

Alert

Updates on financial reporting, auditing and ethics



Issue 40 (August 2021)

Dear practising members,

Auditor's reporting requirements for the Funding Scheme for Children's Well-being and Development

Recently, the auditor's reporting requirements for the [Funding Scheme for Children's Well-being and Development](#) (Scheme) have been brought to the attention of the Standard Setting Department (SSD) of the Hong Kong Institute of Certified Public Accountants. The Scheme is administered by the Commission on Children (Commission). For projects with funding exceeding HK\$100,000, funded organizations of the Scheme are required to submit an auditor's report following [Hong Kong Standard on Related Services \(HKSRs\) 4400 Engagements to Perform Agreed-Upon Procedures Regarding Financial Information](#). The specimen agreed-upon procedures (AUP) report developed by the Commission includes the following options for reporting the "findings":

- The expenditure items incurred by the funded organizations are in compliance with the funding guidelines imposed by the Commission, or
- The expenditure items are all permissible items of expenditure.

According to the Commission's reporting requirements, one of the above findings must be included in the auditor's report and should not be amended from the specimen AUP report.

The Institute's Auditing and Assurance Standards Committee is of the view that the options for reporting the findings in the specimen AUP report include terms that imply the expression of an opinion or an assurance conclusion. Practitioners are reminded that an AUP engagement does not involve obtaining evidence for the purpose of the practitioner expressing an opinion or an assurance conclusion in any form. The SSD has sought clarification from the Commission in respect of the reporting requirements and has proposed to work with the Commission to update the specimen report, where necessary, for compliance with the relevant professional standards for its next application period in 2022.

As an interim measure, practitioners engaged to report on projects under the Scheme as an AUP engagement should consider performing procedures beyond the scope of HKSRs 4400 in order to report the findings required by the Commission, including but not limited to the following (reproduced from the funding guidelines applicable to the 2021-22 Scheme):

- Whether the expenditure items to be funded by the Commission (hereafter "expenditure items") were incurred after the Commission's formal approval of the project (paragraph 13(a));
- Whether the expenditure items were used for non-reimbursable purposes such as recurrent expenditure, purchasing durable assets, improving facilities or services of the organization, producing items for sale or disbursing travelling allowance to participants (paragraph 13(c));
- Whether expenditure items fall within the permissible items of expenditure and the relevant expenditure limits set out by the Commission (paragraph 21);

- Whether expenditure items were used in accordance with the budget and purposes approved by the Commission (paragraphs 32 and 63);
- Whether adjustments to the unit cost of expenditure items were within the higher of 25% of the approved budget or HK\$3,000. Otherwise, prior written approval was sought from the Commission (paragraphs 32 and 33);
- Whether prior written approval on major amendment or variation such as changes in project nature and cash flow requirement, the addition of expenditure item(s) not covered in the original approval was sought from the Commission (paragraph 33);
- Whether expenditure items were settled on or before the date(s) of activities as far as possible, except for expenditure items which by nature can only be incurred after the event (paragraph 35);
- Whether expenditure items are supported by the original receipt as proof of payment, except under circumstances specified by the funding guidelines (paragraph 37);
- Whether expenditure items were issued in Hong Kong and every receipt and supporting document was certified by either the officer-in-charge of the project or the authorized person of the funded organization, by affixing his/her signature and the funded organization's chop thereon (paragraph 37); and
- Whether the funded organization observed the quotation requirements specified by the funding guidelines (paragraphs 43 to 51).

Practitioners are also reminded that AUP engagements for which the terms of engagement are agreed on or after 1 January 2022 must adopt [HKSRS 4400 \(Revised\) Agreed-Upon Procedures Engagements](#).

It is practitioners' responsibilities to ensure compliance with all of the Institute's professional standards. Where necessary, practitioners should seek the Commission's clarification of the reporting requirements.

Sincere regards,

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