

CreateSmart Initiative

Notes for Auditors of Recipient Organizations

These notes aim to provide guidance for Auditor(s)¹ of Recipient Organizations in conducting reasonable assurance engagements and in preparing audited account report for each CSI project.

- (1) Pursuant to the agreement made between the HKSAR Government (the "Government") and the Recipient Organization (ROs) in respect of each CreateSmart Initiative (CSI) project and the CreateSmart Initiative Guide (CSI Guide), ROs are required to submit an audited account report containing the audited accounts² of each CSI project upon project completion to the Permanent Secretary for Culture, Sports and Tourism (PSCST) (referred below as "the Controlling Officer") according to a stipulated timeframe. The requirement to submit audited account report is to assure the Government that:
 - (a) the project funds were fully and properly applied to the project for which they were paid, and received and expended in accordance with the approved project budget; and
 - (b) ROs complied with the funding terms and conditions in the administration, management and usage of the CSI project.

- (2) In conducting a reasonable assurance engagement, Auditors should perform the following procedures:
 - (a) performing tests of transactions and of the existence, ownership and valuation of assets and liabilities;
 - (b) obtaining an understanding of the accounting systems and control in order to assess its adequacy as a basis for the preparation of the project

¹ "Auditor" means a person who for the time being is registered under the Professional Accountants Ordinance (Cap.50) and holds a practicing certificate within the meaning of that Ordinance.

² The audited account report comprises the income and expenditure statement, balance sheet, notes to the accounts and the auditors' report and means the final audited accounts of the project which have been reported on by Auditors under a reasonable assurance engagement conducted in accordance with Hong Kong Standards on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" issued by the Hong Kong Institute of Certified Public Accountants.

- accounts and to establish whether a proper and separate set of project books and records have been kept and maintained by the RO;
- (c) assessing significant estimates and judgments made by the RO in the preparation of the project accounts, and whether the accounting policies have followed the requirements of CSI, consistently applied and adequately disclosed; and
 - (d) evaluating the overall adequacy of the presentation of information in the audited accounts.
- (3) In conducting a reasonable assurance engagement, Auditors should perform the above procedures as they consider necessary in the circumstances and obtain all the information and explanations which they consider necessary in order to provide them with sufficient evidence to give their conclusion as to whether the RO has complied with, in all material respects, the requirements set by the Controlling Officer (including the requirements to keep a designated bank account solely and exclusively for the purpose of the project, keep proper books and records and to prepare audited accounts of the project), and all the terms and conditions of CSI funding, as specified in the following documents:
- (a) the agreement made between the Government and the RO in respect of the project and the appendices thereto (which includes the project proposal);
 - (b) relevant chapters of the CSI Guide; and
 - (c) all instructions and correspondences issued by the Controlling Officer to the RO in respect of the project.
- (4) A Quick Reference Guide has been issued to the RO highlighting actions and attention required on the part of the RO under the project agreement. Auditors should make reference to the Quick Reference Guide to facilitate checking of the RO's compliance with the terms and conditions of the project agreement. A copy of the Quick Reference Guide is attached for reference purpose.

- (5) Auditors should comply with the Hong Kong Standards on Assurance Engagements 3000 "Assurance Engagements Other Than Audits and Reviews of Historical Financial Information" issued and updated from time to time by the Hong Kong Institute of Certified Public Accountants³. The following information is required in an auditors' report prepared by the Auditor(s) to be submitted to the Controlling Officer:
- (a) Auditors should state whether, in their conclusion, the RO has complied with, in all material respects, the requirements set by the Controlling Officer (including the requirements to keep a designated bank account solely and exclusively for the purpose of the project, keep proper books and records and to prepare audited accounts of the project), and all the terms and conditions of CSI funding, as specified in documents mentioned in paragraph 4 above⁴;
 - (b) if Auditors are of the opinion that there exists any material non-compliance as identified in paragraph 5(a) above, they should make full disclosure and quantify the effects of such non-compliance in the audited account report; and
 - (c) if Auditors are of the opinion that a designated bank account solely and exclusively for the project has not been kept, or a proper and separate set of books and records have not been maintained, or the project accounts have not been properly prepared by the RO for the project, or if Auditors fail to obtain all the information and explanations which are necessary for the purpose of their reasonable assurance engagement, they should make appropriate qualifications in their audited account reports.

³ The Hong Kong Institute of Certified Public Accountants would expect its members to apply those relevant and applicable Standards set Out in Hong Kong Standards on Auditing when performing "Reasonable Assurance Engagements".

⁴ In expressing the conclusion on the final accounts, among other things, auditors are required to report the RO's compliance with all the provisions or chapters VII, IX, X, XI and XII of the CSI Guide applicable for CSI projects but are allowed to report the RO's compliance with paragraph 9.2.8 (keep books and records for at least seven years after completion of the project or termination of the project agreement), paragraph 9.3.5 (keep all quotations and tendering documents for at least seven years after completion of the project or termination of the project agreement) of the CSI Guide up to and including the project completion/termination date.

