

☐ require the MC to arrange an audit of the financial statements if necessary;

☐ review the auditor's report and management letter ;

☐ attend the AGM for discussion of the financial statements and auditor's report; and

☐ require the MC or Manager to take appropriate action on any special opinions and management weaknesses expressed by the auditor.

2.3.8 Key Controls on Working with Property Managers (▶ Chapter 5)

The MC or owners should :

- ☐ clearly set out the service requirements and the terms and conditions in the management agreement (▶ **Sub-section 5.3.3**), seeking legal advice if necessary;
- ☐ include probity clauses in the management agreement (▶ **Sub-section 5.3.2**);
- ☐ require the Manager to declare and seek approval for any related party transactions;
- ☐ discuss and agree with the Manager on the financial management procedures and key controls (▶ **Sub-section 5.3.1**, and the key controls in this Chapter), including:
  - the opening and operation of bank accounts exclusively for the OC;
  - consultation and approval of the annual budget;
  - procurement approving authorities and procedures;
  - controls in handling incomes and payments;
  - management and control of fixed assets;
  - maintenance of accounting records;
  - displaying and auditing of the financial statements;
  - arrangements for the owners to access the financial records and statements;
- ☐ specify in the agreement matters requiring approval by or consultation with the MC;
- ☐ lay down complaint handling procedures for owners to direct any complaints against the Manager to the MC (▶ **Sub-section 5.3.4**); and
- ☐ ensure that the Manager's remuneration and charges are commensurate with the market rates.

CHAPTER

3

Maintenance of Accounts

Chapter Objectives

- Understand the key legal requirements regarding the establishment and maintenance of the building management funds and accounts
- Learn how to properly manage the funds and maintain the accounts
- Put in place controls and preventive measures

Section 3.1

Establishment of Management Funds

CHAPTER 3

Section Objectives

- Understand the key legal requirements regarding the establishment of management funds for a building
- Set up the management funds and calculate owners' contributions

3.1.1 Establishing Building Management Funds

The OC of a building has to set up a fund (or funds) for the management of the building. Every owner has to contribute to the funds through payment of management fees or special contributions.

3.1.2 Summary of Legal Requirements

- The MC establishes and maintains a ***general fund*** to cover the day-to-day expenses for the management of the building and government charges.
- The MC determines the ***amount of contribution*** (i.e. management fees) by owners to the funds based on the building's budget, and seeks approval of the OC at a general meeting if the amount of annual contribution exceeds that in the previous year by more than 50%.
- The MC may establish a ***contingency fund / special fund*** to provide for expenditures of an unexpected or urgent and non-recurring nature, and to settle payments which general fund is insufficient to meet.
- The OC shall determine by a resolution the amount to be contributed to the special fund by the owners and the time when the contribution shall be payable.
- The MC / Manager opens and maintains ***interest-bearing accounts*** for the respective funds for exclusive use for the management of the building.
- The bank accounts opened and maintained by the Manager on behalf of the OC shall be in the title of the respective funds, designated as trust accounts or client accounts, and used exclusively for the purpose of the respective funds.

- The OC / Manager shall without delay pay all money received by the OC into the bank accounts.
- The Treasurer / Manager may retain or pay into a current account a reasonable amount, as determined by the MC, to cover expenditure of a minor nature.
- The manager shall display a document showing evidence of any account opened and maintained at a prominent place in the building.

Extracts of BMO Provisions Relating to Building Financial Management (Provisions on Establishment of Funds) ▶ Annex 1

3.1.3 Funds for Building Management

	General Fund	Contingency Fund	Special Fund
Use	Building management expenses (e.g. cleaning, security, insurance, repair and maintenance, staff, professional fees) Government rent, taxes, rates, etc.	- Unexpected or urgent expenditure / meeting payments when the general fund is insufficient or the expenditure is not expected to be recurrent - Replacement of major equipment (e.g. lifts, playground) - Structural improvement and maintenance (e.g. slope, water-proofing works) - Large-scale projects (e.g. building renovation)	
Determination of Amount of Contribution	MC based on annual budget	MC based on maintenance plan	MC based on project cost
Approval of Amount of Contribution	• MC; or • OC in general meeting (if contribution exceeds previous year's by more than 50%)	• MC; or • OC in general meeting (if contribution exceeds previous year's by more than 50%)	OC in general meeting
Collection of Contributions	Monthly collection of management fee	Monthly collection of management fees, or in time and manner as determined by the OC	Special contribution

Table 3.1 A – Building Management Funds

3.1.4 Establishment and Maintenance of Funds

The procedures for establishing and maintaining funds for the management of a building are outlined below:

Procedures	Staff Responsible	Reference / Forms
(a) Upon registration of the OC, ***determines the amount of contribution*** to the funds required from owners within a period not exceeding 15 months *(and not exceeding 12 months in subsequent years)*, based on the budget for the building.	MC	▶ ***Section 3.2***
(b) Opens bank account(s) under the name of the respective funds of the OC, and appoints the authorized signatories. (For accounts opened by the Manager under his name : - the accounts should be designated as ***trust / client accounts*** and used ***exclusively for the OC***; - one or more MC members should be included as mandatory bank signatories for withdrawal of funds of a large amount; - any excessive funds should be transferred back to the OC's bank accounts from-time-to-time; and - require the Manager to provide monthly bank statements and bank reconciliations.)	MC / Manager	
(c) Collects contributions (management fees) from owners.	MC / Manager	

Table 3.1 B – Establishment and Maintenance of Funds

3.1.5 Key Controls

▶ Refer to ***Sub-section 2.3.1*** of ***Chapter 2*** for key controls on establishment and maintenance of funds.

Section 3.2
Preparation of Annual Budget

Section Objectives

- Understand the key legal requirements regarding the preparation of annual budget for building management
- Learn how to prepare budgets for building management and determine the amount of owners' contributions to the funds
- Put in place controls and preventive measures

3.2.1 The Annual Budget

The MC must prepare a budget for the forthcoming year for the OC's approval. Based on the budget, the amount of the owners' contributions (management fees) in the forthcoming year should be determined.

3.2.2 Summary of Legal Requirements

- Prepare a ***budget*** which should set out the sums reasonably necessary to meet payments from the funds.
- Seek approval of the OC at a general meeting if the annual contribution exceeds that of the previous year by more than 50%.
- Provide (by the Treasurer) copies of the budget to an owner, tenant's representative or registered mortgagee, on request.

Extracts of BMO Provisions Relating to Building Financial Management (Provisions on Annual Budget) ▶ **Annex 1**

3.2.3 Budgeting for the Building Management Funds

3.2.3 (1) General Fund

Procedures	Staff Responsible	Reference / Forms
Prepare the budget for the General Fund for the forthcoming year by: (a) taking into account the budget of the previous year and actual incomes and expenditures; (b) covering all recurring annual expenditures (e.g. staff expenses, utility fees (e.g. water and electricity), rates and rents, service fees (e.g. cleaning and security), repair and maintenance and minor equipment costs); (c) making provisions on payments for orders received from the Government / public body in relation to the common parts of the building; (d) taking into consideration any expiration of service contracts, cost adjustments due to market cost and anticipated inflation, etc.; (e) taking into consideration the balance of fund brought forward from the previous year (e.g. to reduce contribution if a large amount of surplus has been accumulated); (f) stating any assumptions made; and (g) explaining any significant difference from the actual income and expenditure of the previous year.	Treasurer / Manager	Example of Budget for the General Fund ▶ **Annex 7**

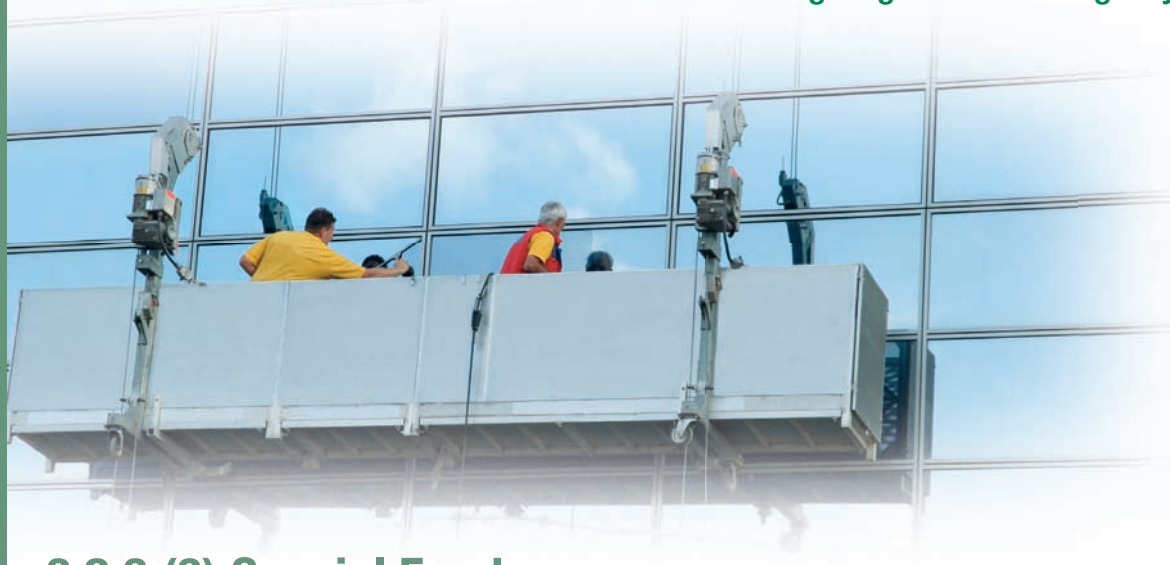
Table 3.2 A – Budgeting for the General Fund

For large estates, separate budgets may be prepared for the residential units, car parks and commercial premises. The respective owners shall bear the costs of the facilities they are entitled to enjoy, while expenditures of the common facilities (e.g. roads) are apportioned to the respective budgets according to the terms in the DMC.

3.2.3 (2) Contingency Fund

Procedures	Staff Responsible	Reference / Forms
Prepare the budget for the Contingency Fund for the forthcoming year by: (a) drawing up a maintenance replacement plan for the building's major equipment (e.g. ventilation system, fire services systems, lifts, etc.) and allocating the costs pro-rata over the useful life of the equipment; (b) making provision for the estimated cost of maintenance work to be carried out in the forthcoming year; (c) taking into consideration the balance of fund brought forward from the previous year (e.g. to reduce contribution if a large amount of surplus has been accumulated); (d) stating any assumptions made; and (e) explaining any significant difference from the actual income and expenditure of the previous year.	Treasurer / Manager	Example of Budget for the Contingency Fund ▶ **Annex 8**

Table 3.2 B – Budgeting for the Contingency Fund



3.2.3 (3) Special Fund

For non-recurrent, large-scale maintenance works (e.g. slope improvement or external wall renovation) not provided for under the General Fund or Contingency Fund, the Treasurer Manager may prepare a special budget setting out the estimated cost and the special contribution by the owners. This requires the owners' approval at a general meeting.

3.2.3 (4) Calculation of Management Fee

The owners' annual contributions to the General Fund and Contingency Fund may be collected in the form of monthly management fees. ***Table 3.2 C*** provides an example of calculation of management fee payable by each owner.

Total Annual Contribution to the General Fund	Total Annual Contribution to the Contingency Fund	Total Annual Management Fee Required
A	B	A + B
$X,XXX,XXX Example of Budget for the General Fund ▶ Annex 7	$X,XXX,XXX Example of Budget for the Contingency Fund ▶ Annex 8	**$X,XXX,XXX**
Assume that the building comprises 500,000 undivided shares		

Annual contribution per unit of undivided share =
$X,XXX,XXX / 500,000 undivided shares[1]

Assume that the owner of a unit holds 1,000 undivided shares in the building, his annual management fee is **$X,XXX,XXX** / 500,000 shares x 1,000 undivided shares.

The sum is further divided by 12 to arrive at the monthly management fee.

Table 3.2 C – Example of Calculation of Management Fee

[1] Computation of management fee should be based on the DMC's requirement, e.g. using "undivided shares" or "management shares", etc.

3.2.4 Consultation and Approval of the Budget

To enhance transparency and consultation with owners, the following procedures are recommended for the preparation of the annual budget.

Procedures	Staff Responsible
Consultation	
(a) Send a notice with the draft budget to every unit in the building and display the draft budget at a prominent location in the building for at least 7 consecutive days, inviting comments from the owners and residents.	Treasurer / Manager
(b) Allow at least 14 days for owners and residents to give feedback.	
(c) Present the feedback received and the recommendation whether to revise the budget to the MC for consideration.	
Approval	
(d) Approve the budget and determine the amount to be contributed by individual owners (either in accordance with the DMC provision, or the owners' respective shares if there is no DMC provision).	MC
(e) Call an owners' meeting to consider and approve the budget if the management fee is increased by over 50% as compared with last year.	
Notice	
(f) Display the approved budget for at least 7 days before effecting the new management fee.	Treasurer / Manager
Revision	
(g) If the actual income and expenditure are expected to significantly deviate from the budget (e.g. due to an unforeseen project), revise the budget, display it and seek approval by following similar consultation and approval procedures dscribed above.	Treasurer MC

Table 3.2 D – Consultation and Approval of Budget

Reminder

The expenditure stated in the budget should not be considered as approved and should be subject to the necessary approval procedures (***Sub-section 3.4.3***) when they are incurred.

3.2.5 Key Controls

Refer to ***Sub-section 2.3.2*** of ***Chapter 2*** for key controls on preparation of annual budget.

Section 3.3
Income Collection

Section Objectives

- Understand the key legal requirements regarding the handling of incomes and receipts for building management
- Learn how to handle and record incomes, receipts, and debts for a building
- Put in place controls and preventive measures

3.3.1 Incomes of a Building

In addition to owners' contributions (e.g. management fees), the OC may have other incomes, such as:

- ***rental income from leasing the common areas*** – e.g. parking spaces, external wall for advertisement or roof top for installation of telecommunication devices;
- ***miscellaneous income*** – e.g. interest.

Proper procedures should be established to safeguard these incomes.

3.3.2 Summary of Legal Requirements

- The amount to be contributed by owners shall be fixed by the MC in accordance with the DMC or the respective shares of the owners, and payable at such time and in such manner as determined by the MC.
- The amount payable by an owner shall be a debt due from him to the OC at the time when it is payable.
- The OC may sell the owner's interest in the flat or register a charge against such interest in the Land Registry in order to recover the debt.
- The OC may demand the occupier of the owner's flat to pay the owner's contribution up to the rent and charges payable to the owner for occupation of the flat.

- The MC shall maintain proper records of account and keep all bills, invoices, receipts and other documents referred in these records for at least 6 years.

Extracts of BMO Provisions Relating to Building Financial Management (Provisions on Collection of Income) ▶ Annex 1

- The OC shall maintain lease agreements and rental receipts for 7 years for the purpose of assessment of property tax. ***(Section 51D of the Inland Revenue Ordinance (Cap. 112)).***

3.3.3 Collection of Management Fees and Incomes

The recommended procedures are as follows:

Procedures	Staff Responsible	Reference / Forms
Approving Fees and Rentals		
(a) Approve fees and rentals which should be comparable to the market rates.	MC	
Issuing Demand Notes		
(b) Near the end of each month, issue monthly ***demand notes*** for management fee / rental for the following month to individual owners and tenants, specifying the due date.	EMO	
Handling Receipts		
(c) Collect fees and / or rentals in cash or by cheque / autopay and: • issue a pre-numbered ***Official Receipt (OR)*** to the owner / tenant and keeps a copy of receipt for record; • cross all cheques received (if not yet crossed by the issuer).	accounts clerk	Sample Official Receipt ▶ Annex 9
(d) Record the income on a ***Receipt Summary*** to monitor the overdue fees and rentals.		Sample Receipt Summary ▶ Annex 10
(e) Bank in the collected sum.		

Procedures	Staff Responsible	Reference / Forms
(f) Prepare a ***Receipt Voucher (RV)*** to record the accounting entries for updating the accounting records. (g) Attach the ORs (in sequential order) and bank pay-in slip to the RV and pass to the bookkeeper.	accounts clerk	Sample Receipt Voucher ▶ **Annex 11**
Reconciling and Recording (h) Check the sequential order of ORs and agree their total amount to the bank pay-in slip and the RV. (i) Check and approve the accounting entries on the ***RV*** before recording the receipts in the general ledger and / or cash book.	bookkeeper	Sample Receipt Voucher ▶ **Annex 11** Sample General Ledger and Cash Book ▶ **Annex 28**
Following up Overdue Payments (j) Review the receipt summary and publicize the addresses of owners with overdue management fees to encourage prompt payment. (k) Take recovery actions as appropriate : • contact the owner to understand the situation and advise him of early settlement; • issue a reminder by double registered mail to the owner, enclosing an extract of the relevant legislation governing the power of OCs to recover outstanding fees and funds from owners;	Treasurer / accounts supervisor	Sample Receipt Summary ▶ **Annex 10**

Procedures	Staff Responsible	Reference / Forms
• continue to demand payment through the OC's lawyer and request the lawyer to enter with the Land Registry a record of default payment against the property concerned should the owner still fail to pay the fees; and • file a claim to the Small Claims Tribunal[1] demanding payment of the outstanding sums from the owner. (l) If the owner sells the flat before registration of default payment and the OC cannot recover the debt, the MC may approve offsetting part of the debt against the flat's management deposit and write off the remaining balance as bad debt. *(In practice, the solicitor of the purchaser may check with the EMO or OC any outstanding management fees before completion of sales and purchase of the property. The MC should write to the solicitor of the purchaser to demand payment of outstanding fees out of the sales proceeds.)*	Treasurer / accounts supervisor	
Reviewing and Spot-checking (m) Spot check usage of income-generating facilities (e.g. carpark) against income records to ensure that all usages are paid for. (n) Review the receipt summary and the actions taken to recover the overdue incomes.	Treasurer / accounts supervisor MC	
Reporting Property Tax (o) File a "Notification of Letting of Properties" to the Inland Revenue Department when a property in the common area is leased out for the first time.	MC	

Table 3.3A – Collection of Incomes

[1] The OC may file a claim to the Small Claim Tribunal for debt up to $50,000, or to the District Court for debt from $50,001 to $1 million, or to the High Court for debt over $1 million.

