

## **Circular on Reporting on the Audit of Schools**

**This Circular is intended for general guidance only. The Institute and the Auditing and Assurance Standards Committee (AASC) DO NOT accept any responsibility or liability, and DISCLAIM all responsibility and liability, in respect of the Circular and any consequences that may arise from any person acting or refraining from action as a result of any materials in the Circular.**

### **A. Introduction**

1. The purpose of this Circular is to provide guidance to auditors in relation to an audit of accounts of schools. This guidance is applicable to the audit of Incorporated Management Committee (IMC) schools as well as non-IMC schools.
2. Auditors of schools' accounts may be required to report on either:
  - (a) compliance with the accounting requirements established by the Education and Manpower Bureau (EMB) and the Education Ordinance which includes provision of a "true and fair view" or a "present fairly" opinion (this is addressed in part B and appendices 1 and 2 of this Circular); or
  - (b) compliance with accounting requirements established by EMB, with no explicit or implicit requirement for management to prepare accounts giving, or the auditor to report, a "true and fair view" or a "present fairly" opinion (this is addressed in part C and appendices 3 and 4 of this Circular).
3. Auditors are reminded that the attached appendices 1, 2, 3 and 4 provide illustrative examples for IMC schools only. Auditors are reminded to use their professional judgment to ascertain the exact circumstances of each of their audits of either IMC or non-IMC schools. Depending on the circumstances, an auditor may reach a different conclusion on either compliance with the EMB Code of Aid and other EMB requirements or on whether the accounts "present fairly" or "give a true and fair view" of the transactions of the school in accordance with Hong Kong Financial Reporting Standards (HKFRSs). The example audit reports will need to be modified to reflect the auditors' opinion.

### **B. Compliance with the accounting requirements of the Education and Manpower Bureau and with Hong Kong Financial Reporting Standards**

4. Auditors who have accepted an engagement to carry out an audit of a school should be aware of their reporting responsibilities as set out in the letter of engagement with their clients.

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5. Auditors would normally be required to report on a school's compliance in relation to the following two areas:
  - (a) whether the accounts of the schools have complied with the accounting requirements of the EMB; and
  - (b) whether the accounts have complied with HKFRSs such that auditors can provide a "true and fair view" opinion or a "present fairly" opinion.
6. In this regard, auditors would need to consider issuing a two-part report to address the reporting requirements. The first part of the report would set out whether the accounts "have been properly, in all material respects, in accordance with" the requirements set by the EMB. The second part of the report would set out an opinion on whether the accounts "present fairly" in accordance with HKFRSs or gives a "true and fair view" in accordance with HKFRSs.
7. Attached at appendix 1 is a two-part example Independent Auditor's Report to the IMC of ABC School based on SAS 600 *Auditors' reports on financial statements*, which is applicable for auditor's reports dated before 31 December 2006.
8. Attached at appendix 2 is a two-part example Independent Auditor's Report to the IMC of ABC School based on HKSA 700 *The Independent Auditor's Report on a Complete Set of General Purpose Financial Statements*, which is applicable for auditor's reports dated on or after 31 December 2006.
9. It is the AASC's understanding that the accounting requirements of the EMB, as they currently stand, do not conform to HKFRSs.
10. The example reports in appendices 1 and 2 illustrate an unqualified opinion for an IMC school with respect to the EMB's requirements and a "disclaimer" opinion with respect to whether the accounts "present fairly" the financial transactions in accordance with HKFRSs. The "disclaimer" opinion is based on the premise that there is a limitation of scope, which is material and pervasive, as the accounts of the school have not been prepared in accordance with HKFRSs and the IMC has not quantified the departures of the accounts from HKFRSs and where it is not practical for the auditors to quantify all the departures.

### **C. Compliance with the accounting requirements of the Education and Manpower Bureau only**

11. In the event that the auditors have received specific instructions from their clients to report on the accounting requirements of the EMB only and that there is no requirement to provide implicitly or explicitly a "present fairly" opinion or a "true and fair view" opinion, and this is set out clearly in the letter of engagement, auditors may consider reporting on the accounting requirements of the EMB only.
12. Attached at appendix 3 is an example Independent Auditor's Report to the IMC of ABC School based on SAS 600 *Auditors' reports on financial statements*, which is applicable for auditor's reports dated before 31 December 2006.

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13. Attached at appendix 4 is an example Independent Auditor's Report to the IMC of ABC School based on HKSA 700 *The Independent Auditor's Report on a Complete Set of General Purpose Financial Statements*, which is applicable for auditor's reports dated on or after 31 December 2006.
14. The example reports in appendices 3 and 4 illustrate an unqualified opinion with respect to the EMB's requirements only.