- (6) In the audited account report, the Auditor is required to provide a separate list of all the payable items including loans from creditors as set out under “Liabilities” in the balance sheet of the audited account report. RO should submit to the CSI Secretariat three months after receiving the final funding instalment for the project a declaration on the actual amount paid and date paid for each of the payable items as set out in the above list. The CSI Secretariat will issue a Demand Note to RO for return of all residual CSI Funds if any to the Government. If there are still outstanding payable items in the declaration submitted three months after receiving the final funding instalment, another declaration is required within three months after the first declaration.
- (7) Auditors should plan and conduct the reasonable assurance engagement to satisfy paragraphs 4 to 6 above. In case of any ambiguity regarding the terms and conditions contained in the project agreement and the rules and regulations governing the CSI projects, Auditors should seek clarification from the CSI Secretariat. Any unreasonable reservation or denial of conclusion, for example, comments about ambiguity of the CSI guidelines or requirements, expressed by Auditors in the auditors' report, will be returned to ROs for rectification before re-submission.
- (8) Auditors may come across during the course of their reasonable assurance engagements any weaknesses/breakdown in internal control which are considered material. They should bring to the RO's attention the details of such weaknesses/breakdown and provide the RO with their recommendations for improvement by setting them out in writing a letter to the RO. A copy of such letter should be sent to the Controlling Officer for reference and action as appropriate.
- (9) Auditors are expected to follow the specimen auditors' report as attached at the Annex.

**SPECIMEN AUDITORS' REPORT ON THE FINAL ACCOUNTS UNDER THE
CREATESMART INITIATIVE**

**ABC PROJECT [FOR THE PERIOD FROM DD/MM/YY (*Date/ COMMENCEMENT DATE*)
TO DD/MM/YY (*Date/ COMPLETION DATE*)]**

AUDITORS' REPORT TO THE DIRECTORS OF XYZ LIMITED⁵

- (1) Pursuant to the agreement made between the HKSAR Government (the "Government") and XYZ Limited and the CreateSmart Initiative Guide (CSI Guide) in respect of the CreateSmart Initiative (CSI) project funded by the CSI, we have performed a reasonable assurance engagement to report on whether XYZ Limited has complied with, in all material respects, the requirements set by the Permanent Secretary for Culture, Sports and Tourism (referred below as "the Controlling Officer") (including the requirements to keep a designated bank account solely and exclusively for the purpose of the project, to keep proper books and records, to prepare proper accounts of ABC Project Title (the "Project") for the period from [DD/MM/YY to DD/MM/YY] on pages x to y (the "Project Accounts")) and all the terms and conditions of the CSI funding, as specified in the following documents:
- (a) the agreement made between the Government and XYZ Limited in respect of the Project and the appendices thereto (which includes the Project proposal);
 - (b) Chapters VII, IX, X, XI and XII of the CSI Guide; and
 - (c) all instructions and correspondences issued by the Controlling Officer to XYZ Limited in respect of the Project.

Respective responsibilities of XYZ Limited and auditor

- (2) The Controlling Officer requires XYZ Limited to comply with the requirements set by the Government (including the requirements to keep a designated bank account solely and exclusively for the purpose of the project, to keep proper books and records, to prepare

⁵ For universities, the addressee should be either the President or the Vice-Chancellor of the university. For trade associations, the addressee should normally be the chairman of the association. In case of doubt, please ask the RO to approach the CreateSmart Initiative Secretariat for the advice.

proper Project Accounts), and all the terms and conditions of the CSI funding, as specified in the documents mentioned in the above paragraph.

- (3) It is our responsibility to form an independent conclusion, based on our reasonable assurance engagement, and to report our conclusion to the Controlling Officer.

Basis of conclusion

- (4) We conducted our reasonable assurance engagement in accordance with Hong Kong Standards on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" issued by the Hong Kong Institute of Certified Public Accountants and the latest Notes for Auditors of Recipient Organizations issued in *[to be inserted as appropriate]* by the CreateSmart Initiative Secretariat.
- (5) Our reasonable assurance engagement includes examination, on a test basis, of evidence relevant to XYZ Limited's compliance with the requirements set by the Controlling Officer (including the requirements to keep a designated bank account solely and exclusively for the purpose of the project, to keep proper books and records, to prepare proper Project Accounts), and all the terms and conditions of the CSI funding, as specified in the documents mentioned in the above first paragraph. It also includes an assessment of the significant estimates and judgements made by XYZ Limited in the preparation of the Project Accounts, and of whether the accounting policies have followed the requirements of the CSI, consistently applied and adequately disclosed.
- (6) We planned and performed our reasonable assurance engagement so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give our conclusion as to whether XYZ Limited has complied with, in all material respects, the requirements set by the Controlling Officer (including the requirements to keep a designated bank account solely and exclusively for the purpose of the project, to keep proper books and records, to prepare proper Project Accounts), and all the terms and conditions of the CSI funding, as specified in the documents mentioned in the above first paragraph. In forming our conclusion, we also evaluated the overall adequacy of the presentation of information in the Project Accounts. We believe that our reasonable assurance engagement provides a reasonable basis for our conclusion.

Conclusion

- (7) Based on the foregoing, in our opinion, XYZ Limited has complied with, in all material respects, the requirements set by the Controlling Officer (including the requirements to keep a designated bank account solely and exclusively for the purpose of the project, to keep proper books and records, to prepare proper Project Accounts), and all the terms and conditions of the CSI funding, as specified in the documents mentioned in the above first paragraph.

Use of this report

- (8) This report is intended for filing by XYZ Limited with the Government, and is not intended to be, and should not be, used by anyone except the above two parties for any other purposes.

Attachment

- (9) Attached is a list of all the payable items including loans from creditors (if any) as set out under “Liabilities” in the balance sheet.

ABC & Co.

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

Hong Kong

Date