3.3.4 Records Keeping

The BMO requires the keeping of documents relating to receipt of income (e.g. management fees and rentals) for a minimum period of 6 years. The OC is recommended to keep the documents as follows:

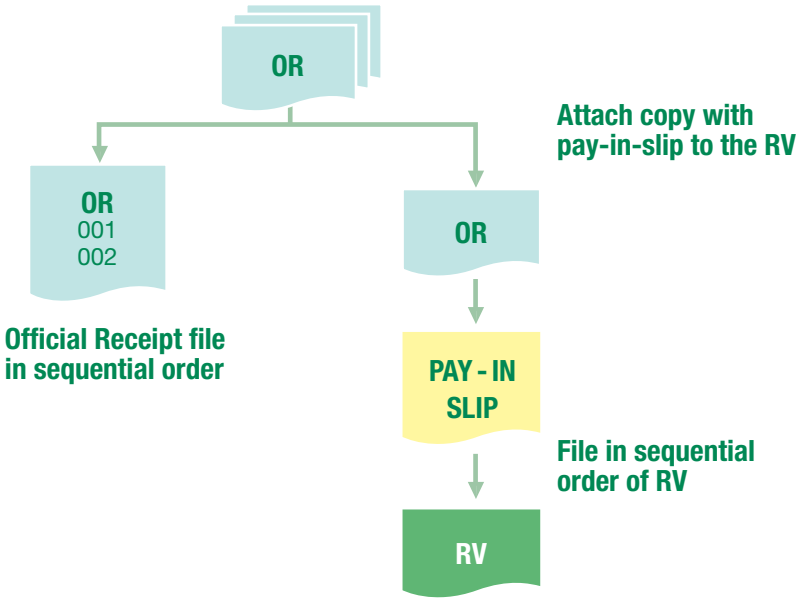
Documents	Filing
Demand Notes	File in sequential order
Official Receipts (OR), Pay-in slip and Receipt Vouchers (RV)	

Table 3.3B – Records Keeping

3.3.5 Key Controls

- Refer to Sub-section 2.3.3 of Chapter 2 for key controls on collection of incomes.

Section 3.4
Expenditures

Section Objectives

- Understand the key legal requirements regarding procurement and record keeping of expenditures
- Learn proper procurement practices and payment procedures
- Put in place controls and preventive measures

3.4.1 Building Management Expenses

Examples of goods and services commonly procured for the management and operation of a building include:

- ***property management and related services*** – i.e. cleaning, security and landscape work;
- ***building maintenance services*** – e.g. lifts, fire service installation, security monitoring system, electrical installation, plumbing and drainage system, building maintenance and repair;
- ***other professional services*** – e.g. accounting, audit and legal services;
- ***equipment, goods and supplies*** – e.g. computer equipment, furniture,and office supplies;
- ***staff expenses*** – e.g. salaries and other expenses for directly employed estate management staff (e.g. watchman, cleaner and cashier);
- ***utility expenses*** – e.g. electricity, gas and water supply, telephone lines;
- ***insurance*** – e.g. property-all-risks insurance, third party risks insurance, fidelity guarantee insurance, money insurance, employees' compensation insurance; and
- ***miscellaneous expenses*** - e.g. festival activities and decoration, uniform and laundry.

3.4.2 Summary of Legal Requirements

Procurement

- The procurement of supplies, goods or services must comply with the ***Code of Practice on Procurement of Supplies, Goods and Services (Code of Practice)*** issued by the Secretary for Home Affairs under the BMO.

▶ Annex 2

- Any supplies, goods or services exceeding, or is likely to exceed, $200,000 or 20% of the OC's annual budget (whichever the less), shall be procured ***by invitation to tender***; and if the value exceeds 20% of the OC's annual budget, acceptance of tender should be by resolution of owners at a general meeting.

- The OC may decide by resolution of owners at a general meeting to ***renew*** the contract of an existing supplier / contractor without tendering, provided that there is ***no change*** to the type of goods / services procured.

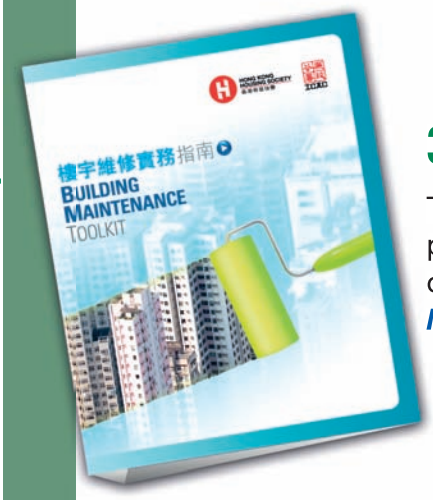
- The OC may ***avoid*** a procurement contract which has not complied with the BMO requirements by passing a resolution of owners at a general meeting.

- Any person who enters into a procurement contract otherwise than in compliance with the BMO requirements may be ***personally liable*** to claims arising from the contract.

Record Keeping

- The OC shall keep documents of procurement (all tender documents, contracts, accounts, invoices, other documents the OC has relating to procurement) for at least 6 years.

Extracts of BMO Provisions Relating to Building Financial Management (Provisions on Procurement) ▶ Annex 1



3.4.3 Procurement of Goods and Services

The OC, MC, and Manager are recommended to adopt the following procedures in procurement and tender exercises. (For procurement of building maintenance services, please refer to the ***Building Maintenance Toolkit*** jointly developed by the HKHS and the ICAC.)

3.4.3 (1) Delegated Procurement Authorities

The OC should set out the delegated approving authorities for purchases of various values. ***Table 3.4 A*** shows an example of delegated procurement authorities.

Expenditure	Procurement Method (minimum requirement)	Approving Authority
$500 and below	Direct (petty cash) purchase	Petty cash holder (an MC member or staff member (e.g. estate supervisor))
$501 to $2,000	2 verbal / written quotations	Any one of the designated MC members or supervisory staff
$2,001 - $10,000	3 written quotations	Any 2 of the designated MC members or Manager
$10,001 - $200,000	3 tenders*	MC
Above $200,000 but not exceeding 20% of the annual budget	5 tenders*	MC
Exceeds 20% of the annual budget	5 tenders*	Resolution of owners at general meeting

Table 3.4 A – Example of Delegated Procurement Authorities

* In line with requirements of the BMO and the Code of Practice.

3.4.3 (2) Petty Cash

Day-to-day small-value purchases may be procured by MC / staff members using petty cash fund. The following procedures are recommended for better control of petty cash expenses:

Procedures	Staff Responsible	Reference / Forms
Establishing a Petty Cash System		
(a) Establish a petty cash system : • set a ***limit*** (e.g. $500) on the value of petty cash purchases; • set a ***time limit*** on petty cash claims (e.g. claims must be submitted within seven days of purchase); • appoint a petty cash holder (e.g. an MC member / staff member); • determine the maximum size of the petty cash fund (e.g. just enough for a month's petty cash expenses); • prepare pre-numbered ***Petty Cash Vouchers (PCV)*** for drawing / claiming petty cash; and • prepare ***Petty Cash Replenishment Forms (PCRF)*** for the petty cash holder to request replenishment of petty cash.	MC	Sample Petty Cash Voucher ▶ **Annex 12** Sample Petty Cash Replenishment Form ▶ **Annex 13**

Procedures	Staff Responsible	Reference / Forms
Processing Petty Cash Purchase and Claims		
(b) Submit a ***PCV*** to the petty cash holder, attaching the original invoices / receipts.	purchasing staff / MC member	Sample Petty Cash Voucher ▶ **Annex 12**
(c) Check petty cash expenditures : • ensure the claims are bona fide purchases for the OC; • check for any split orders (i.e. splitting up a higher-value purchase into smaller parts to circumvent quotation procedures); • sign the PCV to approve the claims if in order, or refer doubtful claims to the Treasurer for consideration / approval; and • upon payment, stamp / mark "paid" on the invoices / receipts to avoid reuse.	petty cash holder	
(d) Acknowledge receipt of payment on the PCV.	claimant	
Processing Petty Cash Replenishment		
(e) When the petty cash fund needs replenishment, submit a ***PCRF*** to the accounts clerk, listing the PCVs approved in the period in sequential order and attaching the PCVs and supporting documents.	petty cash holder	Sample Petty Cash Replenishment Form ▶ **Annex 13**
(f) Review the request and: • spot check the PCVs for supporting documents; • ensure the claims are bona fide purchases for the OC; • check for any split orders and reports to the appropriate procurement authority;	accounts clerk	

Procedures	Staff Responsible	Reference / Forms
• check correctness of the replenishment amount (within the preset limit); and • sign the form to signify approval. (g) Prepare a ***Payment Voucher*** and ***a cheque*** payable to the petty cash holder, following the payment procedures described in ***Sub-section 3.4.4.***	accounts clerk	Sample Payment Voucher ▶ **Annex 16**
Updating Accounting Record (h) Update the general ledger, petty cash book and cash book with reference to the PCRF, PCVs and supporting documents.	bookkeeper	Sample General Ledger and Cash Book ▶ **Annex 28**
Auditing Petty Cash Fund (i) Conduct periodic surprise checks on the petty cash fund and the nature of petty cash expenditures to prevent misappropriation or abuse.	Treasurer / accounts supervisor	

Table 3.4B – Petty Cash Procurement

3.4.3(3) Procurement by Inviting Quotations / Tenders

In addition to compliance with the ***Code of Practice*** ▶ Annex 2 , the OC, MC, and Manager are recommended to adopt the following procurement procedures:

Procedures	Staff Responsible	Reference / Forms
Raising Purchase Requisition		
(a) Submit a ***Purchase Requisition (PR)*** with a description of the item and quantity of goods on the specification of goods / service required to the appropriate approving authority.	user / delegated MC member	Purchase Requisition ▶ **Annex 14**
(b) Ensure the expenditure is budgeted for.	approving authority ***(Table 3.4A)***	
Inviting Quotations		
(c) Seek quotations : • prepare specification of the goods / service required and include a probity clause in the invitation documents as follows: *"The supplier / service provider shall not offer, solicit or accept any advantage as defined in the Prevention of Bribery Ordinance (Cap. 201) in connection with procurement of goods / services."* • invite at least the minimum number of quotations ***(see also (i) below);*** • declare any conflict of interest arising from his relationship with the invited suppliers / service providers; • take precaution to ***prevent leakage*** of quotation information (e.g. requesting bidders to notify him / her before sending a quotation by fax or email, or to submit quotations in a sealed envelope);	procurement staff (e.g. accounts clerk / estate officer) / responsible MC member	Sample Form for Declaration of Conflict of Interest ▶ **Annex 6**

Procedures	Staff Responsible	Reference / Forms
• obtain further quotations if the quotations obtained are unreasonably high (e.g. compared with the previous price or market price); • ***record all the quotations*** received on the PR attached with the written quotations received, or the particulars of verbal quotations (e.g. supplier / service provider's name, telephone number, price); • recommend the ***best offer*** taking into consideration both price and quality aspects (e.g. quality of the product, reputation and track record of the supplier / service provider) to the approving MC members / Manager.		Sample Purchase Requisition ▶ **Annex 16**
Inviting Tenders (d) Appoint a tender evaluation committee comprising three or more MC members and staff of the Manager to evaluate tenders.	MC	
(e) Evaluate and approve tenders: • approve the tender documents including the ***tender specification, terms and conditions, notice to tenderers*** (which should clearly specify the tendering procedures and the information required); • include a probity clause in the tender documents as follows: *"The tenderer shall not, and shall ensure that his employees and agents shall not, offer, solicit or accept an advantage as defined in the Prevention of Bribery Ordinance (Cap. 201) in connection with the tendering and execution of this contract.* *Any act of offering, soliciting or accepting advantage committed by the tenderer or by an employee, agent or sub-contractor of the tenderer shall, without affecting the tenderer's liability for such failure and act, result in his tender being invalidated."*	MC	

Procedures	Staff Responsible	Reference / Forms
• prior to tender invitation, lay down the ***tender evaluation criteria***, including price and quality aspects (e.g. company profile, track record, proposed service level or quality of the products);		
• follow the ***Code of Practice*** in the invitation, receipt and opening of tenders;		Code of Practice ▶ **Annex 2**
• evaluate tender proposals according to the laid down criteria and also assess the reasonableness of the price offers; and	tender evaluation committee	
• select the best tender and follow the ***Code of Practice*** where approval by the OC at a general meeting is required.	MC	
Issuing Purchase Order		
(f) Approve the selected supplier / service provider on the PR.	approving authority ***(Table 3.4A)***	Sample Purchase Requisition ▶ **Annex 14**
(g) Issue ***Purchase Order (PO)***:	procurement staff / (e.g. accounts clerk / estate officer) / responsible MC member	Sample Purchase Order ▶ **Annex 15**
• assign a serial number to the PR;		
• issue a serially-numbered ***PO***, signed by the approving authority, to the selected supplier / service provider to confirm the order; and		
• send the PR and PO to the bookkeeper for filing.		
Receiving Goods and Services		
(h) Receive the goods or inspect the service against the PO and ***certify acceptance*** on the delivery note or invoice. Where appropriate, the MC may assign a member / staff member to monitor the performance of the service provider and take photographs for appraisal of the service standard.	user	

Procedures	Staff Responsible	Reference / Forms
Drawing Up Lists of Suppliers / Service Providers		
(i) For frequently or recurrently purchased supplies or services, draw up and maintain a ***list of suppliers / service providers*** for each category of supplies / services, and:	MC	
• invite the minimum number of quotations / tenders from suppliers / service providers on the list, in accordance with ***paragraph 3.4.3(3)*** above; and	procurement staff / responsible MC member	
• may invite quotations / tenders from additional suppliers / service providers with justifications.		

Table 3.4C – Procurement by Inviting Quotations / Tenders

3.4.4 Payment Procedures

The following procedures are recommended for better control of payments:

Procedures	Staff Responsible	Reference / Forms
Payment by Cheque		
(a) Processing payment :		
• check accuracy of invoice and certification by users for acceptance of goods / services;	accounts clerk / responsible MC member / estate officer	
• prepare a serially-numbered ***Payment Voucher (PV)*** to record the accounting entries, attaching a copy of the PR and the certified invoice as supporting documents;		Sample Payment Voucher ▶ **Annex 16**
• prepare a cheque for payment, mark "Account Payee Only" on the cheque, and arrange for it to be signed;		
• record the cheque number on the PV and update the ***cheque register***;		Sample Cheque Register ▶ **Annex 17**
• mark "paid" on the invoice; and		
• send the PV and all supporting documents to the bookkeeper.		
(b) The cheque signatories should:	cheque signatories	
• verify the cheque against the invoice before signing; and		
• sign / initial on the PV.		
(c) Regularly review the cheque register and the PVs to detect any irregular payments.	Treasurer / accounts supervisor	
Autopay Transactions		
(d) Monthly check:	accounts clerk / responsible MC member / estate officer	
• inspect the bank statements against the invoices of autopay transactions (e.g. utility bills);		

Procedures	Staff Responsible	Reference / Forms
• prepare a PV for each autopay transaction and send it to the bookkeeper; and • record the autopay transactions in the cheque register.		Sample Cheque Register ▶ **Annex 17**
(e) Regularly review the autopay transactions in the cheque register (e.g. payee, goods / services supplied, financial limit and frequency of payment) to detect any irregular payments.	Treasurer / accounts supervisor	
Updating Accounting Records (f) Check the PVs against the supporting documents and post the payment transactions to the general ledger and / or cash book. (g) File the PVs in sequential order with supporting documents and the PRs ***(Sub-section 3.4.5)***	bookkeeper	Sample General Ledger and Cash Book ▶ **Annex 28**

Table 3.4D - Payment Procedures

3.4.5 Records Keeping

The BMO requires the keeping of documents relating to procurement and payments for a minimum of 6 years. The OC is recommended to keep the documents as follows:

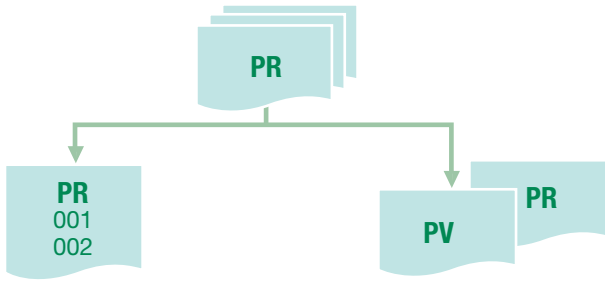
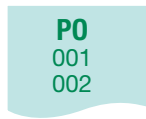
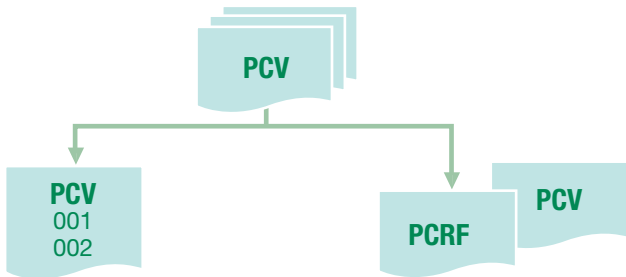
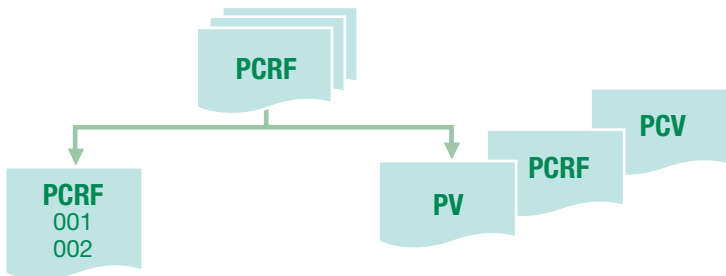
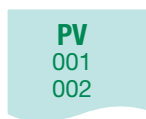
Documents	Filing
Tender Documents	• File by goods / services procured.
Contracts	• File by contracts.
Purchase Requisition (PR)	 • File in sequential order • Attach copy to PV
Purchase Order	• File in sequential order. 
Petty Cash Voucher (PCV)	 • File in sequential order • Attach copy to the PCRF
Petty Cash Replenishment Form (PCRF)	 • File in sequential order. • Attach copy to the PV with PCV and supporting documents
Payment Voucher (PV)	• File in sequential order with supporting documents 

Table 3.4 E – Records Keeping

3.4.6 Insurance

Section 28 of the BMO (which will take effect on 1.1.2011) requires an OC to procure and keep in force a policy of third party risks insurance in relation to the common areas of the building and the property of the OC in respect of the body injury or the death of a third party. The detailed requirements are set out in the Building Management (Third Party Risks Insurance) Regulation (e.g. the minimum insured amount of each policy shall be $10 million per event). If the OC fails to comply with the requirement, all MC members shall be guilty of an offence and shall be liable on conviction to a maximum fine of $50,000.

The OC is advised to procure insurance as soon as possible even if this is not yet in operation.

3.4.7 Key Controls

- Refer to ***Sub-section 2.3.4*** of ***Chapter 2*** for key controls on expenditures.

Section 3.5
Control of Fixed Assets

Section Objectives

- Learn how to manage and safeguard the OC's assets

3.5.1 Fixed Assets

Examples of fixed assets commonly owned by an OC include :

- ***machines and equipment*** – vehicles, gondola, air conditioners, etc.; and
- ***furniture and office equipment*** – e.g. computers, cash register, fax machine, furniture, copying machine, etc.

