

Enhancing Self-Reliance Through District Partnership (ESR) Programme Notes for Auditors of Grantees

These notes aim to provide guidance for the Auditors of Grantee in conducting audit engagements and in preparing the auditors' report for an ESR project.

Pursuant to Clauses 6.2 - 6.4 of the Agreement¹ made between the Government of the Hong Kong Special Administrative Region ("Government") and the Grantee, the Grantee is required to submit the annual and final "audited accounts"², as the case may be, in respect of each ESR project ("the Project") to the ESR Programme Secretariat according to the stipulated timeframe. The requirement to submit audited accounts is to assure the Government that:

- (a) the approved grant have been fully and properly applied to the Project for which they were paid, received and expended in accordance with the approved Project budget and for the agreed purposes; and
- (b) the Grantee has complied with the terms and conditions of the Agreement in the administration and management of the Project and usage of the grant.

RESPONSIBILITIES OF THE APPOINTED AUDITOR

2. In conducting an audit engagement on the Project, you as the appointed Auditor should perform such procedures³ as you consider necessary in the circumstances and obtain all the information and explanations which you consider necessary in order to provide you with sufficient evidence to give your opinion as to whether the Grantee has

¹ The Agreement for the ESR project signed between the Government of the Hong Kong Special Administrative Region and the Grantee is referred to as the "Agreement".

² The annual and final "audited accounts" mean any statement of account in respect of the Project (containing auditors' report, balance sheet, income and expenditure statement, cash flow statement and notes to the accounts) prepared in accordance with the relevant laws of Hong Kong and the Hong Kong Financial Reporting Standards Framework (including the Accounting Standards and Interpretations as the Hong Kong Institute of Certified Public Accountants may issue and update from time to time) and duly audited, dated and signed by a practice unit as defined under the Professional Accountants Ordinance (Cap. 50) which is not in any way connected with the Project.

³ The audit procedures of an ESR Project include, but not limited to the following:

- a. performing tests of transactions and of the existence, ownership and valuation of assets and liabilities of the Grantee;
- b. requesting the Grantee to provide written confirmations or oral representations on matters having a material effect on the income and expenditure accounts, and requesting sight of all documents or statements which are due to be issued with the statement of accounts;
- c. obtaining an understanding of the accounting and control systems in order to assess their adequacy as a basis for the preparation of the Project accounts and to establish whether a proper and separate set of Project books and records have been kept and maintained by the Grantee;
- d. assessing significant estimate and judgments made by the Grantee in the preparation of the annual and final accounts, and whether the accounting policies have followed the requirements of the ESR Programme, consistently applied and adequately disclosed;
- e. evaluating the overall adequacy of the presentation of information in the annual and final accounts;
- f. verifying the register of equipment funded by the ESR Programme; and
- g. confirming the Grantee has complied with the requirements set out in Hong Kong Accounting Standard 16 "Property, Plant and Equipment" that the fixed assets had been recognized as "assets" and depreciation had been provided on fixed assets over their useful life.

complied with, in all material respects, the requirements set by the Advisory Committee on ESR Programme, and all the terms and conditions of the ESR funding, as specified in the Agreement, which includes the Project proposal and all the Schedules attached to the Agreement.

3. The Agreement stipulates the Grantee's duty to maintain proper books of accounts and prepare statements of accounts in order to give a true and fair view of the Project's financial position (including the requirement to prepare annual/final audited accounts of the Project). The Grantee is also responsible for making available to you all the Project's books of accounts and all other records and related information in carrying out your duties as auditor.

4. You have the responsibility to report whether in your opinion the statements of accounts gives a true and fair view of the Project's income and expenditure for the period under audit and of its state of affairs as on the period-end date, and whether the Project has complied, in all material respects, with the requirements as stipulated in the Agreement. In arriving at your conclusions, you are required to consider the following matters, and make appropriate qualifications to disclose any such matters in your report with which you are not satisfied, including:

- (a) whether proper books of accounts have been kept by the Grantee for the Project;
- (b) whether the Project's income and expenditure statement and balance sheet comply with the accounting policies and are in agreement with the books of accounts; and
- (c) whether you have obtained all the information and explanations which you consider necessary for the purpose of your audit.

5. There are other matters which may need to be dealt with in your report as well. For example, where there are any irregularities or cases of non-compliance in which the ESR funding are used other than for the specific purposes for which the grants are approved, you are required to make full disclosure and quantify the effects of any such non-compliance noted during the course of your audit in the auditors' report.

6. You have the responsibility to make appropriate qualifications in your report if the financial statements of the Project do not comply in any material respect with the Grantee's accounting policies, applicable accounting standards, or any requirements stipulated in the Agreement (e.g. the procurement procedures as stated in Clause 8.1 of the Agreement), unless you have evaluated that such departure is justified under the circumstance and proper disclosures have been made in your report.

SCOPE OF THE AUDIT

7. Your audit shall be conducted in accordance with the relevant laws of Hong Kong and applicable Hong Kong Standards on Auditing issued and updated from time to time by

the Hong Kong Institute of Certified Public Accountants. You will obtain an understanding of the accounting and internal control systems of the Grantee in order to assess their adequacy as a basis for the preparation of the statements of Project accounts and to establish whether proper books of accounts have been maintained by the Grantee. You are expected to obtain such relevant and reliable evidence as you consider, in your professional judgement, to be sufficient to enable you to draw reasonable conclusions therefrom.

8. You will appreciate that the size of the Project may render it uneconomical to create a system of internal control based on the segregation of duties for different functions within each area of the Project. In the running of the Project, it may be possible that only a few members of the Grantee staff were closely involved with the Project transactions. In planning and performing your audit work, you will need to take into account the possible existence of this kind of weaknesses in the Grantee's internal control system.

9. During the course of your audit engagement, if you come across any weaknesses or even breakdowns in the Grantee's internal controls which are considered material, they should be brought to the attention of the Grantee's management, with details of such weaknesses/breakdown and your recommendations for improvement by setting them out in a letter to the Grantee. A copy of such letter should also be sent to the ESR Programme Secretariat at the same time for reference and action as appropriate.

10. The responsibility for the prevention and detection of irregularities and fraud rests with the Grantee. However, you should plan your audit so that you have a reasonable expectation of detecting material misstatements in the Project accounts resulting from irregularities or fraud.

INTERPRETATION

11. In case of any ambiguity regarding the terms and conditions contained in the Agreement and rules and regulations governing the ESR Project, you should seek clarification from the ESR Programme Secretariat before the submission deadline. Any auditors' report containing unreasonable reservation or denial of opinion expressed by you as auditor, or prepared without due regard to any of the paragraphs above, will be rejected and returned to the Grantee for rectification.

SPECIMEN AUDITORS' REPORT

12. You are requested to follow the specimen auditors' report as per the attached Annex.

Basis of opinion

We conducted our audit in accordance with the Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgement made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Project's circumstances, consistently applied and adequately disclosed. Pursuant to the Agreement, we are also required to assess whether the Project has complied with, in all material respects, the requirements set by the Advisory Committee on ESR Programme and all the terms and conditions of the ESR Programme.

We planned and performed our audit so as to obtain all information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion, we also evaluate the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion, the financial statements have been properly prepared in accordance with the accounting policies set out in note to the financial statements and, on that basis, give a true and fair view of the state of the Project's affairs as at dd/mm/yyyy and of its results for the [year/period] then ended, and the Project has complied with, in all material respects, the terms and conditions of the Agreement.

Certified Public Accountants

Hong Kong,

Date