### **D. Conclusion**

15. The Institute and the AASC may issue further guidance where appropriate as a result of any developments arising from discussions with the EMB.
16. The AASC welcomes your comments and feedback, which should be sent to [commentletters@hki CPA.org.hk](mailto:commentletters@hki CPA.org.hk), for the attention of Patricia McBride, Director, Standard Setting.

Date of Circular: 22 December 2006

## APPENDIX 1

### **Example Independent Auditor's Report to the Incorporated Management Committee of ABC School based on SAS 600 *Auditors' reports on financial statements* – Reporting on the EMB requirements and HKFRSs**

**(Applicable for auditor's reports dated before 31 December 2006)**

#### **AUDITOR'S REPORT TO THE INCORPORATED MANAGEMENT COMMITTEE OF ABC SCHOOL**

We have audited the accounts for the year ended [year end date of the accounts] on pages .....to .... which have been prepared in accordance with the accounting requirements of the Education and Manpower Bureau ("EMB").

#### **Respective responsibilities of Incorporated Management Committee and auditors**

The Incorporated Management Committee of the school is responsible for preparing the accounts in accordance with the accounting requirements of the EMB, which requires the accounts to be prepared in accordance with its Code of Aid and other related accounting instructions.

It is our responsibility to form an independent opinion on these accounts and to report our opinion to you<sup>1</sup>. In addition, we are also engaged to report as to whether the school has used the government subventions in accordance with the applicable rules issued by the EMB and whether the balances of individual grant accounts are correct.

#### **Basis of opinion**

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants, except that the scope of our work was limited as explained below.

An audit includes examination on a test basis of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the Incorporated Management Committee in the preparation of the accounts, and whether the accounting policies are appropriate to the school's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the accounts are free from material misstatement. In accordance with the agreed terms of engagement, our responsibility is to consider whether the accounts have been properly prepared in accordance with the EMB's Code of Aid and its related accounting instructions. The Incorporated Management Committee has referred to the EMB's accounting requirements rather than Hong Kong Financial Reporting Standards when preparing the accounts, and has not

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<sup>1</sup> 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".

quantified the departures of these accounts from Hong Kong Financial Reporting Standards. As it is not practicable for us to quantify the departures, we are unable to fulfil our other responsibility to opine as to whether the accounts present fairly the financial transactions of the school.

In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts. In forming our opinion on the use of government subventions, our opinion thereon was based on the evidence obtained during the course of our audit of the accounts, and when reporting on the balances of individual grant accounts, we report as to whether they are correct in so far as the figures are mathematically accurate and agree to the books and records made available to us. We believe that our audit provides a reasonable basis for our opinion.

## **Opinion**

### ***Compliance with the accounting requirements of the EMB***

In our opinion:

- (i) in preparing the accounts the school has complied with the accounting requirements of the Code of Aid, the relevant letters, circulars and guidelines issued by the EMB;
- (ii) the school has used the government subventions in accordance with the rules and ambits of the government grants as promulgated in the Code of Aid, relevant letters, circulars and guidelines issued by the EMB from time to time;
- (iii) the balances of individual grant accounts are, in all material respects, correct; and
- (iv) the accounts have been properly prepared in accordance with the Code of Aid and such instructions as may be given by the Permanent Secretary for Education and Manpower and reflect the financial transactions of the school during the accounting year to which the accounts relate and the financial position of the school as at the end of the accounting year.

### ***Compliance with Hong Kong Financial Reporting Standards – Disclaimer of opinion***

Because of the significance of the matters described in the basis of opinion paragraph, we are unable to form an opinion as to whether the accounts present fairly the financial transactions of the school during the year ended [year end date of the accounts] in accordance with Hong Kong Financial Reporting Standards.

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

**Example paragraph for notes to the accounts**

**Basis of preparation**

1. These accounts have been prepared in accordance with the accounting requirements of the Code of Aid, the relevant letters, circulars and guidelines issued by the EMB.
2. The significant accounting policies are set out below:

Remarks:

1. It should be noted that the above is an example report which should be considered in instances where it is not practicable for the auditor to quantify the departures of the accounts from Hong Kong Financial Reporting Standards. Consideration should be given to other types of opinion (e.g. adverse, except for or unqualified opinion) in other instances depending on the circumstances.
2. The Basis of opinion and Opinion wordings may need to be aligned with the requirements of the EMB issued from time to time and if there are new EMB requirements that need to be reflected, the auditors should consider the new requirements and the appropriate additional audit procedures necessary.

## APPENDIX 2

### **Example Independent Auditor's Report to the Incorporated Management Committee of ABC School based on HKSA 700 *The Independent Auditor's Report on a Complete Set of General Purpose Financial Statements* - Reporting on the EMB requirements and HKFRSs**

**(Applicable for auditor's reports dated on or after 31 December 2006)**

#### **INDEPENDENT AUDITOR'S REPORT TO THE INCORPORATED MANAGEMENT COMMITTEE OF ABC SCHOOL**

##### **Report on the Accounts**

We have audited the accounts for the year ended [year end date of the accounts] of ABC School set out on pages ..... to....., which have been prepared in accordance with the accounting requirements of the Education and Manpower Bureau ("EMB").