3.5.2 Summary of Legal Requirements

Handing Over of Property

- As soon as practicable and in any case within 14 days after the end of his appointment, the Manager shall hand over to the MC or the new Manager any moveable property belonging to the OC.
- Within 14 days after the end of appointment of a person as an MC member, he shall hand over any moveable property belonging to the OC to the Secretary or Chairman of the MC.

Extracts of BMO Provisions Relating to Building Financial Management (Provisions on Handing Over of Property) ▶ **Annex 1**

3.5.3 Control of Fixed Assets

The following procedures are recommended for better control of the OC's fixed assets.

Procedures	Staff Responsible	Reference / Forms
Policies and Procedures for Fixed Assets		
(a) Lay down the policy and procedures for the management of fixed assets, including: • criteria for recording certain types of assets as fixed assets (e.g. based on type, useful life and value); • depreciation policy / method for different classes of fixed assets; • periodic inspection of fixed assets; and • authority, procedures and methods for disposal (including writing-off) of fixed assets.	MC	
Maintenance and Control of Fixed Assets		
(b) Assign an identification code to each fixed asset and label it.	accounts clerk	
(c) Maintain a fixed asset register to keep track of each fixed asset (including assets leased but not owned by the OC).	bookkeeper	Sample Fixed Assets Register ▶ **Annex 18**
(d) Inspect the fixed assets with reference to the register at least annually and: • instruct the bookkeeper to update the register of any changes noted (e.g. location); and • report the inspection result to the MC including any irregularities.	Treasurer / accounts supervisor	

Table 3.5A – Control of Fixed Assets

3.5.4 Depreciation

The MC charges depreciation of assets to the accounts in order to record the consumption and more accurately reflect the book value of fixed assets (i.e. its value on accounts) which depreciate over time.

Procedures	Staff Responsible	Reference / Forms
Calculating Depreciation		
(a) Calculate the depreciation of each fixed asset in the annual financial statements using the method approved by the MC.	accounts clerk	Example on Computation of Depreciation ▶ **Annex 19**
Charging Depreciation to Accounts [1]		
(b) Record the depreciation as an expenditure in the income and expenditure account, and charge a corresponding amount to the accumulated depreciation of the asset so that its net book value is reduced in the balance sheet.	bookkeeper	Example on Computation of Depreciation ▶ **Annex 19**
(c) Check computation of depreciation in the financial statements.	Treasurer / accounts supervisor	

Table 3.5B - Depreciation

[1] For a fully depreciated asset, keep it in the fixed assets register and maintain a nominal value of $1 in the general ledger.

3.5.5 Disposal of Fixed Assets

As fixed assets may have resale value, their disposal should be properly controlled. The following procedures are recommended:

Procedures	Staff Responsible	Reference / Forms
Disposal		
(a) Recommend disposal (including write-off) of fixed asset and the disposal method, with justifications and supporting documents where appropriate (e.g. inspection report of the maintenance contractor or photos of the asset).	user (e.g. MC member responsible for the fixed asset)	
(b) For an asset with a resale value, seek offers from more than one prospective buyers (preferably nominated by different MC / staff members).		
(c) Submit proposal for disposal of fixed assets together with computation of gain / loss on disposal to the approving authority (e.g. the Chairman or other designated MC member).	accounts clerk	Examples on Computation of Gain / Loss on Disposal of Fixed Assets ▶ **Annexes 20 & 21**
(d) Inspect the asset and supporting documents and the profit / loss on disposal before approval.	approving authority	
(e) Issue receipt to the purchaser for the sales proceeds (***Sub-section 3.3.3*** on ***Collection of Management Fees and Incomes***).	accounts clerk	
(f) Record the disposal in the accounting records and update the fixed assets register.	bookkeeper	Sample Fixed Assets Register ▶ **Annex 18**
(g) Review the gain / loss on disposal of fixed assets in the periodic financial statements.	Treasurer / accounts supervisor	

Table 3.5C – Disposal of Fixed Assets

3.5.6 Key Controls

▶ Refer to ***Sub-section 2.3.5*** for key controls on management of fixed assets.

CHAPTER

4

Financial Reporting

Chapter Objectives

- Understand the key legal requirements regarding financial reporting in building management
- Learn how to perform bank reconciliation
- Learn how to prepare and make use of financial statements
- Put in place controls and preventive measures

Section 4.1
Bank Reconciliation

CHAPTER 4

Section Objectives

- Learn to perform bank reconciliation

4.1.1 Bank Reconciliation

A ***bank reconciliation*** is a matching of transactions on the bank statement against those on the account holder's own accounting records to detect any discrepancies.

The process should be conducted by the Treasurer / accounts supervisor who has not been involved in handling receipts and payments, preferably on a monthly basis.

Example of Bank Reconciliation Statement ▶ **Annex 22**

4.1.2 Bank Reconciliation Procedures

Procedures	Staff Responsible	Reference / Forms
Identify and investigate reconciling items		
(a) Compare transactions in the ***bank statement*** against the **accounting records** (e.g. general ledger / cash book) to identify the ***reconciling items***:	Treasurer / accounts supervisor	Example of Bank Reconciliation Statement ▶ **Annex 22**
i. entries made in the accounting records but not found in the bank statement; and		
ii. entries appearing in the bank statement but not recorded in the accounting records.		

Possible normal causes of discrepancies are:

Type	Possible Causes
i	***Unpresented cheque:*** cheques issued by the OC but not yet deposited by the payee.
	Bank lodgement not yet entered in bank statement: e.g. cheques deposited but not yet cleared as at the bank statement cut-off date.
ii	***Dishonoured cheque:*** cheques deposited but rejected by bank.
	Credit transfer: money deposited to the OC's bank account by bank transfer (e.g. autopay of management fee).
	Standing order and direct debit: money transferred from the OC's bank account (e.g. autopay of utility bills).
	Bank charges and interest: money deducted by the bank for services provided (e.g. safe deposit box fee) or loan interest.
	Interest received: interest from the OC's deposits.

For the above causes, follow up to ensure subsequent clearance or adjustment of the entries.

(b) Investigate the other items.

Procedures	Staff Responsible	Reference / Forms
Review of Bank Transactions (c) Check computation of the bank balances in the cash book. (d) Compare the preparation and presentation dates of cheques, and dates of receipt and bank-in of receipts, to see if there are frequent, unreasonable delays (this may show temporary misappropriation of the funds). (e) Review whether cheques have been issued in numerical sequence and unused / voided cheques are accounted for. (f) For any missing cheques that cannot be accounted for, instruct the bank to stop payment, or investigate those presented for payment. (g) Randomly select a few payment transactions of a material amount for checking of the supporting documents and payment approval.	Treasurer / accounts supervisor	
Reporting and Approval of Bank Reconciliation The Chairman checks and approves the bank reconciliation statement and submits it to the MC for information.	Chairman	

Table 4.1A – Bank Reconciliation Procedures

4.1.3 Key Controls

Refer to ***Sub-section 2.3.6*** in ***Chapter 2*** for key controls on preparation of bank reconciliation.

Section 4.2

Preparation and Approval of Financial Statements

Section Objectives

- Understand the legal requirements regarding financial reporting in building management
- Learn how to prepare and make use of financial statements
- Put in place controls and preventive measures

4.2.1 Financial Reporting

The purpose of financial reporting is to keep the MC members and owners of the building informed of the financial situation regarding their building and allow them to monitor the management of the building's funds.

While entrusting the day-to-day financial management to the MC, ***building owners should regularly review the financial statements*** to ensure that their funds are properly managed and used.

4.2.2 Summary of Legal Requirements

First and Annual Financial Statements

Prepare:

- the ***first financial statements*** within ***15 months*** of registration of the OC; and
- ***annual financial statements*** within every 12 months thereafter.

The financial statements shall:

- include an ***income and expenditure account*** giving a true and fair view of the OC's financial transactions for the period;
- include a ***balance sheet*** giving a true and fair view of the OC's financial position as at the date of the income and expenditure account;

- be signed by the Chairman and the Secretary / Treasurer;
- be ***audited*** by an accountant[1], appointed by resolution of the OC at a general meeting (except where the building has less than 50 flats); and
- be ***presented*** with the auditor's report (if any) to the OC at the AGM.

Quarterly Financial Statements

- Within one month after each quarter, the Treasurer shall prepare ***a quarterly income and expenditure summary*** and display it at a prominent place in the building for at least 7 consecutive days.

Inspection of Accounts and Financial Statements

- Provide a copy of the audited financial statements and / or audit report on request to any owner, tenant's representative or registered mortgagee on request.
- At the request of not less than 5% of the owners or upon instruction of the court, permit the owners or their representatives to inspect the accounting records and related documents (e.g. bills, invoices, vouchers and receipts) at a reasonable time.

Handing Over of Accounts

- Within 14 days after the end of appointment of a person as an MC member, he / she shall hand over any books and records of accounts and related documents in relation to the building to the Secretary or Chairperson of the MC.

Extracts of BMO Provisions Relating to Building Financial Management (Provisions on Accounts of Corporation) ▶ **Annex 1**

[1] "Accountant" means a certified public accountant (practising), a certified public accountant firm or certified public accountant corporate practice (auditor).

4.2.3 Financial Reporting Calendar

The sample calendar below illustrates how an OC may comply with the statutory requirements on financial reporting and budgeting[2]:

[2] The above time frame for the preparation and auditing of annual financial statements is only indicative. Depending on the circumstances and the set up of the OC, the actual time required may vary.

[3] The budget should be approved by the MC who serves over the budgeted period in order to hold the MC accountable for the financial performance during its term of office. The budget of the new financial year may also be approved by the retiring MC. Upon taking up the appointment, the new MC may revise the budget where necessary.

4.2.4 Preparation and Auditing of Financial Statements

Simple guidance on the preparation of the financial statements is provided below and in Annex 28.

Maintenance of Accounting Records Using Double Entry Accounting ▶ Annex 28

Persons responsible for preparing financial statements should preferably have suitable training or seek professional advice or assistance if necessary.

Procedures	Staff Responsible	Reference / Forms
Income and Expenditure Account		
(a) While the BMO only requires the preparation and display / tabling of quarterly and annual accounts, it is advisable for the Treasurer to prepare ***monthly*** accounts to facilitate monitoring and review by the MC.	Treasurer	
(b) Prepare an income and expenditure account for different funds of the building (e.g. General Fund and Contingency Fund), signed by the Chairman and the Treasurer / Secretary, showing: • the total amount of each type of income and expenditure over the month, quarter or financial year just ended; • the total income, expenditure and surplus / deficit for the period; • comparison of actual income / expenditure against the budget in the monthly / quarterly income and expenditure accounts, with explanation of significant deviations; and • comparison with the previous financial year's income and expenditure in the annual account, with explanation of significant changes.		Example of Income and Expenditure Accounts ▶ **Annexes 23 & 24**

Procedures	Staff Responsible	Reference / Forms
Balance Sheet (c) Prepare a ***balance sheet***, signed by the Chairman and the Treasurer / Secretary, showing: • the total value of non-current and current assets and liaibilities[4] as at the ending date of the quarter / financial year; • the net value of current assets / liabilities[5] on that date; • the position as at the ending date of the previous period for comparison, with explanation of any signifcant changes; and • the amount of reserves under the fund(s).	Treasurer	Example of Balance Sheet ▶ **Annex 25**
Notes to the Accounts (d) Prepare a set of ***notes to the accounts*** to: • set out the major accounting policies adopted (e.g. depreciation method); • explain any changes to major items during the period (e.g. fixed asset sold); and • provide details for any special income and expenditure items.	Treasurer	Example of Notes to the Accounts ▶ **Annex 26**

[4] Non-current assets are assets unlikely converted into cash in the short term (i.e. within one year) (e.g. fixed assets and utility deposits). Non-current liabilities are those that do not have to be paid for within one year (e.g. management deposits).

[5] Current assets are assets that are likely to be converted into cash within one year (e.g. management fee receivable and bank balances). Current liabilities are liabilities to be repaid within one year (e.g. tax).

Procedures	Staff Responsible	Reference / Forms
Auditing of Annual Accounts		
(e) For a building with 50 flats or more and with an OC, the annual financial statements must be ***audited by an accountant (*** ***Sub-section 4.2.2 - Summary of Legal Requirements)***. For smaller buildings, it is also advisable for the OC to consider the need for an audit of the financial statements.	OC	
(f) Appoint the auditor by resolution at a general meeting.	OC	
(g) Set out the terms of the audit engagement agreed with the auditor in an ***engagement letter***, which should require the auditor to, among other things: • conduct the audit in accordance with Hong Kong Standards on Auditing issued by HKICPA; • consider the implications of any potential non-compliance of legal requirements (e.g. BMO) and regulations (e.g. DMC) on the financial statements; and • attend the OC's AGM to present his report and other audit findings and answer questions relating to them.	MC	
(h) The MC should: • provide free access to any documents, books and records of the OC to the auditor; and • invite the auditor to attend the OC's AGM to present his audit findings and answer questions.	MC	
Presentation of Financial Statements		
(i) Display the annual financial statements and the auditor's report and table them at the AGM .	MC	

Table 4.2A – Preparation and Auditing of Financial Statements

4.2.5 Review of Financial Statements

ALL OWNERS, in addition to MC members, should ***regularly review the financial statements*** for their building to keep themselves informed of the financial situation and ensure the building's funds are properly managed.

The following are some tips on reviewing / using the financial statements.

Income and Expenditure Account	(a) Review the reasonableness of the income and expense items (e.g. with reference to market rates), and the reasons for any significant variance from the budget and the previous year's account. (b) Review the accuracy and completeness of major income / expense items where practicable, e.g. revenue generating items other than management fees are properly accounted for, and services and supplies items have been delivered and paid for in accordance with the procurement terms. (c) Check that any expense item that exceeds 20% of the OC's annual budget has been approved by the owners at a general meeting. (d) Make enquiry with the Manager / MC about any related party transactions. (e) Review the nature of payments out of the funds to ensure they match the purpose of the funds. (f) Make enquiry with the Treasurer / Manager / MC if necessary or in doubt.
Balance Sheet	(g) Note any significant changes in the balance sheet items in comparison with the previous year and review the reasons. (h) Check that the funds are sufficient for meeting the operational and maintenance needs but excessive reserves are not being accumulated. (i) Review whether there is sufficient cash flow to pay current liabilities.
Auditor's Report	(j) Study the auditor's report (if any), note any special findings and obtain further explanation from the auditor at the AGM.

Table 4.2 B – Review of Financial Statements

4.2.6 Auditor's Report

4.2.6 (1) Opinion in Auditor's Report

The auditor will examine the financial statements, and certify that they give a true and fair view of the financial transactions and position of the OC, provided that:

(a) there is not a limitation on the scope of the auditor's work (e.g. incomplete financial records available for the audit or access not given to such records);

(b) there is no disagreement on the accounting policies adopted by the OC and methods of their application in preparing the financial statements (e.g. provision for tax liability made for the rental income from leasing common area which is subject to property tax); and

(c) there is proper disclosure of information in the financial statements (e.g. related party transactions).

Example of Unqualified Auditor's Report on Financial Statements of OC of Building ▶ Annex 27

Otherwise, the auditor may issue a "qualified opinion", a "disclaimer of opinion", or in the worst case, an "adverse opinion".

Qualified Opinion	Expressed when the auditor finds the financial statements to be in general proper, except for one or more matters/areas where there is a limitation on the scope of the auditor's work, or disagreement on the accounting policies in use or disclosure[6] in the financial statements, but the effect of which is not so material and pervasive as to require an adverse opinion or a disclaimer of opinion. The auditor will also quantify the implication and effect of the issue.
Disclaimer of Opinion	Expressed when there is a limitation on the scope of the auditor's work but its possible effect is so material and pervasive that there is insufficient evidence / information (e.g. lack of documentary evidence to prove the use of a large sum of money) to enable the auditor to make a conclusion about the financial statements.
Adverse Opinion	Expressed when the disagreement in the application of accounting policies or the disclosure in the financial statements is so material and pervasive that the financial statements are misleading or incomplete (e.g. non-disclosure of a breach of the BMO).

Table 4.2C – Opinions in Auditor's Report

[6] The auditor needs to consider whether the financial statements contain adequate disclosure of transactions and information as required by the Hong Kong Financial Reporting Standard (e.g. related party transactions and movements of the reserve funds).

4.2.6 (2) Observations in Management Letter

In addition to the auditor's report, the auditor might also issue a covering ***management letter*** to the MC. The letter might point out weaknesses or improper practices of the MC / Manager in the management of the accounts, but which are not of a serious nature or so material that affect the auditor's opinion (e.g. certain procurement authority laid down by the OC not complied with).

4.2.6 (3) Follow-up Action

The owners should ask the auditor at the AGM for a full explanation on any special audit opinion or any other observations in the management letter, and advice on the action to be taken, which may include:

- hiring a professional accountant to conduct a thorough review of the accounting records and to recommend improvements to the financial management system; and
- reporting of suspected frauds / corruption to the law enforcement agency concerned.

4.2.7 Key Controls

Refer to ***Sub-section 2.4.7 of Chapter 2*** for key controls on preparation and approval of financial statements.

CHAPTER

5

Working with the Property Manager

Chapter Objectives

- Know the legal obligations of a property manager
- Learn how to work with your property manager
- Understand the independent and professional role of the property manager
- Put in place controls and preventive measures

CHAPTER 5

Section 5.1
Property Managers

An OC may appoint a property manager (usually a property management company (PMC)) by way of a contract to assist it in day-to-day estate management duties.

Section 5.2
Summary of Legal Requirements

- For a Manager appointed by the OC but the contract has no provision on termination of appointment, the OC may terminate the appointment by resolution at a general meeting (by majority of votes and support of owners of not less than 50% of the shares of the building), and with 3 months' notice or payment in lieu.

- For a Manager where the contract has provision on termination of appointment, the contract's provision applies.

- The Manager may resign by giving not less than 3 month's notice in writing.

Extract of BMO Provisions Relating to Building Financial Management (Provisions on Termination of Manager's Appointment) ▶ **Annex 1**

Section 5.3
Working with the Property Manager

5.3.1 Financial Management

Professional PMCs should have established procedures for handling clients' bank accounts and financial matters.

