

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.

The organization/company engaging the Auditor concerned (i.e. the Grantee) has been approved grants by the Government of the Hong Kong Special Administrative Region (“the Government”) for implementation of a social enterprise project (“the Project”) under the ESR Programme¹. Pursuant to Clauses 6.2 - 6.4 of the Agreement² made between the Government and the Grantee, the Grantee is required to submit the annual and final “audited accounts”³, as the case may be, in respect of the Project to the Government according to the stipulated timeframe.

2. The requirement to submit audited accounts is to assure the Government that the Grantee has complied with the terms and conditions of the Agreement in the implementation of the Project, in particular, in the usage of the approved grant of the ESR Programme for the agreed purposes of the Project.

3. The Agreement stipulates the Grantee’s duties 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 the appointed Auditor all the Project's books of accounts as well as all other records and related information.

RESPONSIBILITIES OF THE APPOINTED AUDITOR

¹ The ESR Programme is a funding scheme implemented by the Home Affairs Department of the Government to provide grants to eligible organisations for setting up or expanding social enterprises, with a view to creating job opportunities /providing products/services for the socially disadvantaged to enhance their self-reliance and integration into the community.

² The agreement stipulating terms and conditions of the grant awarded by the Government and signed between the Government and the Grantee is referred to as the “Agreement”.

³ 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.

4. The appointed Auditor should perform such procedures as is considered necessary in the circumstances and obtain all the necessary information and explanations in order to provide sufficient evidence for him/her to give opinion as to whether 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 Grantee has complied with, in all material respects, all the terms and conditions in the Agreement, which includes the Project proposal and all the Schedules attached thereto.

5. On top of the routine parameters covered by an audit engagement, the appointed Auditor's attention is particularly drawn to the following:-

- (a) verifying the register of equipment funded by the ESR Programme;
- (b) checking whether the Grantee has complied with Clause 5.3 of the Agreement regarding the setting-up and operation of a designated bank account for the Project;
- (c) checking whether the Grantee has complied with Clauses 5.4 and 5A of the Agreement regarding the use and distribution of profits under the ESR Programme;
- (d) checking whether the approved grant have been properly applied to the Project for which they were paid, received and expended in accordance with the Approved Budget in Schedule II of the Agreement; and
- (e) should there be any irregularities or cases of non-compliance in which the ESR funding is used other than for the specific purposes for which the grants are approved, fully disclosing and quantifying the effects of any such non-compliance noted during the course of audit.

6. The appointed Auditor should make appropriate qualifications in the auditor's 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 he/she has evaluated that such departure is justified under the circumstance and proper disclosures have been made in the auditor's report.

SCOPE OF THE AUDIT

7. The 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. The appointed Auditor 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. He/she is expected to

obtain such relevant and reliable evidence as is considered, in his/her professional judgement, to be sufficient for drawing reasonable conclusions therefrom.

8. The appointed Auditor may 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 the audit work, the appointed Auditor 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 audit engagement, any weaknesses or even breakdowns in the Grantee's internal controls which are considered material should be brought to the attention of the Grantee's management, with details of such weaknesses/breakdown and the appointed Auditor's recommendations for improvement set out in a letter to the Grantee. A copy of such letter should also be sent to the Secretariat to the ESR Programme (ESR 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, the appointed Auditor should plan the audit so that he/she will 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 in the Agreement and rules and regulations governing the Project, the appointed Auditor should seek clarification from the ESR Secretariat before the submission deadline. Any auditors' report containing unreasonable reservation or denial of opinion expressed by the 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. The appointed Auditor is requested to follow the specimen auditors' report as per the attached **Annex**.

The Secretariat to the Enhancing Self-Reliance
Through District Partnership Programme
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January 2017

**Specimen Auditors' Report on
the Annual/Final Accounts of Project under
the Enhancing Self-Reliance Through District Partnership Programme
of the Home Affairs Department**

**Auditors' report to
the directors of**

[] **Association Limited**¹

**[For the year ended dd/mm/yyyy For the period from dd/mm/yyyy (Date / Commencement
Date) to dd/mm/yyyy (Date / Completion Date)]**

We have audited the [annual/final] financial statements of the [] Project ("the Project") prepared by [] Limited ("xxx") for the year ending dd/mm/yyyy, on pages [nn] to [nn].

[The Project is not a separate legal entity/The xxx is responsible for the operation of the Project under the assignment by xxx's sole shareholder, [.....] Limited ("XXX") with the prior approval of the Home Affairs Department.]*(**please delete where appropriate*). These [annual/final] financial statements have been prepared for the purposes of filing with the Home Affairs Department in order to comply with the Agreement signed between the Government of the Hong Kong Administrative Region ("the Agreement") and [xxx/XXX]* (**please delete where appropriate*) in respect of the Project funded by the Enhancing Self-Reliance Through District Partnership Programme ("ESR Programme"). They have been prepared from the records of the Project and reflect all transactions recorded locally by the Project on the basis of the accounting policies set out in note [nn] to the financial statements.

Respective responsibilities of Project's management and auditors

The Project's management is responsible for the preparation of financial statements which give a true and fair view of the state of affairs of the Project as at [dd/mm/yyyy] and of its results for the [year/period] then ended. In preparing such financial statements, it is fundamental that appropriate accounting policies are selected and applied consistently in order to comply with the terms of the Agreement, that judgement and estimates are made which are prudent and reasonable and that the reasons for any significant departure from applicable accounting standards or the Agreement are properly stated.

¹ The addressee should be the responsible person(s) who sign the Agreement with the Government in respect of the ESR project. In case of doubt, please seek advice from the Grantee or approach the ESR Secretariat for information.

It is our responsibility to form an independent opinion, based on our audit and the “Notes for Auditors of Grantees” issued and modified from time to time by the Government in respect of the ESR Programme, on those financial statements and to report our opinion solely to you. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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, 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, including **Clauses 5 & 5A** of the funding agreement.

Certified Public Accountants

Hong Kong,

Date