##### *Incorporated Management Committee's responsibility for the accounts*

The Incorporated Management Committee of the school is responsible for the preparation and presentation of these accounts in accordance with the accounting requirements of the EMB, which requires the accounts to be prepared in accordance with its Code of Aid and other related accounting instructions. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and presentation of accounts 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 accounts based on our audit.<sup>1</sup> In addition, we are also engaged to report as to whether the school has used the government subventions in accordance with the applicable rules issued by the EMB and whether the balances of individual grant accounts are correct. Except for the limitation in the scope of our work as explained below, 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 accounts are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the accounts. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the accounts, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's

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<sup>1</sup> 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".

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preparation and presentation of the accounts 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 Incorporated Management Committee, as well as evaluating the overall presentation of the accounts. In forming our opinion on the use of government subventions, our opinion thereon was based on the evidence obtained during the course of our audit of the accounts, and when reporting on the balances of individual grant accounts, we report as to whether they are correct in so far as the figures are mathematically accurate and agree to the books and records made available to us.

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

### *Basis of opinion*

In accordance with the agreed terms of engagement, our responsibility is to consider whether the accounts have been properly prepared in accordance with the EMB's Code of Aid and its related accounting instructions. The Incorporated Management Committee has referred to the EMB's accounting requirements rather than Hong Kong Financial Reporting Standards when preparing the accounts, and has not quantified the departures of these accounts from Hong Kong Financial Reporting Standards. As it is not practicable for us to quantify the departures, we are unable to fulfil our other responsibility to opine as to whether the accounts present fairly the financial transactions of the school.

### *Opinion*

#### ***Compliance with the accounting requirements of the EMB***

In our opinion:

- (i) in preparing the accounts the school has complied with the accounting requirements of the Code of Aid, the relevant letters, circulars and guidelines issued by the EMB;
- (ii) the school has used the government subventions in accordance with the rules and ambits of the government grants as promulgated in the Code of Aid, relevant letters, circulars and guidelines issued by the EMB from time to time;
- (iii) the balances of individual grant accounts are, in all material respects, correct; and
- (iv) the accounts have been properly prepared in accordance with the Code of Aid and such instructions as may be given by the Permanent Secretary for Education and Manpower and reflect the financial transactions of the school during the accounting year to which the accounts relate and the financial position of the school as at the end of the accounting year.

***Compliance with Hong Kong Financial Reporting Standards – Disclaimer of opinion***

Because of the significance of the matters described in the basis of opinion paragraph, we do not express an opinion on the accounts as to whether they present fairly the financial transactions of the school during the year ended [year end date of the accounts] in accordance with Hong Kong Financial Reporting Standards.

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

**Example paragraph for notes to the accounts**

**Basis of preparation**

1. These accounts have been prepared in accordance with the accounting requirements of the Code of Aid, the relevant letters, circulars and guidelines issued by the EMB.
2. The significant accounting policies are set out below:

Remarks:

1. It should be noted that the above is an example report which should be considered in instances where it is not practicable for the auditor to quantify the departures of the accounts from Hong Kong Financial Reporting Standards. Consideration should be given to other types of opinion (e.g. adverse, except for or unqualified opinion) in other instances depending on the circumstances.
2. The Basis of opinion and Opinion wordings may need to be aligned with the requirements of the EMB issued from time to time and if there are new EMB requirements that need to be reflected, the auditors should consider the new requirements and the appropriate additional audit procedures necessary.

### APPENDIX 3

#### **Example Independent Auditor's Report to the Incorporated Management Committee of ABC School based on SAS 600 *Auditors' reports on financial statements* – Reporting on the EMB requirements only**

**(Applicable for auditor's reports dated before 31 December 2006)**

#### **AUDITOR'S REPORT TO THE INCORPORATED MANAGEMENT COMMITTEE OF ABC SCHOOL**

We have audited the accounts for the year ended [year end date of the accounts] on pages .....to .... which have been prepared in accordance with the accounting requirements of the Education and Manpower Bureau ("EMB").

#### **Respective responsibilities of Incorporated Management Committee and auditors**

The Incorporated Management Committee of the school is responsible for preparing the accounts in accordance with the accounting requirements of the EMB, which requires the accounts to be prepared in accordance with its Code of Aid and other related accounting instructions.

It is our responsibility to form an independent opinion on these accounts and to report our opinion to you<sup>1</sup>. In addition, we are also engaged to report as to whether the school has used the government subventions in accordance with the applicable rules issued by the EMB and whether the balances of individual grant accounts are correct.