Nevertheless, it is advisable for the MC to discuss and agree with their Manager, or prospective Manager, the procedures and controls for managing the OC's funds (▸ ***Key Control Checklists in Section 2.3***), including:

- opening and maintenance of bank account(s) exclusively for use by the building, and control on the use of funds in the bank account(s) (e.g. the bank signatories);
- preparation, consultation and approval of annual budget, amount of management fee and the Manager's remuneration;
- approval of policies and charges for incomes of the building (club, common areas, car park) by the MC;
- controls in handling receipts and payments (e.g. reasonable segregation of duties);
- management and control of fixed assets of the OC (e.g. records of fixed assets and approval of disposal);
- keeping of financial records and documents (e.g. sequentially numbered vouchers with supporting documents);
- procurement approving authorities and procedures (compliance with the BMO in seeking quotations/tenders and approval of the expenditure exceeding 20% of the annual budget by the OC);
- any other matters requiring approval by or consultation with the MC (e.g. writing off of bad debts, disposal of fixed assets); and
- preparation, reporting/displaying and arranging for auditing of financial statements, and owners' access to financial records and statements (e.g. inspection of fixed assets register or quotations/tenders).

5.3.2 Integrity Management

In addition to procedural safeguards, ***management*** of the ***integrity*** of the PMC and his staff is equally important.

As the ***principal*** (employer), the OC should decide whether to allow the PMC or his staff to accept any advantage in performing their duties, and the types of advantage allowed (e.g. red packets during festivals).

The policy and restrictions, along with other integrity requirements, should be set out through a set of ***probity clauses*** in the management agreement, which should require the PMC to:

- prohibit its directors and staff from soliciting/accepting ***advantage*** in performing their duties in relation to the contract, and seek the MC's approval on the policy and restrictions regarding acceptance of advantage;

- require its directors and staff to avoid and declare ***conflict of interest*** in performing their duties in relation to the contract.

- avoid and declare any conflict of interest in performing its duties to the MC, including any potential ***related party transactions*** (e.g. procuring services from a subsidiary, associated company or parent company), and seek the MC's approval before undertaking transactions that may give rise to conflict of interest.

- issue a ***code of conduct / practice***, approved by the MC, to the relevant staff, setting out the policy and restrictions.

The set of probity clauses should also prohibit the PMC, as the service provider to the OC, from soliciting or accepting any advantage (including collection of charges), in performing the duties under the contract, from any persons having any business dealings with the OC (including but not limited to consultants, contractors, suppliers and service providers).

The ICAC provides tailor-made advice and assistance on integrity management in strict confidence, including the drawing up of integrity guidelines (▶ ***Section 6.1***).

5.3.3 Management Agreement

The MC and the property manager should sign a ***management agreement*** setting out the terms and conditions of the appointment. The agreement should be made available for inspection by owners. Some important terms/conditions that should be covered are listed below.

The Contract	• Specify the period for the contract (e.g. 2 years). An "open-ended" contract is not recommended. • Lay down terms for early termination of appointment (e.g. notice period). • Prohibit the assignment of the contract, or subletting of any services under the contract without the MC's permission.

Remuneration and Charges	• Set out the manager's remuneration and related arragements, including:
	  • basic remuneration (e.g. a fixed fee or a percentage of the total building management expenditure);
	  • items/services covered and not covered by the basic remuneration;
	  • rates of charge for additional duties/jobs not covered (if any);
	  • provision for annual review (if applicable); and
	  • conditions for, and computation of, deduction of payment for shortfalls (e.g. absence of staff, unqualified guard).
	• Require the Manager to show the calculation / breakdown of the monthly charges, certify service delivery, report any shortfalls and make the necessary deductions, in the monthly invoice.

Service Requirements	• Specify the scope of services covered (e.g. general estate management, cleaning, car park management). • Specify the agreed service level/quality (e.g. number of guards, manning hours, types and frequency of cleaning jobs, response time to incidents, standard of cleanliness, etc.). • Specify the materials and equipment (e.g. uniforms, cleaning materials, communication equipment) provided by the manager at no additional cost. • Specify the requirement for disclosure of services provided by the Manager's related companies / organizations or by staff of the Manager's company.
Financial Management	• Set out the key procedures regarding the management of the building's funds (e.g. preparation of annual budget, financial reports and matters requiring MC approval) (▶ *Sub-section 5.3.1*).
Supervision and Monitoring	• Set out the supervision and monitoring system on service delivery and performance (e.g. attendance checking/ recording system, supervisory checks by the PMC).
Insurance	• Require the Manager to take out insurance and indemnify the OC against any claims, such as employees' compensation insurance, third party risks insurance and fidelity guarantee insurance.
Compliance	• Require the Manager to comply with all the statutory and regulatory requirements in performing its duties, including the BMO, Employment Ordinance, Employees' Compensation Ordinance, etc. and the DMC.
Communication	• Specify the information to be reported to the MC and the reporting mechanism (such as presentation of monthly financial statements and management information reports in the monthly meetings of MC). • Require the manager to attend regular MC meetings. • Set out the types of matters and transactions that require approval by and consultation with the MC. • Set out the arrangements for MC / owners' access to building management records (including financial records), including the copying charges (which should be "at cost" only).

It is advisable for the MC to seek advice from its lawyer on the agreement terms and conditions, especially when a proposed agreement is supplied by the PMC, to ensure the interest of the owners is protected.

5.3.4 Complaints Handling

The MC/Manager should lay down the complaint handling procedures, which include :

(a) posting the EMO/MC's contact numbers/email addresses/other means of contact on the notice boards for residents' information;

(b) requiring the Manager to follow up the complaints immediately and sending a reply to the complainant within 10 working days in case of a written complaint;

(c) maintaining a complaint log book to record the complaints received and the follow up actions taken; and

(d) requiring the MC to scrutinize the complaint log book to ensure all complaints are satisfactorily resolved[1].

5.3.5 Independent and Professional Role of the Manager

The duty of the Manager is to provide ***independent*** and ***professional*** advice to the MC to ensure that they follow proper procedures in accordance with the BMO and other statutory requirements and the DMC, and act in the interest of the OC as a whole. If the MC decides to adopt any practices that are improper, the Manager should decline to carry out the decision and bring such matters to the attention of the OC.

Section 5.4
Key Controls

▶ Refer to ***Sub-section 2.3.8 of Chapter 2*** for key controls on working with the Property Manager.

[1] The manager/MC should exercise due care not to disclose the identity and personal data of the complainants while handling and reviewing complaints.

CHAPTER

6

Assistance and Enquiry

Chapter Objectives

- Know where to seek advice or assistance regarding building financial management

Section 6.1

Independent Commission Against Corruption

6.1.1 Corruption Prevention and Integrity Management Services

To help OCs and other building management bodies to prevent corruption and adopt ethical practices in building management, the Independent Commission Against Corruption (ICAC) provides the following free services:

- confidential and practical consultation service on corruption and fraud prevention for OCs, PMCs and service providers, e.g. recommending best practices and procedural safeguards to enhance internal controls;
- drawing up probity guidelines and a code of conduct for OCs, PMCs and service providers in estate management; and
- briefing or training for building management personnel to promulgate ethical practices in building management.

6.1.2 Corruption Reporting and Enquiries

Any party may lodge a corruption complaint with the ICAC and information provided will be kept strictly confidential.

Report Corruption Hotline: 2526 6366

Any party may also contact the ICAC for enquiries concerning the toolkit and related ICAC services.

Integrity Building Management Enquiry Hotline: 2929 4555

Get more details from :

http://www.bm.icac.hk

Contacts of ICAC ▶ **Annex 29**

6.1.3 Corruption Prevention Advice

The Advisory Service Group (ASG) of the ICAC provides free and confidential advice to PMCs on the ways to prevent corruption through enhancing checks and balances.

Advisory Service Group - Consultancy Services to Private Sector ▶ **Annex 30**

Section 6.2
Home Affairs Department

民政事務總署
Home Affairs Department

6.2.1 Advice and Support

The Home Affairs Department (HAD) has set up a Building Management Division to coordinate building management matters. At the district level, District Building Management Liaison Teams (DBMLTs) have been set up in the 18 District Offices to provide outreach support service to owners and OCs, assist owners to form OCs, attend OCs' meetings and give advice to owners on building management problems. DBMLTs will also assist law enforcement departments in enforcing building maintenance and fire safety improvement works, help resolve disputes between owners or between owners and OCs, and arrange the provision of voluntary professional mediation service, if there is a need.

6.2.2 Training and Promotional Activities

HAD and its 18 District Offices organize various educational activities, such as seminars, training courses, talks and exhibitions etc., for owners in order to help them in discharging their responsibility for managing and maintaining their properties.

Get more details from :

http://www.buildingmgt.gov.hk

Contacts of DBMLTs of 18 District Offices ▶ **Annex 31**

Section 6.3

Hong Kong Housing Society

HONG KONG HOUSING SOCIETY 香港房屋協會

6.3.1 Building Management Incentive Scheme and Building Maintenance Incentive Scheme

The Hong Kong Housing Society (HKHS) provides one-stop service and professional advice to building owners with a view to encouraging proper maintenance and management of their buildings.

The Building Management Incentive Scheme aims to encourage owners to form an OC. Each OC successfully formed under the Scheme will be granted $3,000, and a subsidy of 50% of the insurance premium for third party risks insurance for common areas of the building subject to a ceiling of $6,000 per annum and for not more than 3 years.

The Building Maintenance Incentive Scheme subsidized eligible buildings to carry out repair and maintenance works. For example, a building comprising 50 to 400 residential units will be granted a subsidy amounting to 20% of the total repair cost or $3,000 per residential unit (whichever is the lower). In addition, a subsidy amounting to 50% of the Authorized Person or professional consultant fees subject to a ceiling of $20,000, will be granted. Upon completion of the maintenance works, a further subsidy of 50% of the insurance premium for third party risks insurance for common areas of the building will be granted, subject to a ceiling of $6,000 per annum and for not more than 3 years.

6.3.2 Advice and Support

HKHS has set up 10 Property Management Advisory Centers (PMACs) to help the OCs / owners in building management:

- provide general guidance on the formation of an OC;
- provide sample documents required for the formation of an OC;
- assist in searching land registers and the registration of an OC in the Land Registry;
- attend the meeting of owners for the formation of an OC and give advice on the procedures for the appointment of an MC;
- four of the PMACs (at Central District, Eastern District, Yau Ysim Mong and Yuen Long) provide oath and declaration administration services by appointment, to assist MC members in making declarations as required under paragraph 4(3) of Schedule 2 of the BMO; and
- provide general guidance on procurement of goods and services.

Hotline: 2882 1717

Get more details from :

http ://bmms.hkhs.com/eng/index.html

Contacts of Property Management Advisory Centers ▶ **Annex 31**

Section 6.4

Hong Kong Institute of Certified Public Accountants

Hong Kong Institute of
Certified Public Accountants
香港會計師公會

Support to Auditors of Owners' Corporations

The Hong Kong Institute of Certified Public Accountants (HKICPA) has developed a list of FAQs to raise practising members' awareness of the common audit issues that may be encountered by auditors of accounts of OCs of Buildings registered under the BMO. These FAQs also address some common issues and questions to be considered in the planning process and the practical procedures that can be applied to the audit of financial statements of OCs of buildings.

Audit of Financial Statements of OCs of Buildings – Audit Issues

http://www.hkicpa.org.hk/professionaltechnical/whatsnew/docs/BMO.pdf

The HKICPA also organises seminars for auditors of OCs in order to help them comply with the Hong Kong Standards on Auditing and the BMO when preparing the audit of financial statements of OCs of buildings.

Section 6.5

The Hong Kong Association of Property Management Companies

THE HONG KONG ASSOCIATION OF PROPERTY MANAGEMENT COMPANIES
香港物業管理公司協會

For matters relating to building financial management from the PMC's perspective, please contact the Hong Kong Association of Property Management Companies (HKAPMC).

Phone No.: 2186 6101

Email Address: ***office@hkapmc.org.hk***

Get more details from:
http://www.hkapmc.org.hk

Annexes

Annexes

The suggested terms and formats of the documents are **for reference only**. Advice should be sought from an accountant / auditor employed by the building owners on whether such terms and formats should be modified to suit the special circumstances of the building. Users of this Toolkit should also seek legal advice as and when necessary. The ICAC, HAD, HKHS, HKICPA and HKAPMC do not accept any liability, legal or otherwise, for loss occasioned to any person acting or refraining from action as a result of any material in this publication.

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Annex 1

Extracts of BMO Provisions Relating to Building Financial Management (Cap. 344)

Extract of BMO Provisions on Establishment of Funds (Section 3.1 of Toolkit)

Establishment of Funds

A corporation shall establish and maintain a **general fund**

(a) to defray the cost of the exercise of its powers and the performance of its duties under the deed of mutual covenant (if any) and the BMO, and

(b) to pay Government rent, premiums, taxes or other outgoings (including any outgoings in relation to any maintenance or repair work) which are payable in respect of the building as a whole. **Section 20(1)**

A corporation may establish and maintain **a contingency fund**

(a) to provide for any expenditure of an unexpected or urgent nature; and

(b) to meet any payments of the kind specified above if the general fund is insufficient to meet them. **Section 20(2)**

Contributions to the Funds

The management committee shall determine the amount to be contributed by the owners to the funds established and maintained under section 20 during such period –

(a) in the case of the first such period after the date of registration of the corporation, not exceeding 15 months; and

(b) in any other case, not exceeding 12 months, as the management committee may determine. **Section 21(1)**

The corporation shall determine, by a resolution of the owners, the amount to be contributed to the special fund by the owners in any financial year, and the time when those contributions shall be payable. **Para. 4(2) of Sch.7**

Opening and Maintaining Bank Accounts

A corporation / manager shall open and maintain an interest-bearing account and use that account exclusively in respect of the management of the building. **Section 20(3)**

If there is a corporation, the manager shall open and maintain one or more segregated interest-bearing accounts, each of which shall be designated as a trust account or client account, for holding money received by him from or on behalf of the corporation in respect of the management of the building. **Para. 3(1A) of Sch. 7**

A corporation / manager shall without delay pay all money received by the corporation in respect of the management of the building into the account opened and maintained. **Section 20(4)**

The treasurer of a management committee / manager may, out of money received by the corporation in respect of the management of the building, retain or pay into a current account a reasonable amount to cover expenditure of a minor nature, but the amount shall not exceed such figure as determined from time to time by a resolution of the management committee. **Section 20(5)**

Extract of BMO Provisions on Annual Budget (Section 3.2 of Toolkit)

MC to Prepare Budget and Determine Amount of Contributions

The amount of contribution to be determined by the management committee under section 21(1) shall be based upon a budget prepared by the management committee for the period specified by the management committee under that subsection. **Para. 1 of Sch. 5**

The budget shall set out the sums which in the opinion of the management committee will be reasonably necessary to meet payments of the kind specified in section 20(1) and shall, if a contingency fund is established under section 20(2), set out the sums which in the opinion of the management committee will be reasonably necessary to meet payments of the kind specified in that subsection. **Para. 2 of Sch. 5**

Any amount determined by a management committee after the first such amount shall not exceed a sum equivalent to 150% of the preceding amount unless that subsequent amount is approved by the corporation by a resolution passed at a general meeting. **Section 21(1A)**

Revision of Budget

A revised budget may be prepared if the management committee is of the opinion that any sum set out in a budget in respect of which the revised budget is to be prepared is insufficient to meet the proposed expenditure which that sum was intended to meet. **Para. 3 of Sch. 5**

Provide Budget upon Request

If the tenants' representative, an owner, a registered mortgagee or any person duly authorized in writing in that behalf by an owner or registered mortgagee requests in writing the corporation to supply him with copies of any budget referred to in this Schedule, the treasurer shall, on the payment of such reasonable copying charge as the management committee may determine, supply such copies to that person. **Para. 4 of Sch. 5**

Extract of BMO Provisions on Collection of Income (Section 3.3 of Toolkit)

Recovery of Contributions from the Owners

The amount to be contributed by an owner towards the amount determined under section 21 shall be

(a) fixed by the management committee in accordance with the deed of mutual covenant (if any);

(b) payable at such times and in such manner as the management committee may determine. **Section 22(1)**

If there is no deed of mutual covenant, or if the deed of mutual covenant does not provide for the fixing of contributions, the amount to be contributed by an owner towards the amount determined under section 21 shall be fixed by the management committee in accordance with the respective shares of the owners. **Section 22(2)**

The amount payable by an owner under this section shall be a debt due from him to the corporation at the time when it is payable. **Section 22(3)**

Corporation may Sell or Register Charges against Flat

If a deed of mutual covenant provides that if an owner fails to pay any sum which is payable under the deed of mutual covenant, a person may sell that owner's interest in the land or register a charge against such interest in the Land Registry, then, notwithstanding the provisions of the deed of mutual covenant, the corporation may, to the exclusion of such person, exercise such power of sale or register such charge in the same manner and subject to the same conditions as if it were the person referred to in the deed of mutual covenant. **Section 19(1)**

Liability of the Occupier to Pay Contribution to the Funds

If any amount payable under section 22 by an owner who is not occupying a flat in the building concerned remains unpaid for a period of one month after it has become due to the corporation, the corporation may, without prejudice to any right of action against the owner, by notice in writing addressed to the occupier of the flat and served upon him either personally or by registered post, demand such amount from the occupier, who shall, subject to subsection (2), thereupon be liable to pay the same to the corporation. **Section 23(1)**

Notwithstanding subsection (1), the liability of the occupier of a flat to pay an amount demanded from him under subsection (1) shall extend only to such amount of rent or other charge (exclusive of rates) as is due at the time of service on him of the demand, or falls due subsequently from him, in respect of his occupation of the flat. **Section 23(2)**

An occupier of a flat has paid an amount in accordance with this section-

(a) that amount may, subject to the terms on which he occupies the flat, be deducted by him from the rent or other charge due in respect of his occupation of the flat; and

(b) any person, not being the owner, to whom such rent or other charge has been paid subject to such deduction, may in like manner as the occupier deduct such amount from the rent or other charge due from him in respect of the flat. **Section 23(4)**

Any deduction by an occupier or other person under subsection (4) shall operate as a discharge, to the extent of the amount so deducted, of his liability for the rent or other charge. **Section 23(5)**

Maintenance of Accounting Records

All bills, invoices, vouchers, receipts and other documents referred to in the books or records of account and other records maintained under section 27(1) shall be kept by the management committee for such period, being not less than 6 years, as the corporation may determine **Para. 1 of Sch. 6**

Extract of BMO Provisions on Procurement (Section 3.4 of Toolkit)

Compliance with Code of Practice on Procurement of Supplies, Goods and Services

The procurement of all supplies, goods or services required by a corporation in the exercise of its powers and the performance of its duties under the deed of mutual covenant (if any) or this Ordinance shall comply with such standards and guidelines as may be specified in a Code of Practice relating to such procurement. **Section 20A(1)**

Tendering

Any supplies, goods or services referred to in subsection (1) the value of which exceeds or is likely to exceed—

(a) the sum of $200,000 or such other sum in substitution therefor as the Authority may specify by notice in the Gazette; or

(b) a sum which is equivalent to 20% of the annual budget of the corporation or such other percentage in substitution therefor as the Authority may specify by notice in the Gazette,

whichever is the lesser, shall be procured by invitation to tender. **Section 20A(2)**

