

Community Investment and Inclusion Fund (CIIF)

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 a CIIF funded project

Pursuant to Clause 6.4 under the agreement¹ made between the HKSAR Government and the Grantee, the Grantee is required to submit the annual and final “audited account”², as the case may be, in respect of each CIIF funded project (“the Project”) in receipt of an approved fund in excess of HK\$250,000, to the CIIF Secretariat according to the stipulated timeframe. The requirement to submit audited accounts is to assure the Government that:

- (a) the approved funds 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 funding terms and conditions under the agreement signed in the administration and management of the Project and usage of the fund.

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 complied with, in all material respects, the requirements set by the CIIF Committee, and all the terms and conditions of the CIIF funding, as specified in the signed Conditions of Grant (“CoG”), which includes the Project proposal and all the attached supplementary schedules.

¹ The agreement for the CIIF funded projects signed between the HKSAR Government and the Grantee is referred to as the “Conditions of Grant” (CoG).

² The annual and final “audited account” means 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 a CIIF funded Project would normally include:

- a. performing tests of transactions and of the existence, ownership and valuation of assets and liabilities of the Project Grantee;
- b. requesting 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 CIIF, consistently applied and adequately disclosed; and
- e. evaluating the overall adequacy of the presentation of information in the annual and final accounts.

3. The CoG 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 signed CoG. 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 CIIF 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 Grantee's Project financial statements do not comply in any material respect with the Grantee's accounting policies, applicable accounting standards, or the CoG requirements, 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 will 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 Projects may render it uneconomic 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 you understand that it may be possible that only a few members of the Grantee staff were closely involved with the Project transactions. In the planning and performing of 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 Grantee management's attention 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 CIIF 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 will 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 Project Agreement and rules and regulations governing the CIIF Project, you should seek clarification from the CIIF Secretariat before the submission deadline. Any auditors' report containing unreasonable reservation or denial of opinion expressed by you as auditors, or prepared without due regard to any of the paragraphs above, etc. will be rejected and returned to the Grantee for rectification.

SPECIMEN AUDITORS' REPORT

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

The CIIF Secretariat
Labour and Welfare Bureau
November 2015

**Specimen Auditors' Report on
The Annual/Final Accounts of Project under the CIIF Funding Support
- Unqualified Opinion -**

Auditors' report to the directors of

XXX Association Limited¹

ZZZ Project

[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 XXX Association Limited ("XXX") ZZZ Project ("the Project"), an operating division of the XXX on pages to

The Project is not a separate legal entity and is not required to prepare statutory financial statements. These [annual/final] financial statements have been prepared solely for the purposes of filing with the Labour and Welfare Bureau in order to comply with the "Conditions of Grant" ("the Agreement") agreed by the HKSAR Government and the XXX in respect of the Project funded by the Community Investment and Inclusion Fund ("CIIF"). 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 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 judgements 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.

It is our responsibility to form an independent opinion, based on our audit, 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.

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

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 judgements 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 CIIF Committee and all the terms and conditions of the CIIF funding.

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 Agreement.

Certified Public Accountants

Hong Kong,

Date