

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 6.2 under the agreement¹ made between the HKSAR Government and the Grantee, the Grantee is required to submit the annual and final “audited reports”² in respect of each CIIF funded project (“the Project”) to the CIIF Secretariat according to the stipulated timeframe. The requirement to submit audited reports 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

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 reports” means any statement of account in respect of the Project (containing auditors’ report, statement of financial position, income 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 statement, 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.

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.

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 reports 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 statement and statement of financial position 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 INDEPENDENT AUDITORS' REPORT

12. You are expected to follow the specimen independent auditor's report for financial periods ending on or after 15 December 2016 as per attached Annex.

The CIIF Secretariat
Labour and Welfare Bureau
November 2017

Specimen

**Independent Auditor’s Report
The Annual/Final Accounts of Project under the CIIF Funding Support
- Unqualified Opinion –**

To the Project’s Management of XXX Limited⁴

(Incorporated in Hong Kong with [limited liability/liability limited by guarantee])

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)]

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of XXX Limited set out on pages to, which comprise the statement of financial position as at DD/MM/YYYY, and the income statement, statement of changes in equity and statement of cash flows for the [year/period] then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements give a true and fair view of the financial position of XXX as at DD/MM/YYYY, and of its financial performance and its cash flows and the state of the Project’s affairs and of its results for the [year/period] then ended, and the Project has complied with, in all material respects, the Agreement and in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountant (“HKICPA”) and have been properly prepared in compliance with Hong Kong Companies Ordinance.

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 “Condition 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.

Basis for Opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing (“HKASs”) issued by HKICPA. Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the XXX in accordance with HKICPA’s Code of Ethics for Professional Accountants (“Code”), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion. Pursuant to the Agreement, we are also required to assess whether the Project has complied with, in

⁴ 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.

all material respects, the requirements set by the CIIF Committee and all the terms and conditions of the CIIF funding.

Other Information

The Project's management is responsible for the other information. The other information does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibilities is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Project's management and Those Charged with Governance for the Financial Statements

The Project's management is responsible for the preparation of the financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the Hong Kong Companies Ordinance, and for such internal control as the Project's management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Project's management is responsible for assessing the XXX's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Project's management either intends to liquidate the XXX or to cease operations, or have no realistic alternative but to do so. It is fundamental that the Project's management is also responsible for selecting appropriate accounting policies and applied consistently in order to comply with the terms of the Agreement and that judgments 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.

Those charged with governance are responsible for overseeing the XXX's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of the CIIF Committee and the Labour and Welfare Bureau of the HKSAR Government taken on the basis of these financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit

evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 XXX's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the project's management.
- Conclude on the appropriateness of the projects' management use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the XXX's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the XXX to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit

XYZ & Co.

Certified Public Accountants (Practicing) or Certified Public Accountants

[Auditor Address]

[Date]