Subsection (2) does not apply to any supplies, goods or services if—

(a) the relevant supplies, goods or services are of the same type as any supplies, goods or services which are for the time being supplied to the corporation by a supplier; and

(b) the corporation decides by a resolution of the owners passed at a general meeting of the corporation that the relevant supplies, goods or services shall be procured from that supplier on such terms and conditions as specified in the resolution, instead of by invitation to tender. **Section 20A(2A)**

Where any supplies, goods or services are required under subsection (2)(b) to be procured by invitation to tender, whether a tender submitted for the purpose is accepted or not shall be decided by a resolution of the owners passed at a general meeting of the corporation. **Section 20A(2B)**

Voiding a Procurement Contract

A contract for the procurement of any supplies, goods or services shall not be void by reason only that it does not comply with subsection (1). **Section 20A (5)**

Where any supplies, goods or services are required under subsection (2) to be procured by invitation to tender, a contract for the procurement of the supplies, goods or services which does not comply with subsection (2) or (2B)—

(a) subject to any resolution passed by the corporation under paragraph (b) or any order made by the court under subsection (7), shall not be void by reason only that it does not comply with subsection (2) or (2B);

(b) subject to any order made by the court under subsection (7), may be avoided by the corporation by a resolution of the owners passed at a general meeting of the corporation but only for the reason that it does not comply with subsection (2) or (2B). **Section 20A(6)**

In any legal proceedings in relation to a contract for the procurement of any supplies, goods or services to which subsection (2) or (2B) applies, the court may make such orders (including whether the contract is void or voidable) and give such directions in respect of the rights and obligations of the contractual parties as the court thinks fit having regard to all the circumstances of the case, including (but not limited to) the following factors -

(a) whether the supplies, goods or services have been procured by invitation to tender;

(b) whether a general meeting of the corporation has been convened to consider the procurement of the supplies, goods or services;

(c) whether the Code of Practice referred to in subsection (1) has been complied with;

(d) whether the contract has been split, for the sole purpose of avoiding the compliance of the requirements in subsection (2) or (2B), from a contract which should have been made for the procurement of supplies, goods or services of greater value;

(e) whether the supplies, goods or services were urgently required;

(f) the progress of any activities or works in relation to the supplies, goods or services;

(g) whether the owners have benefited from the contract;

(h) whether the owners have incurred any financial loss due to the contract and the extent thereof;

(i) whether the supplier of the supplies, goods or services under the contract has acted in good faith;

(j) whether the supplier of the supplies, goods or services under the contract has benefited from the contract; and

(k) whether the supplier of the supplies, goods or services under the contract has incurred any financial loss due to the contract and the extent thereof. **Section 20A(7)**

For the purpose of subsection (7), where the court makes an order that the contract is voidable at the instance of the corporation, it shall also make an order that a general meeting of the corporation be convened and held in such manner as the court thinks fit, so as to decide whether the contract is to be avoided. **Section 20A(8)**

Personally Liable

Subject to section 29A (Protection of Members of Management Committee), any person who enters into a contract for the procurement of any supplies, goods or services otherwise than in compliance with subsection (2) or (2B) may be personally liable for any claims arising from the contract. **Section 20A(9)**

Protection of Members of Management Committee

No member of a management committee, acting in good faith and in a reasonable manner, shall be personally liable for any act done or default made by or on behalf of the corporation—

(a) in the exercise or purported exercise of the powers conferred by this Ordinance on the corporation; or

(b) in the performance or purported performance of the duties imposed by this Ordinance on the corporation. **Section 29A(1)**

The protection conferred by subsection (1) on a member of a management committee shall not in any way affect the liability of the corporation for that act or default. **Section 29A(2)**

Keeping of Documents

All tender documents, copies of contracts, accounts and invoices and any other documents in the possession of a corporation and relating to the procurement of supplies, goods and services shall be kept by the corporation for such period, being not less than 6 years, as the corporation may determine. **Section 20A(4)**

Extract of BMO Provisions on Handing Over of Property (Section 3.5 of Toolkit)

MC Member

A member of a management committee who ceases to be a member of the committee or retires from office and does not seek re-appointment to the committee, shall, within 14 days of his ceasing to be a member or his retirement, as the case may be, hand over to the secretary or, if the office of the secretary is vacant, the chairman of the management committee any books or record of accounts, papers, documents and other record in respect of the control, management and administration of the building together with any moveable property belonging to the corporation that are under his control or in his custody or possession. **Para. 5A of Sch. 2**

Manager

Subject to subparagraph (2), If the manager's appointment ends for any reason, he shall, as soon as practicable after his appointment ends, and in any event within 14 days of the date his appointment ends, deliver to the owners' committee (if any) or the manager appointed in his place any movable property in respect of the control, management and administration of the building that is under his control or in his custody or possession, and that belongs to the corporation (if any) or the owners. **Para. 8(1) of Sch. 7**

Extract of BMO Provisions on Accounts of Owners' Corporations (Section 4.2 of Toolkit)

Maintenance of Accounting Records for Six Years

All bills, invoices, vouchers, receipts and other documents referred to in the books or records of account and other records maintained under S. 27(1) shall be kept by the MC for such period, being not less than six years, as the OC may determine. **Para. 1 of Sch. 6**

Treasurer to Prepare Quarterly Financial Statements

Within 1 month after each consecutive period of 3 months, or such shorter period as the management committee may select, the treasurer shall prepare a summary of the income and expenditure of the corporation in respect of that period, display a copy of the summary in a prominent place in the building, and cause it to remain so displayed for at least 7 consecutive days. **Para. 2 of Sch. 6**

Preparation of Annual Financial Statements

A MC shall maintain proper books or records of account and other financial records and shall prepare, not later than 15 months after the date of the registration of the corporation and thereafter every 12 months, financial statements which –

(a) shall be signed by (i) the chairman of the management committee; and (ii) the secretary or the treasurer of the management committee;

(b) if subsection (1A) is applicable, shall be audited under that subsection; and

(c) together with the accountant's report made under subsection (1A), if any, shall be laid before the corporation at the annual general meeting of the corporation convened in accordance with paragraph 1(1) of Schedule 3. **Section 27(1)**

Audit for Buildings with More Than 50 Flats

Except in the case of a corporation in respect of a building which contains not more than 50 flats, the annual financial statements shall be audited by an accountant retained by the corporation as may be approved by the corporation by a resolution passed at a general meeting and that accountant shall report as to whether such financial statements are, in his opinion, properly prepared so as to give a true and fair view of the financial transactions of the corporation for the period to which the income and expenditure account relates and the financial position of the corporation as at the date to which the income and expenditure account is made up, subject to such qualification, if any, as he may think fit. **Section 27 (1A)**

Financial Statements

The financial statements shall include

(a) an income and expenditure account which gives a true and fair view of the financial transactions of the corporation for the period to which it relates, and

(b) a balance sheet which gives a true and fair view of the financial position of the corporation as at the date to which the income and expenditure account is made up. **Section 27 (1AA)**

Inspection of Accounting Records and Financial Statements

The management committee shall –

(a) at the request of not less than 5% of the owners, permit those owners or any person appointed by those owners to inspect any bills, invoices, vouchers, receipts or other documents at any reasonable time; and

(b) permit any person authorized by the court to inspect any bills, invoices, vouchers, receipts or other documents at any reasonable time. **Para. 1A of Sch. 6**

If the tenants' representative, an owner, a registered mortgagee or any person duly authorized in writing on their behalf by an owner or registered mortgagee requests in writing the corporation to supply him with copies of

(a) the financial statements and, if applicable, the accountant's report prepared under Section 27; or

(b) a summary of the income and expenditure of the corporation prepared under paragraph 2,

the treasurer shall, on the payment of such reasonable copying charge as the management committee may determine, supply such copies to that person. **Para. 3 of Sch. 6**

Annual General Meeting / General Meeting

The management committee shall convene :

(a) the first annual general meeting of a corporation not later than 15 months after the date of the registration of the corporation;

(b) an annual general meeting not earlier than 12 months, and not later than 15 months, after the date of the first or previous annual general meeting;

(c) a general meeting of the corporation at any time for such purposes as the management committee thinks fit. **Para. 1(1) of Schedule 3**

Extract of BMO Provisions on Termination of Manager's Appointment (Section 5.2 of Toolkit)

Resignation of Manager

No resignation of the manager shall take effect unless he has previously given not less than 3 months' notice in writing of his intention to resign-

(a) by sending such a notice to the owners' committee; or

(b) where there is no owners' committee, by giving such a notice to each of the owners and by displaying such a notice in a prominent place in the building. **Para. 6(1) of Sch. 7**

Termination of Manager's Appointment by Owners' Corporation

Subject to subparagraph (5A), at a general meeting convened for the purpose, a corporation may, by a resolution-

(a) passed by a majority of the votes of the owners voting either personally or by proxy; and

(b) supported by the owners of not less than 50% of the shares in aggregate,

terminate by notice the DMC manager's appointment without compensation. **Para. 7(1) of Sch. 7**

A resolution under subparagraph (1) shall have effect only if-

(a) the notice of termination of appointment is in writing;

(b) provision is made in the resolution for a period of not less than 3 months notice or, in lieu of notice, provision is made for an agreement to be made with the DMC manager for the payment to him of a sum equal to the amount of remuneration which would have accrued to him during that period;

(c) the notice is accompanied by a copy of the resolution terminating the DMC manager's appointment; and

(d) the notice and the copy of the resolution is given to the DMC manager within 14 days after the date of the meeting. **Para. 7(2) of Sch. 7**

The notice and the copy of the resolution referred to in subparagraph (2)(d) may be given-

(a) by delivering them personally to the DMC manager; or

(b) by sending them by post to the DMC manager at his last known address. **Para. 7(3) of Sch. 7**

For the purposes of subparagraph (1)-

(a) only the owners of shares who pay or who are liable to pay the management expenses relating to those shares shall be entitled to vote; and

(b) the reference in subparagraph (1)(b) to "the owners of not less than 50% of the shares in aggregate" shall be construed as a reference to the owners of not less than 50% of the shares in aggregate who are entitled to vote. **Para. 7(5A) of Sch. 7**

If a contract for the appointment of a manager other than a DMC manager contains no provision for the termination of the manager's appointment, subparagraphs (1), (2), (3) and (5A) apply to the termination of the manager's appointment as they apply to the termination of a DMC manager's appointment. **Para. 7(5B) of Sch. 7**

Annex 2

Code of Practice on Procurement of Supplies, Goods and Services

This Code of Practice on Procurement of Supplies, Goods and Services is issued by the Secretary for Home Affairs, as the Authority under the Building Management Ordinance (Cap.344) (BMO), under section 44(1)(a) of the Ordinance.

1. All owners' corporations (OC) shall comply with this Code of Practice.
2. All OCs shall comply with section 20A of the BMO in relation to the procurement of supplies, goods and services.
3. A management committee (MC) shall conduct a tender exercise in an open and fair manner.
4. A member of the MC shall not solicit or accept any advantage from any supplier or contractor in relation to the tender.
5. Any agent or employee of the OC is prohibited from soliciting or accepting any advantage in connection with his duty unless with the permission of the OC. An agent or employee shall also declare any conflict of interest relating to his duties.
6. The MC shall prepare an invitation to tender setting out the types of supplies, goods or services required, the respective estimated costs, the period open for tender and other terms and conditions of the relevant contract. A copy of the invitation to tender shall be displayed in a prominent place in the building.
7. A tender shall be in writing and be sealed and deposited in a strong double locked box marked 'Tender-Box' provided for that purpose only and such box shall be securely located in a prominent place in the building. The two keys of the tender-box are to be separately kept by the chairman, secretary or treasurer.
8. Where it is impracticable or difficult to comply with the requirement under paragraph 7 above, the OC may, by a resolution passed at a general meeting of the corporation, accept tenders handed in or sent by post to the registered office of the OC. The tenders shall be properly acknowledged and kept safely.
9. The minimum number of tenders to be invited shall be as follows :

   (a) three in the case of a contract for the procurement of supplies, goods or services the value of which exceeds $10,000 but does not exceed $200,000; or

   (b) five in the case of a contract for the procurement of supplies, goods or services the value of which exceeds $200,000.

10. The closing date and time for acceptance of tenders shall be clearly stated in the invitation to tender. Late submissions shall not be accepted.
11. Where the number of valid tenders obtained is fewer than the number of tenders stipulated in paragraph 9, the MC shall pass a resolution to accept or reject the tender exercise.
12. All tenders shall be opened at the same time in the presence of at least three members of the MC who shall countersign and date each of the tenders.

13. A tender whose value does not exceed the sum stipulated in section 20A(2)(b) of the BMO shall be submitted to the MC which may accept or reject it.

14. An MC shall not split a contract of procurement from a contract which should have been made for the procurement of greater value for the sole purpose of avoiding the compliance of requirements in section 20A of the BMO.

15. A tender which requires approval from a general meeting of the corporation must be passed by majority votes. Where there are more than two alternatives and no option receives majority votes in the first round of voting, the general meeting of the corporation will have to conduct a second round of voting in order to comply with the majority requirement. Some plausible methods of voting are :

    (a) Progressive elimination – After the first round of voting, the general meeting of the corporation may eliminate the option with the least number of votes and then carry out the second round of voting. If there is no option which receives majority votes, another round of voting will be carried out, with one more option being eliminated. If this goes on, only two options will be left in the final round of voting. Either one of the options will receive majority votes.

    (b) Short-listing – After the first round of voting, the general meeting of the corporation may short-list the two options which gain the greatest number of votes for a second round of voting. This also means that the ultimate choice fulfils the majority requirement.

    (c) Confirmation – A second round of voting could be carried out to confirm the option which has attained the greatest number of votes in the first round. This also ensures that majority votes are achieved.

16. A member of the MC shall disclose in writing to the MC any personal or pecuniary interest that he may have in any of the tenders to be considered by the MC or the corporation. An MC member who has indicated a personal or pecuniary interest in the tender shall abstain from voting in the selection of such tender at an MC meeting. The building manager (if any) shall also be required to disclose in writing to the MC any personal or pecuniary interest that he may have in any of the tenders to be considered by the MC or the corporation.

17. The MC shall maintain and keep in safe custody for such period, being not less than six years, as the OC may determine, all tender documents, copies of contracts, accounts and invoices and any other documents in the possession of the OC and relating to the procurement of supplies, goods and services.

18. The MC shall permit the Authority, the tenants' representative, an owner, a registered mortgagee or any other person authorized in writing by an owner or a registered mortgagee to inspect the documents referred to in paragraph 17 at any reasonable time.

19. The documents referred to in paragraph 17 shall contain sufficient information to enable the person doing inspection to calculate the financial liability (including any future financial liability) of the OC at the time of inspection.

Annex 3

Extracts of Prevention of Bribery Ordinance (POBO) (Cap. 201)

Section 9 : Corrupt Transactions with Agents

1. Any agent who, without lawful authority or reasonable excuse, solicits or accepts any advantage as an inducement to or reward for or otherwise on account of his-

   (a) doing or forbearing to do, or having done or forborne to do, any act in relation to his principal's affairs or business; or

   (b) showing or forbearing to show, or having shown or forborne to show, favour or disfavour to any person in relation to his principal's affairs or business,

   shall be guilty of an offence.

2. Any person who, without lawful authority or reasonable excuse, offers any advantage to any agent as an inducement to or reward for or otherwise on account of the agent's-

   (a) doing or forbearing to do, or having done or forborne to do, any act in relation to his principal's affairs or business; or

   (b) showing or forbearing to show, or having shown or forborne to show, favour or disfavour to any person in relation to his principal's affairs or business,

   shall be guilty of an offence.

3. Any agent who, with intent to deceive his principal, uses any receipt, account or other document-

   (a) in respect of which the principal is interested; and

   (b) which contains any statement which is false or erroneous or defective in any material particular; and

   (c) which to his knowledge is intended to mislead the principal,

   shall be guilty of an offence.

4. If an agent solicits or accepts an advantage with the permission of his principal, being permission which complies with subsection (5), neither he nor the person who offered the advantage shall be guilty of an offence under subsection (1) or (2).

5. For the purposes of subsection (4) permission shall-

   (a) be given before the advantage is offered, solicited or accepted; or

   (b) in any case where an advantage has been offered or accepted without prior permission, be applied for and given as soon as reasonably possible after such offer or acceptance,

   and for such permission to be effective for the purposes of subsection (4), the principal shall, before giving such permission, have regard to the circumstances in which it is sought.

Section 2 : Interpretation

"Advantage" means-

(a) any gift, loan, fee, reward or commission consisting of money or of any valuable security or of other property or interest in property of any description;

(b) any office, employment or contract;

(c) any payment, release, discharge or liquidation of any loan, obligation or other liability, whether in whole or in part;

(d) any other service, or favour (other than entertainment), including protection from any penalty or disability incurred or apprehended or from any action or proceedings of a disciplinary, civil or criminal nature, whether or not already instituted;

(e) the exercise or forbearance from the exercise of any right or any power or duty; and

(f) any offer, undertaking or promise, whether conditional or unconditional, of any advantage within the meaning of any of the preceding paragraphs (a), (b), (c), (d) and (e),

but does not include an election donation within the meaning of the Elections (Corrupt and Illegal Conduct) Ordinance (Cap 554), particulars of which are included in an election return in accordance with that Ordinance.

"Entertainment" means –

the provision of food or drink, for consumption on the occasion when it is provided, and of any other entertainment connected with, or provided at the same time as, such provisions.

Annex 4

Sample Code of Conduct for Owners' Corporation

Introduction

(1) The Management Committee (MC), as appointed by the Owners' Corporation (OC), is committed to manage the building with integrity, honesty and fairness. The OC has thus passed a resolution that all its agents including members of the MC and the sub-committees, employees and contractors should observe this Code when conducting business for the OC.

Prevention of Bribery Ordinance

(2) Any agent of the OC soliciting or accepting an advantage in connection with his work for the OC without the permission of the OC will commit an offence under Section 9(1) and the offeror of the advantage will commit an offence under Section 9(2) of the Prevention of Bribery Ordinance (POBO) (Cap 201). The term "advantage", as defined in the Ordinance includes money, gift, loan, fee, reward, employment, contract, service and favour but does not include entertainment which is the provision of food or drink for consumption on the occasion.

(3) Any agent of the OC using any false documents, records, accounts or receipts with the intent to deceive the OC will commit an offence under Section 9(3) of the POBO.

Acceptance of Advantage

(4) The OC has passed a resolution that agents of the OC are not allowed to solicit or accept any advantage when conducting business for the OC, unless with the prior permission of the OC in writing. Examples include MC members not to accept gifts from contractors and caretakers not to solicit tips from owners and tenants.