#### **Basis of opinion**

We conducted our audit in accordance with Hong Kong Standards on Auditing 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 accounts. It also includes an assessment of the significant estimates and judgements made by the Incorporated Management Committee in the preparation of the accounts, and whether the accounting policies are appropriate to the school's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the accounts are free from material misstatement.

In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts. In forming our opinion on the use of government subventions, our opinion thereon was based on the evidence obtained during the course of our audit of the accounts, and when reporting on the balances of individual grant accounts, we report as to whether they are

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correct in so far as the figures are mathematically accurate and agree to the books and records made available to us. We believe that our audit provides a reasonable basis for our opinion.

### **Opinion**

In our opinion:

- (i) in preparing the accounts the school has complied with the accounting requirements of the Code of Aid, the relevant letters, circulars and guidelines issued by the EMB;
- (ii) the school has used the government subventions in accordance with the rules and ambits of the government grants as promulgated in the Code of Aid, relevant letters, circulars and guidelines issued by the EMB from time to time;
- (iii) the balances of individual grant accounts are, in all material respects, correct; and
- (iv) the accounts have been properly prepared in accordance with the Code of Aid and such instructions as may be given by the Permanent Secretary for Education and Manpower and reflect the financial transactions of the school during the accounting year to which the accounts relate and the financial position of the school as at the end of the accounting year.

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

### **Example paragraph for notes to the accounts**

#### **Basis of preparation**

1. These accounts have been prepared in accordance with the accounting requirements of the Code of Aid, the relevant letters, circulars and guidelines issued by the EMB.
2. The significant accounting policies are set out below:

Remarks

The Basis of opinion and Opinion wordings may need to be aligned with the requirements of the EMB issued from time to time and if there are new EMB requirements that need to be reflected, the auditors should consider the new requirements and the appropriate additional audit procedures necessary.

## APPENDIX 4

### **Example Independent Auditor's Report to the Incorporated Management Committee of ABC School based on HKSA 700 *The Independent Auditor's Report on a Complete Set of General Purpose Financial Statements* – Reporting on the EMB requirements only**

**(Applicable for auditor's reports dated on or after 31 December 2006)**

#### **INDEPENDENT AUDITOR'S REPORT TO THE INCORPORATED MANAGEMENT COMMITTEE OF ABC SCHOOL**

##### **Report on the Accounts**

We have audited the accounts for the year ended [year end date of the accounts] of ABC School set out on pages ..... to....., which have been prepared in accordance with the accounting requirements of the Education and Manpower Bureau ("EMB").

##### *Incorporated Management Committee's responsibility for the accounts*

The Incorporated Management Committee of the school is responsible for the preparation and presentation of these accounts in accordance with the accounting requirements of the EMB, which requires the accounts to be prepared in accordance with its Code of Aid and other related accounting instructions. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and presentation of accounts 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 accounts based on our audit.<sup>1</sup> In addition, we are also engaged to report as to whether the school has used the government subventions in accordance with the applicable rules issued by the EMB and whether the balances of individual grant accounts are correct. 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 accounts are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the accounts. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the accounts, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and presentation of the accounts in order to design audit

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<sup>1</sup> 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".

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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 Incorporated Management Committee, as well as evaluating the overall presentation of the accounts. In forming our opinion on the use of government subventions, our opinion thereon was based on the evidence obtained during the course of our audit of the accounts, and when reporting on the balances of individual grant accounts, we report as to whether they are correct in so far as the figures are mathematically accurate and agree to the books and records made available to us.

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:

- (i) in preparing the accounts the school has complied with the accounting requirements of the Code of Aid, the relevant letters, circulars and guidelines issued by the EMB;
- (ii) the school has used the government subventions in accordance with the rules and ambits of the government grants as promulgated in the Code of Aid, relevant letters, circulars and guidelines issued by the EMB from time to time;
- (iii) the balances of individual grant accounts are, in all material respects, correct; and
- (iv) the accounts have been properly prepared in accordance with the Code of Aid and such instructions as may be given by the Permanent Secretary for Education and Manpower and reflect the financial transactions of school during the accounting year to which the accounts relate and the financial position of school as at the end of the accounting year.

XYZ & Co.

Certified Public Accountants (Practising) [or Certified Public Accountants]

[Address]

Date

### **Example paragraph for notes to the accounts**

#### **Basis of preparation**

1. These accounts have been prepared in accordance with the accounting requirements of the Code of Aid, the relevant letters, circulars and guidelines issued by the EMB.
2. The significant accounting policies are set out below:

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### Remarks

The Basis of opinion and Opinion wordings may need to be aligned with the requirements of the EMB issued from time to time and if there are new EMB requirements that need to be reflected, the auditors should consider the new requirements and the appropriate additional audit procedures necessary.