Entertainment

(5) Although entertainment is not an advantage and is an acceptable form of social and business activity, agents of the OC (e.g. MC members, works consultants) should avoid accepting lavish or frequent entertainment from business associates of the OC (e.g. contractors or sub-contractors) so as not to put themselves in a position of obligation or affect their judgement. Excessive gambling and loans should also be avoided.

Conflict of Interest

(6) A conflict of interest arises when the private interest of an agent of the OC competes or conflicts with the interest of the OC. Private interest includes both the financial and personal interest of the agent and those of his connections. Connections include his family members, relatives and close personal friends.

(7) Agents of the OC should avoid any situation which may lead to an actual or perceived conflict of interest and make a declaration to the MC or the OC when such a situation arises. Examples include an MC member holding the shares of a contractor bidding for the OC's contract, and a caretaker being a relative of his supervisor. Failing to declare or avoid conflict of interest may give rise to criticism of favouritism, abuse of authority or even allegation of corruption.

Handling Confidential Information and Accounts

(8) Agents of the OC should not disclose any confidential information (e.g. tender price, personal data etc.) of the OC without authorization and should take the necessary measures to protect such information from being abused or misused.

(9) Agents should ensure the documents, accounts and receipts submitted to the OC are true and accurate.

Compliance with Code of Conduct

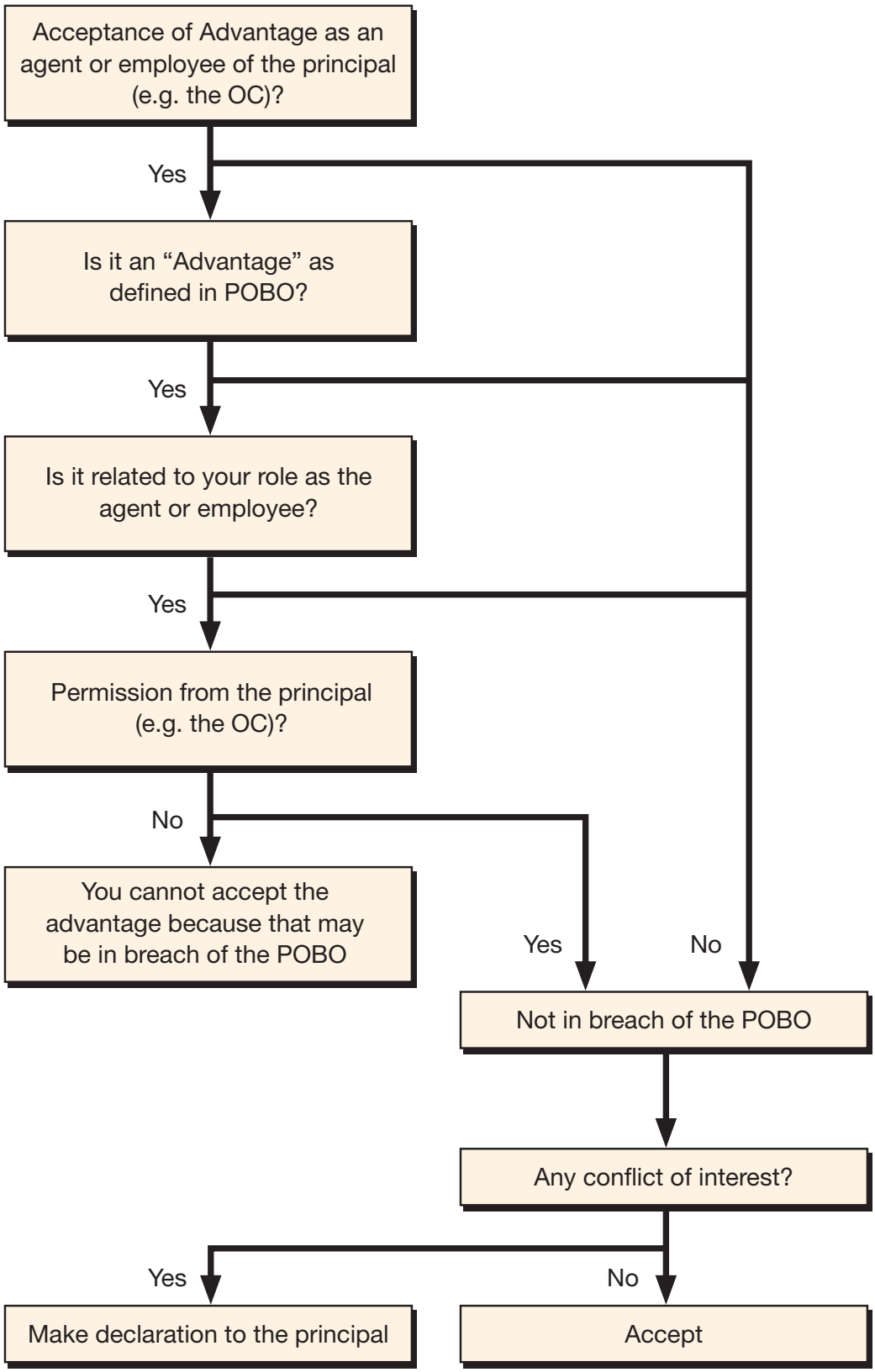
(10) It is the responsibility of the agents of the OC to understand and comply with this Code. The OC will ensure agents fully understand and observe the requirements and standards laid down in the Code.

(11) Agents of the OC who is in breach of the code of conduct may be dismissed or removed from office by resolution of the OC. In case of suspected corruption or other criminal offences, a report will be made to the ICAC or the appropriate authorities.

(12) Any enquiries or complaints on possible breaches of this Code should be directed to the Chairman or the MC of the OC.

Annex 5

Handling Acceptance of Advantages / Conflict of Interest



SAMPLE

Annex 6

Sample Form for Declaration of Conflict of Interest

Part A – Declaration of Interest

To : *Secretary / Chairman of the Management Committee

I understand that if I, my family members and close relatives and personal friends have any direct or indirect interest in any company which has business dealings with the Owners' Corporation, I shall make a declaration to the Management Committee.

I would like to declare the following existing / potential* conflict of interest situation arising from the discharge of my duties concerning the operation of the Owners' Corporation or as members of the Management Committee:-

a) Persons / companies with whom / which I have official dealings and / or private interests :

_____

_____

b) Brief description of my duties which involve the persons / companies mentioned in item (a) above :

_____

_____

Signature : _____

Position and Name : _____

Date : _____

(**Delete as appropriate*)

Part B – Record of Resolution of the Management Committee

With respect to the above declaration, the Management Committee passed the following resolution:

☐ (name of the person making the declaration) should refrain from performing or getting involved in performing the work / duty, as described in Part A, which may give rise to a conflict.

☐ (name of the person making the declaration) may continue to handle the work / duty as described in Part A, provided that there is no change in the information declared above.

☐ Others (please specify)

Signature: _____ Signature: _____

(Secretary) (Chairman)

Date of Meeting: _____

Annex 7

Example of Budget for the General Fund

	Budget 2XX2 HK$	Previous Year's Actual 2XX1 HK$	Variance	Reason
Incomes				
Contribution to the General Fund	x,xxx,xxx	x,xxx,xxx	-x%	Reduced contribution in 2XX2 due to large amount of surplus brought forward from year 2XX1
Club Income	xxx,xxx	xxx,xxx		
Interest Income	xx,xxx	xx,xxx		
	x,xxx,xxx	x,xxx,xxx		
Expenditures				
Cleaning	(xxx,xxx)	(xxx,xxx)	-y%	Lower fees for new cleaning contract
Club Expenses	(xxx,xxx)	(xxx,xxx)		
New Equipment	(xxx,xxx)	(xxx,xxx)		
Horticulture	(xxx,xxx)	(xxx,xxx)		
Insurance	(xxx,xxx)	(xxx,xxx)		
Miscellaneous	(xx,xxx)	(xx,xxx)		
Professional Fees	(xx,xxx)	(xx,xxx)		
Rates and Government Rent	(xx,xxx)	(xx,xxx)		
Repairs and Maintenance	(xx,xxx)	(xx,xxx)		
Security	(xxx,xxx)	(xxx,xxx)	+z%	Higher fees for new security contract
Staff Cost	(xxx,xxx)	(xxx,xxx)		
Transportation	(x,xxx)	(x,xxx)		
Utility Expenses	(xxx,xxx)	(xxx,xxx)		
Manager's Remuneration	(xxx,xxx)	(xxx,xxx)		
	(x,xxx,xxx)	(x,xxx,xxx)		
Surplus / (Deficit)	xxx,xxx	xxx,xxx		
Accumulated Surplus Brought Forward	**xxx,xx1**	xxx,xxx		
Accumulated Surplus Carried Forward	**xxx,xx2**	**xxx,xx1**		

Approved by the Management Committee on _____

Signed by : _____

(Chairman)

SAMPLE

Annex 8

Example of Budget for the Contingency Fund

	Budget 2XX2 HK$	Previous Year's Actual 2XX1 HK$	Variance	Reason
Incomes				
Annual contribution to the contingency fund ***(Notes)***	x,xxx,xxx	x,xxx,xxx	+x%	Increase in replacement cost of equipment
Interest Income	xx,xxx	xx,xxx	-y%	Reduced interest rate
	x,xxx,xxx	x,xxx,xxx		
Expenditures				
Replacement of equipment	(xxx,xxx)	(xxx,xxx)		
Manager's Remuneration	(xx,xxx)	(xx,xxx)		
	(xxx,xxx)	(xxx,xxx)		
Surplus / (Deficit)	x,xxx,xxx	x,xxx,xxx		
Accumulated Surplus Brought Forward	**x,xxx,xx1**	x,xxx,xxx		
Accumulated Surplus Carried Forward	**x,xxx,xx2**	**x,xxx,xx1**		

Notes to the Budget

The annual contribution is based on the estimated **replacement cost** and **useful life** of the equipment. An example is given below to illustrate the computation.

		Club equipment	Lifts	Ventilation system	Fire service system	Satellite TV	Total Annual Contribution
A	**Replacement cost**	$2,100,000	$3,000,000	$300,000	$300,000	$100,000	
B	**Useful life**	7	10	10	15	10	
C	**Annual provision for replacement = A / B**	$300,000	$300,000	$30,000	$20,000	$10,000	**$660,000**

Approved by the Management Committee on _____

Signed by : _____

(Chairman)

Annex 9

Sample Official Receipt

The OC should issue an Official Receipt (OR) to the owner / tenant upon collection of income in cash or by cheque / autopay ***(Sub-section 3.3.3)****.*

The Official Receipt is prepared in a set of three copies :

- *customer's copy*
- *OC's record – copy to be filed in sequential order*
- *OC's record – copy attached to the Receipt Voucher*

The Owners Incorporation of XXX Building

Address :

Tel. No.

No. _____

OFFICIAL RECEIPT

Received from:_____ Date:_____

Particulars	**Amount HK$**
TOTAL	

Cash	**Cheque**			**Total in Cash and Cheque**
Amount	Bank	Cheque No.	Amount	

Receiver : _____

Official Stamp :

Annex 10

Sample Receipt Summary *(Management Fee)*

Financial Year : 2XX1		Official Receipts												Total in Annual Account
Flat	**Amount of Management Fee**	**Jan.**	**Feb.**	**March**	**April**	**May**	**June**	**July**	**August**	**Sept.**	**Oct.**	**Nov.**	**Dec.**	**Receipts / Management Fee Receivable[1]**
1A	$500	OR1	OR7	OR12	OR17	OR22	OR27	OR32	OR37	OR42	OR47	OR52	OR57	$6,000
1B	$400	OR2	OR8	OR13	OR18	OR23	OR28	OR33	OR38	OR43	OR48	OR53	OR58	$4,800
2A	$500	OR3	OR9	OR14	OR19	OR24	OR29	OR34	OR39	OR44	OR49	OR54	OR59	$6,000
2B	$400	OR4	$400	$400	$400	$400	$400	$400	$400	$400	$400	$400	$400	$400 fee received $4,400 Management Fee Receivable [1]
3A	$500	OR5	OR10	OR15	OR20	OR25	OR30	OR35	OR40	OR45	OR50	OR55	OR6O	$6,000
3B	$400	OR6	OR11	OR16	OR21	OR26	OR31	OR36	OR41	OR46	OR51	OR56	OR61	$4,800
Total		$2,700	$2,300	$2,300	$2,300	$2,300	$2,300	$2,300	$2,300	$2,300	$2,300	$2,300	$2,300	$28,000 receipts **$4,400 receivable**

Actions taken to recover outstanding management fees :

- *issued monthly reminders and legal letters in May 2XX1 and October 2XX1; and*
- *filed claims to the Small Claims Tribunal in June and November 2XX1 and obtained judgement; and registered a memorandum of charge against the property at the Land Registry.*

Prepared by :

_____

(name and signature)
Date :

Checked by :

_____

(Treasurer)
Date :

Reviewed by :

_____

(Chairman)
Date :

[1] Items in orange colour are overdue management fees.

SAMPLE

SAMPLE

Annex 11

Sample Receipt Voucher

A Receipt Voucher (RV) is used to record the accounting entries in the general ledger and cash book ***(Sub-section 3.3.3)***.

The Owners Incorporation of XXX Building

No. _____

RECEIPT VOUCHER

Account Code	Particulars	Debit HK$	Credit HK$
	TOTAL		

Prepared by : _____ Signature : _____ Date : _____

Approved by : _____ Signature : _____ Date : _____

Recorded by : _____ Signature : _____ Date : _____

Annex 12

Sample Petty Cash Voucher

The petty cash holder uses a Petty Cash Voucher (PCV) to record checking and payment of petty cash expenditures ***(Sub-section 3.4.3)***.

The PCV is in a set of two copies :

- *the original copy attached to the Petty Cash Replenishment Form with supporting documents*
- *a copy filed in sequential order by the petty cash holder*

PETTY CASH VOUCHER

The Incorporated Owners of XXX Building

No. _____

Date :_____

Particulars	Account Code	Amount HK$
	TOTAL	

Received the sum of_____

_____

Dollars HK$_____

For_____

_____

_____ _____

Approved by (name and signature)

Received By (name and signature)

Annex 13

Sample Petty Cash Replenishment Form

The petty cash holder lists the petty cash expenditures on a Petty Cash Replenishment Form (PCRF) when he applies for replenishment of the petty cash fund ***(Sub-section 3.4.3)*****.**

The PCRF is in a set of two copies :

- *the original copy attached to the Payment Voucher (PV) together with PCVs and supporting documents to apply for petty cash replenishment*
- *a copy filed in sequential order by the petty cash holder*

Petty Cash Replenishment Form

The Incorporated Owners of XXX Building

PCFR No. _____

Date	PCV No.	Payee	Minor Maintenance HK$	Stationary HK$	Transportation HK$	Others	Others	Total HK$
Total Expenditures								

PV No. :

Cheque No.

Checked by : _____ _____
(name and signature) (Date)

Approved by : _____ _____
(name and signature) (Date)

Annex 14

Sample Purchase Requisition

MC members and PMC staff involved in a procurement exercise should declare to the Secretary / Chairman of the MC any conflict of interest Sample Form for Declaration of Conflict of Interest ▶ Annex 6 *and withdraw from the procurement exercise pending the decision of the Chairman* ***(Sub-section 3.4.3)***.

Purchase Requisition

The Incorporated Owners of XXX Building

No. _____

Delivery : on or before _____

Quantity	**Description**	**Last Purchase Price**	
		Unit Price (HK$)	**Total (HK$)**
		TOTAL	

Purpose :

Budgeted Expenditure - Yes / No* Funds Available - Yes / No* *(* Delete as appropriate)*

QUOTATIONS / TENDERS RECEIVED

Supplier / Service Provider	**Approved Supplier / Service Provider (Yes / No)**	**Date**	**Contact Person & Tel. (Verbal quotation)**	**Price Offered HK$**	**Special Conditions / Remarks**

Recommended Supplier / Service Provider: _____ **PO No. :**_____

Reason(s) if not the lowest offer : _____

Proposed by : _____ Signature :_____ Date :_____

Approved by : _____ Signature :_____ Date :_____

Approved by : _____ Signature :_____ Date :_____

Annex 15

Sample Purchase Order

The MC issued a Purchase Order (PO) to confirm ordering of goods / service with the supplier / service provider ***(Sub-section 3.4.3)***.

PURCHASE ORDER

The Incorporated Owners of XXX Building

Address : Tel No. : Fax No. :

Email :

No. :_____

Date :_____

Supplier / Service Provider :
Code of Supplier / Service Provider :

Account Code	Particulars	Quantity	Unit Price HK$	Total Price HK$
			TOTAL	

Payment Instruction : _____

Shipping Instruction : _____

Time Required : _____

Remarks : _____

Approved by : _____ Approved by : _____
(name and signature) (name and signature)

Date : _____

The supplier / contractor shall not offer, solicit or accept any advantage as defined in the Prevention of Bribery Ordinance (Cap. 201) in connection with the supply of goods / service to the Owners' Corporation.

Annex 16

Sample Payment Voucher

A Payment Voucher (PV) is used to record the approval of payment and the accounting entries made in the General Ledger / Cash Book ***(Sub-section 3.4.4)****. The original invoice and PR should be attached to the PV to support payment.*

PAYMENT VOUCHER

The Incorporated Owners of XX Building

No. :_____

Date :_____

Pay To :

Account Code	Particulars	Debit HK$	Credit HK$
	TOTAL		

Bank Account : Cheque No. :

Prepared by : _____ Signature :_____ Date :_____

Approved by : _____ Signature :_____ Date :_____

Recorded by : _____ Signature :_____ Date :_____

Annex 17

Sample Cheque Register

The Cheque Register lists the cheques issued in sequential order and categorizes payments to facilitate supervisory checks. More expenditure categories may be added to the Cheque Register to suit the needs of individual OC.

Cheque No.	PV. No.	Date	Payee	Cleaning HK$	Insurance HK$	Miscellaneous Expenses HK$	Petty Cash Replenishment HK$	Professional Fees HK$	Repairs & Maintenance HK$	Security HK$	Public Utility HK$
12345	101	31.12.XX	Cleaning contractor	x,xxx							
12346	102	31.12.XX	Insurance Company		xxx						
12347			Voided cheque								
12348	103	31.12.XX	Accounting firm					x,xxx			
12349	104	31.12.XX	petty cash holder				xxx				
12350	105	31.12.XX	security contractor							x,xxx	
12351	106	31.12.XX	XXX restaurant (Entertainment)			xxx					
Autopay	107	31.12.XX	Water Supplies Dept.								xxx
Autopay	108	31.12.XX	electricity company								xxx
Autopay	109	31.12.XX	telephone company								xxx
Total				**x,xxx**	**xxx**	**xxx**	**xxx**	**x,xxx**		**x,xxx**	**x,xxx**

Prepared by :

_____

(name and signature)
Date :

Checked by :

_____

(name and signature)
Date :

SAMPLE

Annex 18

Sample Fixed Assets Register

Asset Ref. No.	Asset Description	Asset Picture	Location	Asset Class	Useful Life / Depreciation Rate	Date of Purchase	Cost HK$	Insurance / Maintenance	Date of Disposal / Photo	Sold to / Amount HK$
0001	Bus Registration No. AB111		Car Park	Vehicle	10 years	1.1.2XX1	xxx,xxx	5 years warranty		
0002	Computer Serial No. 12345		Management office	Computer	3 years	3.1.2XX1	xx,xxx	3 years warranty		
0003	Computer Monitor Serial No. 45678		Management office	Computer	3 years	3.1.2XX1	xx,xxx	1 year warranty		

Note : The responsible MC member / staff should sign against the record every time after updating the Fixed Assets Register.

SAMPLE

Annex 19

Example on Computation of Depreciation

Depreciation of each fixed asset can be calculated using the method approved by the MC. Two simple and commonly used methods are shown below:

Straight-line Method

Evenly distribute the cost of a fixed asset, less the expected final disposal value (if any), over its expected useful life:

$$\textbf{Depreciation charge} = \frac{\textbf{cost of fixed asset – expected disposal value}}{\textbf{useful life}}$$

(note: expected disposal value could be $0)

Reducing Balance Method

Apply a fixed rate (percentage) of depreciation to the asset each year:

Depreciation charge = net book value x rate of depreciation

Example

Cost of equipment = $8,000
Estimated useful life = 4 years
Expected disposal value at the end of useful life = $500
Depreciation rate for reducing balance method = 50%

	Straight-line Annual depreciation = ($8,000-$500) / 4 HK$	**Reducing Balance** Annual depreciation = net book value x 50% HK$
Cost	8,000	8,000
Depreciation - year 1	1,875	4,000
Net book value	6,125	4,000
Depreciation - year 2	1,875	2,000
Net book value	4,250	2,000
Depreciation - year 3	1,875	1,000
Net book value	2,375	1,000
Depreciation - year 4	1,875	500
Net book value (diposal value)	500	500

Accounting Entries for Depreciation (Year 4)	Dr	Cr
DR. Depreciation	$1,875	
CR. Accumulated Depreciation		$1,875

Annex 20

Example on Computation of Gain on Disposal of Fixed Assets

Example – Calculation of Gain on Disposal of Fixed Asset

	HK$
Cost of fixed asset	1,000
Less : Accumulated Depreciation	500
Net Book Value of Fixed Assets	500
Less : Sales Proceeds	800
Gain on Disposal of Fixed Asset	300

Accounting Entries for Gain on Disposal of Fixed Asset	Debit	Credit
DR. Accumulated Depreciation (accumulated depreciation charged on the disposed fixed asset)	$500	
DR. Bank (sales proceeds of fixed asset)	$800	
CR. Fixed Asset (cost of the disposed fixed asset)		$1,000
CR. Gain on Disposal of Fixed Asset		$300
Total	$1,300	$1,300

Annex 21

Example on Computation of Loss on Disposal of Fixed Assets

Example – Calculation of Loss on Disposal of Fixed Asset

	HK$
Cost of fixed asset	1,000
Less : Accumulated Depreciation	500
Net Book Value of Fixed Assets	500
Less : Sales Proceeds	300
Loss on Disposal of Fixed Asset	200

Accounting Entries for Loss on Disposal of Fixed Asset	Debit	Credit
DR. Accumulated Depreciation (accumulated depreciation charged on the disposed fixed asset)	$500	
DR. Bank (sales proceeds of the disposed fixed asset)	$300	
DR. Loss on Disposal of Fixed Asset	$200	
CR. Fixed Asset (cost of the disposed fixed asset)		$1,000
Total	$1,000	$1,000

SAMPLE

Annex 22

Example of Bank Reconciliation Statement

Bank: ABC Bank Account No. : Current Account 012-123456-001

Bank Reconciliation Statement

(as at 31.1.2XX1)

		HK$	Record subsequent clearance of reconciling Items
Balance per Cash Book:		123,456	
Add:			
Unpresented cheques			
• Cheque No. 123393	400		Cheque presented on 2.2.2XX1
• Cheque No. 123394	2,000		Cheque presented on 3.2.2XX1
Credit Transfer			
• Management Fees	1,000	3,400	Recorded in cash book on 5.2.2XX1
Less:			
Bank Lodgement not shown on Bank Statement			
• Cheques deposited on 31.1. 2XX1	1,000		
Dishonoured Cheque	1,000		Adjusted cash book on 3.2.2XX1.
Bank Charges	50		Handling fee for dishonoured cheque. Recorded in cash book on 3.2.2XX1.
Autopay of electricity bill	20,000	22,050	Autopay effected on 31.1.2XX1. Recorded in cash book on 3.2.2XX1
Balance per Bank Statement		104,806	

Prepared by :	**Approved by :**
(name / title)	**(name / title)**

(Note : The figures used in the above Bank Reconciliation Statement are for illustrative purpose only)

SAMPLE

Annex 23

Example of Income and Expenditure Account of the General Fund

The Owners Incorporation of XXX Building
General Fund

Income and Expenditure Accounts

For the Year Ended 31.12.2XX1

Account No. (Annex 28- pages 6 and 7)		Note	2XX1 HK$	2XX0 HK$	Variance	Reason
	Income					
100	Management Fees	2	x,xxx,xxx	x,xxx,xxx		
102	Club Income		xxx,xxx	xxx,xxx	+x%	More activities organized in 2XX1
103 (a)	Interest Income		xxx,xxx	xxx,xxx		
			x,xxx,xxx	x,xxx,xxx		
	Expenditure					
110	Cleaning and Refuse Collection		(xxx,xxx)	(xxx,xxx)		
111	Club Expenses		(xxx,xxx)	(xxx,xxx)	+y%	More activities organized in 2XX1
112	Depreciation	3	(xx,xxx)	(xx,xxx)		
114	Horticulture		(xx,xxx)	(xx,xxx)		
115	Insurance		(xx,xxx)	(xx,xxx)		
117	Miscellaneous Expenses		(x,xxx)	(x,xxx)		
118	Professional Fees		(xx,xxx)	(xx,xxx)		
119	Rates and Government Rent		(xx,xxx)	(xx,xxx)		
120	Repairs & Maintenance		(xx,xxx)	(xx,xxx)		
122	Security		(xxx,xxx)	(xxx,xxx)		
123 - 126	Staff Cost		(xxx,xxx)	(xxx,xxx)	+z%	Filled vacancy of estate management staff
128	Transportation		(x,xxx)	(x,xxx)		
113, 129	Utility Expenses		(xx,xxx)	(xx,xxx)		
116 (a)	Manager's Remuneration	4	(xxx,xxx)	(xxx,xxx)		
			(x,xxx,xxx)	(x,xxx,xxx)		
	Surplus / (Deficit) Before Tax		xxx,xxx	xxx,xxx		
127	**Taxation**		-	-		
	Surplus / (Deficit) After Tax		xxx,xxx	xxx,xxx		
50	**Accumulated Surplus Brought Forward**		xx,xxx	xx,xxx		
	Accumulated Surplus Carried Forward		**xxx,xxx**	**xxx,xxx**	**Balance Sheet Item** *(Annex 25)*	

Approved by the Management Committee on _____

Signed by : _____ and _____

(Chairman) (Secretary / Treasurer)

Annex 24

Example of Income and Expenditure Account of the Contingency Fund

The Owners Incorporation of XXX Building
Contingncy Fund
Income and Expenditure Accounts
For the Year Ended 31.12.2XX1

Account No. *(Annex 28- pages 6 and 7)*		Note	2XX1 HK$	2XX0 HK$	Variance	Reason
	Income					
101	Management Fees	2	x,xxx,xxx	x,xxx,xxx		
103 (b)	Interest Income		xxx,xxx	xxx,xxx		
			x,xxx,xxx	x,xxx,xxx		
	Expenditure					
121	Replacement of Equipment		(xxx,xxx)	(xxx,xxx)		
116 (b)	Manager's Remuneration	4	(xx,xxx)	(xx,xxx)		
			(xxx,xxx)	(xxx,xxx)		
	Surplus / (Deficit)		x,xxx,xxx	x,xxx,xxx		
51	**Accumulated Surplus Brought Forward**		x,xxx,xxx	x,xxx,xxx		
	Accumulated Surplus Carried Forward		x,xxx,xxx	x,xxx,xxx	**Balance Sheet Item** *(Annex 25)*	

Approved by the Management Committee on _____

Signed by : _____ and _____
(Chairman) (Secretary / Treasurer)

SAMPLE

Annex 25

Example of Balance Sheet

The Owners Incorporation of XXX Building

Balance Sheet

As at 31.12.2XX1

Account No. (Annex 28- pages 6)		Note	2XX1 HK$	2XX0 HK$	Variance	Reason
	NON-CURRENT ASSETS					
01, 11	Vehicles	3	xxx,xxx	xxx,xxx		
02, 12	Furniture and Fixtures		xxx,xxx	xxx,xxx		
03, 13	Office Equipment	3	xx,xxx	xx,xxx		
			xxx,xxx	xxx,xxx		
	CURRENT ASSETS					
20	Public Utility Deposits		xx,xxx	xx,xxx		
21	Management Fee Receivable		x,xxx	x,xxx		
22	Other Receivables		x,xxx	x,xxx		
23	Prepayments		x,xxx	x,xxx		
30	Bank Deposits		x,xxx,xxx	x,xxx,xxx	+x%	Deposit 2XX1's contribution to the contingency fund
31, 32	Cash at Bank		xxx,xxx	xxx,xxx		
39	Cash on Hand		xx,xxx	xx,xxx		
			x,xxx,xxx	x,xxx,xxx		
	CURRENT LIABILITIES					
41, 42	Accounts Payable and Accrued Charges		(xx,xxx)	(xx,xxx)		
43	Receipt in Advance		(x,xxx)	(x,xxx)		
			(xx,xxx)	(xx,xxx)		
	NET CURRENT ASSETS / (LIABILITIES)		**x,xxx,xxx**	**x,xxx,xxx**		
	NON-CURRENT LIABILITIES					
40	Management Fee Deposits		**(x,xxx,xxx)**	**(x,xxx,xxx)**		
	NET ASSETS / (LIABILITIES)		**x,xxx,xxx**	**x,xxx,xxx**		
	Representing :-					
50	General Fund		**xxx,xxx**	**xxx,xxx**	**Income & Expenditure A / C (Annex 23)**	
51	Contingency Fund		**x,xxx,xxx**	**x,xxx,xxx**	**Income & Expenditure A / C (Annex 24)**	
52	Special Fund		**x,xxx,xxx**	**x,xxx,xxx**		
			x,xxx,xxx	**x,xxx,xxx**		

Approved by the Management Committee on _____

Signed by : _____ and _____

(Chairman) (Secretary / Treasurer)

SAMPLE

Annex 26

Example of Notes to the Accounts

The Owners Incorporation of XXX Building

Notes to the Accounts

1. Significant Accounting Policies

(a) Statement of Compliance

These accounts have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (HKFRSs), which collective term includes all applicable individual HKFRSs, Hong Kong Accounting Standards and Interpretations issued by the Hong Kong Institute of Certified Public Accountants, and accounting policies generally accepted in Hong Kong. A summary of the significant accounting policies adopted by The Owners Incorporation of XXX Building is set out below.

(b) Basis of Preparation of the Accounts

(i) The purpose and use of the General Fund and the Contingency Fund are approved by The Owners' Incorporation of XXX Building in the annual general meeting.

(ii) The measurement basis used in the preparation of the accounts is historical cost basis.

(c) Fixed Assets

Fixed assets of The Owners Incorporation of XXX Building are stated at cost less accumulated depreciation.

Depreciation on fixed assets is calculated using the straight-line method (see Note 3).

(d) Accounts Receivable and Prepayments

Accounts receivable and prepayments are recognized at fair value less allowance for impairment of doubtful debts.

(e) Contingency Fund

The initial contributions to the contingency fund represents amounts received from the first owners at the dates of purchase of their respective units and are non-refundable. The charge for the year is in accordance with approved budgets at the beginning of the financial year. The fund is utilized for major works of a capital nature of the building and payment on account of such sum of manager's remuneration in respect of any expenditure out of the contingency fund.

(f) Management Fee Deposits

Management fee deposits represent 3 months management deposits received from the first purchasers. The purpose of collecting such management fee deposits is to comply with the deed of mutual covenant.

(g) Interest Income

Interest income from bank deposits is accrued using the effective interest method. Time deposits interest earned on the balances of the General Fund, Contingency Fund and Special Fund are credited to the respective funds.

(h) Related Parties

For the purposes of these accounts, a party is considered to be related to the Manager / Owners' Incorporation of XXX Building if :

(i) the party has the ability, directly or indirectly through one or more intermediaries, to control the Management Committee members / Manager or exercise significant influence over the Management Committee members / Manager in making financial and operating policy decisions; or

(ii) the party is a subsidiary, an associate of the Manager or a joint venture in which the Manager is a venturer.

2. Management Fees

Management fees collected are allocated to the General Fund for day-to-day estate management and to the Contingency Fund to provide for maintenance and replacement of major capital items :

	2XX1 HK$	2XX0 HK$
General Fund	x,xxx,xxx	x,xxx,xxx
Contingency Fund	x,xxx,xxx	x,xxx,xxx
Total Management Fees	x,xxx,xxx	x,xxx,xxx

3. Depreciation

Depreciation is charged at xx% per annum on cost of the asset using the straight-line method.

	Car HK$	Furniture and Fixtures HK$	Office Equipment HK$	Total HK$
Cost at 1.1.2XX1	200,000	80,000	100,000	380,000
Accumulated Depreciation	100,000	40,000	50,000	190,000
Net Book Value at 1.1.2XX1	100,000	40,000	50,000	190,000
Depreciation in 2XX1	20,000	8,000	10,000	38,000
Net Book Value at 31.12.2XX1	80,000	32,000	40,000	152,000

4. Manager's Remuneration

Manager's remuneration is payable to XXX Limited as Manager and is calculated at x% (2XX0 : x%) of the total management expenses for the year, in accordance with the provisions of the management agreement.

5. Taxation

The Owners Incorporation of XXX Building are deemed not to carry on business under Section 24(1) of the Inland Revenue Ordinance and therefore exempted from Hong Kong Profits Tax.

The above format, figures and wording of the Sample Notes to Accounts are for illustrative purpose only. It is not intended to cover all disclosures required by the HKFRS.

Annex 27

Example of Unqualified Auditor's Report on Financial Statements of Owners' Corporation of Building

(Applicable for auditor's report dated on or after 1 August 2007)

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS[1] OF THE OWNERS' CORPORATION OF ABC BUILDING ("CORPORATION")
(incorporated in Hong Kong and registered in the Land Registry under section 8 of the Building Management Ordinance)

We have audited the financial statements of the Corporation set out on pages ..... to..... , which comprise the balance sheet as at 31 December 200X, and the income statement, [statement of changes in equity or statement of recognised income and expense] and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management Committee's responsibility for the financial statements

The Building Management Ordinance requires the Management Committee to prepare financial statements including an income and expenditure account and a balance sheet which give a true and fair view of the financial transactions and financial position of the Corporation. Accordingly, the Management Committee is responsible for the preparation and true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit[2]. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

1 The addressee of the report may not necessarily always be the members of the Owners' Corporation.

2 Auditors may consider it appropriate to clarify to whom they are responsible here or elsewhere in the report in accordance with their risk management policies and with reference to Professional Risk Management Bulletin No. 2 "Auditors' Duty of Care To Third Parties and The Audit Report".

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Management Committee, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the financial transactions of the Corporation during the year ended 31 December 200X and the financial position of the Corporation at 31 December 200X and of the Corporation's cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards.

XYZ & Co.
Certified Public Accountants (Practising) [or Certified Public Accountants]
[Address]
Date

Note:

1. The BMO only requires financial statements comprising an income and expenditure account and a balance sheet which give a true and fair view of the financial transactions and financial position of the corporation.
2. Given that the fair presentation financial reporting framework in Hong Kong is HKFRS, financial statements should comprise:

   (a) balance sheet;

   (b) income statement;

   (c) statement of changes in equity or statement of recognised income and expense;

   (d) cash flow statement; and

   (e) a summary of significant accounting policies and other explanatory notes.

Annex 28

Maintenance of Accounting Records Using Double Entry Accounting

1. The diagram below outlines the key steps for maintenance of accounting records :

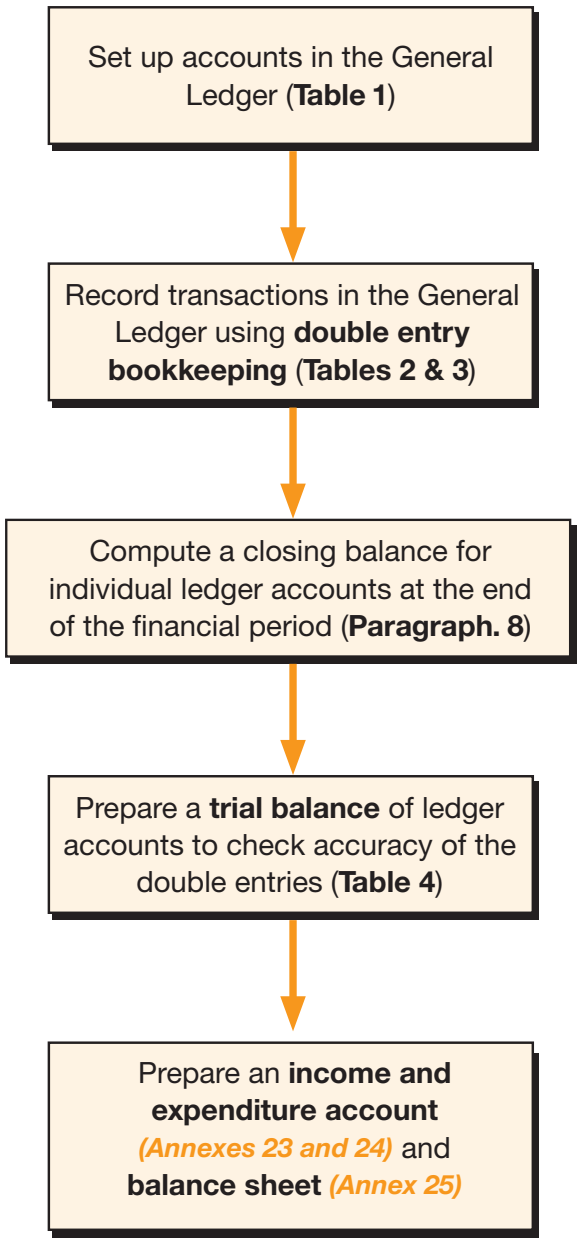


Figure 1 -Annex 28

Setting up Ledger Accounts

2. OCs may records all their transactions in a **general ledger** and **cash book** (for bank receipts and payments) using the **double entry bookkeeping** method. The **general ledger** contains accounts for assets and liabilities, capital, revenue and expenditures. Each **account** is allocated with a designated account number and is shown on a separate page to record its detailed transactions. For example :

Account Name : ***Bank - Current Account***
Account No. : ***32***

Date	Voucher Ref.	Folio	Particulars	Debit HK$	Credit HK$	Balance HK$
1.1.2XX1			**Opening Balance**			xxx,xxx
3.1.2XX1	RV01	R2	Management fee income	x,xxx		xxx,xxx
5.1.2XX1	PV01	A1	Purchase of fixed asset by cash		x,xxx	xxx,xxx
5.1.2XX1	PV02	A21	Replenishment of petty cash fund		x,xxx	xxx,xxx
31.1.2XX1			**Closing Balance**			xxx,xxx

Figure 2 - Annex 28

3. Ledger accounts that are generally used by an OC are shown in **Table 1** below.

Balance Sheet Accounts | **Income and Expenditure Accounts**

Account Number	Account Name
Asset Accounts	
01	Vehicles
02	Furniture and Fixtures
03	Office Equipment
11	Accumulated Depreciation – Vehicles
12	Accumulated Depreciation – Furniture and Fixtures
13	Accumulated Depreciation – Office Equipment
20	Public Utility Deposits
21	Management Fee Receivable
22	Other Receivables
23	Prepayments
30	Bank - Deposit Account
31	Bank - Saving Account

Account Number	Account Name
Revenue Accounts (Income)	
100	Management Fee – General Fund
101	Management Fee – Contingency Fund
102	Club Income
103 (a)	Interest Income – General Fund
103 (b)	Interest Income – Contingency Fund
Expenditure Accounts	
110	Cleaning and Refuse Collection
111	Club Expenses
112	Depreciation
113	Electricity
114	Horticulture
115	Insurance
116 (a)	Manager's Remuneration – General Fund

Balance Sheet Accounts		Income and Expenditure Accounts	
Account Number	**Account Name**	**Account Number**	**Account Name**
		116 (b)	Manager's Remuneration – Contingency Fund
32	Bank - Current Account	117	Miscellaneous Expenses
39	Petty Cash	118	Professional Fees
		119	Rates and Government Rent
	Liability Accounts	120	Repairs and Maintenance
40	Management Fee Deposit	121	Replacement of Equipment
41	Accounts Payable	122	Security Service
42	Accrued Charges	123	Staff Cost – Salary
43	Receipt in Advance	124	Staff Cost – Long Service Payment and other Compensation
	Reserve Accounts	125	Staff Cost - Medical
50	General Fund	126	Staff Cost – Provident Fund Contributions
51	Contingency Fund	127	Taxation
52	Special Fund	128	Transportation
		129	Water
		130	Gain / Loss on Disposal of Fixed Assets

Table 1 - Annex 28

4. While OCs with few transactions may record all their transactions in the general ledger, OCs with more transactions may prefer to use a separate **cash book** to record their bank receipts and payments. A sample cash book is shown in **Figure 3** below.

Cash Book – Bank XX : Current Account

Date	Official Receipt / Cheque No.	Particulars	Receipt (Debit) HK$	Payment (Credit) HK$	Bank Balance HK$
Opening Bank Balance as at 1.1.2XX1					**xxx,xxx**
3.1.2XX1	OR01	Management fee	x,xxx		xxx,xxx
5.1.2XX1	OR02	Management fee	x,xxx		xxx,xxx
31.1.2XX1	12349	Replenish petty cash fund		x,xxx	xxx,xxx
31.1.2XX1	12350	Salary of security guard		x,xxx	xxx,xxx
31.1.2XX1	12351	Miscellaneous expenses		xxx	xxx,xxx
Closing Bank Balance as at 31.1.2XX1					**xxx,xxx**

Figure 3 - Annex 28

Bookkeeping by Using Double Entry Accounting

5. Under the **double entry bookkeeping** a transaction is entered twice in two ledger accounts, once on the **Debit (Dr.)** side and once on the **Credit (Cr.)** side, to show the increase / decrease of two corresponding accounts. Debit is on the left-hand side of the accounts in the double entry, and credit is on the right-hand side.

6. The double entry rules for recording the increase / decrease in assets, liabilities, capital / reserve, income and expenditure are summarized in **Table 2** below.

Types of Accounts	To record	Entry in the Account
Assets	Increase Decrease	Debit Credit
Liabilities	Increase Decrease	Credit Debit
Capital / Reserve	Increase Decrease	Credit Debit
Income	Increase Decrease	Credit Debit
Expenditure	Increase Decrease	Debit Credit

Table 2 - Annex 28

Sample Accounting Entries

7. Some examples of commonly used accounting entries are shown in **Table 3** below.

Transactions	Entries
Fixed Assets	
Purchase vehicle by cheque	Dr. Vehicle Cr. Bank – Current Account
Purchase office equipment on credit	Dr. Office Equipment Cr. Accounts Payable
Provision for depreciation of vehicles	Dr. Depreciation Cr. Accumulated Depreciation – Vehicles
Loss on disposal of office equipment (i.e. the sales proceeds is less than the net book value (cost minus accumulated depreciation) of the disposed equipment))	Dr. Bank – Saving Account Dr. Accumulated Depreciation – office equipment Dr. Loss on disposal of fixed assets Cr. Office equipment
Gain on disposal of vehicle (i.e. the sales proceeds exceeds the net book value of the fixed asset)	Dr. Bank – Saving Account Dr. Accumulated Depreciation - Vehicles Cr. Vehicles Cr. Gain on disposal of fixed assets

Transactions	Entries
Deposits and Accounts Receivables	
Payment of electricity deposit by cheque	Dr. Public Utility Deposit Cr. Bank – Current Account
Bank-in the refunded deposit to the saving account	Dr. Bank – Saving Account Cr. Public Utility Deposit
Recording management fee income	Dr. Management Fee Receivable Cr. Management Fee
Receipt of management fee	Dr. Bank – Current Account Cr. Management Fee Receivable
Prepaid Insurance	Dr. Prepayment Cr. Bank – Current Account
Bank and Cash Transactions	
Withdraw money from bank to replenish the petty cash fund	Dr. Petty Cash Cr. Bank – Current Account
Transfer funds from the current account to deposit account	Dr. Bank – Deposit Account Cr. Bank – Current Account
Transfer matured deposit to the saving account	Dr. Bank – Saving Account Cr. Bank – Deposit Account
Liabilities	
Receipt of Management Fee Deposits	Dr. Bank – Saving Account Cr. Management Fee Deposits
Insurance premium not yet paid (e.g. bill not yet due for payment)	Dr. Insurance Cr. Accrued charges
Payment of Accrued Expenses	Dr. Accrued charges Cr. Bank – Current Account
Tax Payable	Dr. Taxation Cr. Tax Payable
Pay tax	Dr. Tax Payable Cr. Bank – Current Account
Receive management fee from owners in advance for the next financial period	Dr. Bank – Current Account Cr. Receipt in Advance
Taking up management fee received in advance	Dr. Receipt in Advance Cr. Management Fee
Reserve	
Payment of maintenance cost out of the Contingency Fund	Dr. Contingency Fund Cr. Bank – Current Account
Income	
Interest income on bank deposit	Dr. Bank – Deposit Account Cr. Interest Income
Payment of Expenses	
Payment of security contractor fees	Dr. Security Cr. Bank – Current Account

Table 3 - Annex 28

Closing Accounts and Preparation of Trial Balance

8. The bookkeeper closes the ledger accounts at the end of an accounting period (monthly, quarterly or annually) to prepare the annual accounts. To close the account, the bookkeeper adds up the debit and credit entries during the accounting period to arrive at the **closing balance**. A **trial balance** of the ledger accounts is prepared to check accuracy of the double entries and detect errors. The total of those accounts with ***debit*** closing balances should equal to the total of accounts with ***credit*** closing balances. A sample trial balance is shown below :

Sample Trial Balance

A / C No.	Accounts with Debit Balances	Dr. HK$	A / C No.	Accounts with Credit Balances	Cr. HK$
01	Vehicles	xxx,xxx	11	Accmulated Depreciation– Vehicles	xx,xxx
02	Furniture and Fixtures	xxx,xxx	12	Accmulated Depreciation – Furniture and Fixtures	xxx,xxx
03	Office Equipment	xx,xxx	13	Accmulated Depreciation – Office Equipment	xx,xxx
20	Public Utility Deposits	xx,xxx	40	Management Fee Deposit	x,xxx,xxx
21	Management Fee Receivable	x,xxx	41	Accounts Payable	x,xxx
22	Other Receivables	x,xxx	42	Accrued Charges	x,xxx
23	Prepayments	x,xxx	43	Receipt in Advance	x,xxx
30	Bank – Deposit Account	x,xxx,xxx	50	General Fund	xxx,xxx
31	Bank – Saving Account	xxx,xxx	51	Contingency Fund	x,xxx,xxx
32	Bank – Current Account	xxx,xxx	52	Special Fund	x,xxx,xxx
39	Petty Cash	x,xxx			
110	Cleaning and Refuse Collection	xxx,xxx	100	Management Fee – General Fund	x,xxx,xxx
111	Club Expenses	xxx,xxx	101	Management Fee – Contingency Fund	x,xxx,xxx
112	Depreciation	xx,xxx	102	Club Income	xxx,xxx
113	Electricity	xx,xxx	103 (a)	Interest Income – General Fund	xxx,xxx
114	Horticulture	xx,xxx	103 (b)	Interest Income – Contingency Fund	xxx,xxx
115	Insurance	xx,xxx			
116 (a)	Manager's Remuneration – General Fund	xxx,xxx			
116 (b)	Manager's Remuneration – Contingency Fund	xx,xxx			
117	Miscellaneous	x,xxx			
118	Professional Fees	xx,xxx			

A / C No.	Accounts with Debit Balances	Dr. HK$	A / C No.	Accounts with Credit Balances	Cr. HK$
119	Rates and Government Rent	xx,xxx			
120	Repairs and Maintenance	xx,xxx			
121	Replacement of Equipment	xxx,xxx			
122	Security	xxx,xxx			
123	Staff Cost – Salary	xxx,xxx			
124	Staff Cost – Long Service Payment and Compensation	xxx,xxx			
125	Staff Cost - Medical	xx,xxx			
126	Staff Cost – Provident Fund Contributions	xxx,xxx			
127	Taxation	-			
128	Transportation	x,xxx			
129	Water	x,xxx			
130	Gain / Loss on Disposal of Fixed Assets	xxx			
	Total	**xx,xxx,xxx**		**Total**	**xx,xxx,xxx**

The ***total debit balances*** should equal to the ***total credit balances*** in the trial balance.

Table 4 - Annex 28

Preparation of Financial Statements

9. After preparing the trial balance, the bookkeeper can proceed to compile the financial statements. An **income and expenditure account** *(▶ Annexes 23 and 24)* is made up from the closing balances of the income accounts (sample accounts numbered 100 – 103 in **Table 4**) and the expense accounts (sample accounts numbered 110 – 130 in **Table 4**). A **balance sheet** *(▶ Annex 25)* is made up from the closing balances of the assets accounts (sample accounts numbered 01 - 39 in **Table 4**), liability accounts (sample accounts numbered 40 - 43 in **Table 4**) and the reserve accounts (sample accounts numbered 50 - 52 in **Table 4**).

Annex 29

Contacts of ICAC

Corruption Reporting

Any party may lodge a corruption complaint with the ICAC through the following channels :

By phone : 25 266 366 (24-hour hotline)

By mail : G.P.O. Box 1000, Hong Kong

In person : ICAC Report Centre (24-hour service)

G/F, 303 Java Road, North Point, Hong Kong

or

Any ICAC Regional Offices

(**Opening Hours** : Mon - Fri: 9:00am - 7:00pm

Sat, Sun and Public Holidays: Closed)

Enquiries / Services

Any party may also contact the ICAC Regional Offices for enquiries, corruption prevention and integrity management services.

ICAC Regional Offices :

Hong Kong East

Address :	Ground Floor, Tung Wah Mansion, 201 Hennessy Road, Wanchai, H.K.
Tel :	2519 6555
Fax :	2824 9766

Hong Kong West / Islands

Address :	Ground Floor, Harbour Commercial Building, 124 Connaught Road Central, H.K.
Tel :	2543 0000
Fax :	2545 5036

Kowloon East / Sai Kung

Address :	Shop No.4, G/F, Kai Tin Building, 67 Kai Tin Road, Lam Tin, Kowloon
Tel :	2756 3300
Fax :	2174 4129

Kowloon West

Address :	G/F, Nathan Commercial Building, 434-436 Nathan Road, Kowloon
Tel :	2780 8080
Fax :	2770 5158

New Territories East

Address :	G06-G13, G/F, Shatin Government Offices, 1 Sheung Wo Che Road, Shatin, New Territories
Tel :	2606 1144
Fax :	2601 6447

New Territories North West

Address :	G/F, Fu Hing Building, 230 Castle Peak Road, Yuen Long, New Territories
Tel :	2459 0459
Fax :	2146 4352

New Territories South West

Address :	G/F, Foo Yue Building, 271-275 Castle Peak Road, Tsuen Wan, New Territories
Tel :	2493 7733
Fax :	2405 6360

Annex 30

Advisory Services Group – Consultancy Services to Private Sector

The **Advisory Services Group (ASG)** of the Corruption Prevention Department, ICAC provides consultancy service to private organizations, e.g. PMCs, consultants and contractors, assisting them in improving management systems, adopting best practices and control measures, and drawing up a code of conduct to prevent abuse and corruption.

Every year, ASG provides tailor-made advice to over 300 private organizations on a wide spectrum of systems, such as procurement, store management, sales and accounting, staff administration, works related contract letting and management, etc.

- ASG's service is :
  - ➢ Free of charge
  - ➢ Tailor-made to suit the organization's needs
- All information is handled with strict confidence
- ASG pledges to respond to your request within two working days

To seek advice from the group, please contact :

Hotline :	**2526 6363**
Fax :	**2522 0505**
Email :	**asg@cpd.icac.org.hk**
Website :	**www.icac.org.hk**

Annex 31

Useful Contacts

OCs / owners may contact the following government departments and organizations for assistance and enquiry related to building financial management. Readers can also refer to the relevant websites of the government departments and organizations for the most updated details of the contacts.

Home Affairs Department		
Enquiries about : • Building management matters • Formation of OC • Legal requirements under BMO about financial management and procurement arrangements	21/F, China Overseas Building, 139 Hennessy Road, Wanchai, Hong Kong	
	Web Site Email Address	www.buildingmgt.gov.hk bm_enq@had.gov.hk
	Facsimile	2147 0984
	District Building Management Liaison Teams of 18 District Offices :	
	Central and Western	2119 5010
	Eastern	2886 6569
	Southern	2814 5762
	Wan Chai	2835 1999
	Kowloon City	2621 3406
	Kwun Tong	2171 7465
	Sham Shui Po	2150 8175
	Wong Tai Sin	3143 1160
	Yau Tsim Mong	2399 2155
	Islands	2852 4318
	Kwai Tsing	2494 4543
	North	2675 1719
	Sai Kung	2163 9431
	Sha Tin	2158 5388
	Tai Po	2654 1262
	Tsuen Wan	3515 5654
	Tuen Mun	2451 3466
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Hong Kong Housing Society		
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	Web Site Email Address	www.hkhs.com hsadvisorycentre@hkhs.com
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	Property Management Advisory Centres Main Office Central and Western Eastern Sham Shui Po Yau Tsim Mong Tai Kok Tsui To Kwa Wan Tsuen Wan Tai Po Yuen Long	 2839 7188 2839 7183 2839 7480 2839 7186 2839 7185 2839 7171 2839 7456 2839 7184 2839 7400 2839 7128

Annex 32

Glossary of Terms

Common Parts of a Building

- Apart from the parts specified for the exclusive use, occupation or enjoyment of an owner, all other parts of the building and those parts specified in Schedule 1 to the BMO, are common parts of the building (e.g. lifts, gardens, club houses, and structural parts such as foundations, columns and beams). Owners may refer to the DMC to ascertain the common parts of their building.

Current Assets

- Current assets are assets that are likely to be converted into cash within one year (e.g. management fee receivable and bank balances).

Current Liabilities

- Current liabilities are liabilities to be paid within one year (e.g. tax).

Deed of Mutual Covenant (DMC)

- A Deed of Mutual Covenant (DMC) is a private contractual agreement among all the co-owners, the Manager and the developer of a building. It defines the rights, interests and obligations of the parties concerned in respect of the control, management and maintenance of private / common parts and facilities of the buildings.

- Terms in the DMC include, among others, the definition of the common areas of the building, the ownership of such common areas, the allocation of undivided shares among building owners, the contribution of management fee, the formation of Owners' Corporation, the restrictions on the rights / obligations of building owners, and the resolution on matters concerning building management and maintenance.

- A DMC is registered with the Land Registry and comes into effect on the date of execution by the developer and the purchaser of the first unit of the building and is binding on other subsequent purchasers. As with other private contracts, the terms of a DMC cannot be amended unilaterally without the consent of all parties to the contract (i.e. unanimous agreement by 100% of ownership shares in the building).

Management Committee (MC)

- Appointed by the Owners' Corporation (OC) to exercise and perform its powers and duties.

- Members elected by owners in an AGM.

- Employ paid staff or PMC and / or contractors on behalf of the OC to provide estate management services.

Manager

- A person / PMC appointed by the OC or owners to perform day-to-day estate management duties.

Non-Current Assets

- Non-current assets are assets unlikely to be converted into cash in the short term (i.e. within one year) (e.g. fixed assets and utility deposits).

Non-Current Liabilities

- Non-current liabilities are those that do not have to be paid for within one year (e.g. management fee deposits).

Owners' Corporation (OC)

- A body corporate set up under the BMO by the owners and registered with the Land Registrar.

- An OC exercises and performs the rights, powers, privileges and duties of the owners, and acts legally on behalf of the owners in respect of any liabilities, in relation to the common parts of the building.

Undivided Shares

- Ownership in a multi-storey building is generally expressed in terms of undivided shares. When an owner purchases a flat in a multi-storey building, he is not only entitled to the exclusive possession of his flat, but also jointly owns the common parts of the building with other owners of the same building. As the common parts are co-owned by all owners, the shares of the building are undivided.

- The undivided shares of each flat are set out clearly in the DMC of the building. Under most circumstances, the maintenance and management fees as well as the voting right of owners at a meeting of owners are determined on the basis of the undivided shares owned by him.