

Quality Education Fund Notes for Auditors of the QEF Grantees

Pursuant to the Grant Agreement made between the Permanent Secretary for Education Incorporated (“Grantor”) and the Grantee in respect of each Quality Education Fund (“QEF”) project with grant exceeding \$100,000 (“in-scope project”), the Grantee is required to submit audited project accounts (containing the Income and Expenditure Statement, Balance Sheet and Notes, and an auditor’s report on them) with unaudited supplementary information appended to the project accounts and an agreed-upon procedures report¹ in connection with the internal controls of the Grantee issued by an auditor in respect of each in-scope project within three months upon completion of the project or immediately in case of early termination of the project.

Scope

2. The objective of the audit engagement is to express an opinion on whether the project accounts are, in all material respects, prepared in accordance with the QEF financial reporting provisions as set out in the “Accounting Policies for QEF Projects” (**Appendix 1**).

3. The objective of the agreed-upon procedures engagement is to issue an agreed-upon procedures report in connection with the internal controls established by the Grantee. The Grantee is required to adhere to the QEF General Guidelines and to establish appropriate internal controls. The main internal controls are set out in “Summary on Internal Controls for QEF Projects” (**Appendix 2**).

4. The project accounts are prepared by the Grantee for meeting the financial information needs of the Grantor and are therefore considered to be **special purpose financial statements**. When the required financial reporting provision of the QEF General Guidelines conflicts with the accounting principles generally accepted in Hong Kong, the former prevails over the latter. The project accounts shall be prepared in accordance with the accounting policies for QEF projects. The audit of the project accounts shall be conducted in accordance with the Hong Kong Standards on Auditing (“HKSAs”) issued by the Hong Kong Institute of Certified Public Accountants.

¹ A report of factual findings should be submitted if the terms of the agreed-upon procedures engagement are agreed before 1 January 2022.

5. The agreed-upon procedures engagement shall be conducted in accordance with the Hong Kong Standard on Related Services (“HKSRS”) 4400 (Revised) “Agreed-Upon Procedures Engagements”².

Grant Agreement Documents

6. The terms and conditions of the grant are contained in the Grant Agreement Documents which consist of:

- (a) the Grant Agreement (the proposal, the budget and the QEF General Guidelines are incorporated by reference to the Grant Agreement as Schedules I, II and III respectively); and
- (b) all instructions and correspondences issued by the QEF to the Grantee in respect of the project.

7. In case of any ambiguity regarding the terms and conditions of the grant that has a significant effect upon the auditor’s reporting, the auditor should seek clarification from the QEF.

Engagement Letters

8. It is in the interest of both the Grantee and the auditor that engagement letters are issued to the Grantee for acceptance before the commencement of the engagements to help avoid misunderstandings. The contents of the engagement letters should include the objective and scope of the audit of the project accounts and the agreed-upon procedures engagement, the respective responsibilities of the Grantee and the auditor, the right of access to records, documentation and other information in connection with the audit, the form of any reports or other communication of results of the engagements and the audit fee.

Internal Controls

9. The auditor should obtain a sufficient understanding of the Grantee and its environment, including its internal controls, to assess the risk of misstatement of the subject matters. If the auditor identifies any material deficiencies or weaknesses in internal controls, it should draw to the Grantee’s attention in a letter with recommendations for improvement. A copy of such letter should also be forwarded to the QEF for reference and action as appropriate.

² The agreed-upon procedures engagement shall be conducted in accordance with the HKSRS 4400 “Engagements to Perform Agreed-Upon Procedures Regarding Financial Information” if the terms of the engagement are agreed before 1 January 2022.

Fraud and Irregularities

10. The auditor should maintain professional skepticism throughout the engagements, recognising that circumstances including fraud may exist that cause material misstatement to the subject matters. If the auditor finds that a fraud or irregularity has occurred or is likely to have occurred, the auditor should make an immediate written report to the QEF. The QEF will decide on follow-up actions.

Opinion Provided

11. If the auditor considers that the project accounts are prepared, in all material respects, in accordance with the financial reporting provision as required by the Grantor, it should issue an unmodified report on the project accounts in accordance with the HKSA's.

12. If the auditor cannot express an unmodified opinion on the project accounts, it should give a qualified opinion, an adverse opinion or a disclaimer opinion in accordance with the relevant HKSA's as appropriate.

Quality Education Fund Accounting Policies for QEF Projects

These accounting policies are the principles that the Grantee shall follow in preparing the QEF project accounts.

Reporting Entity

2. The QEF provides funding for the Grantee to undertake a one-off project for the promotion of quality school education in Hong Kong. For a project with **grant exceeding \$100,000**, the Grantee is required to submit audited project accounts together with unaudited supplementary information appended to the project accounts and an agreed-upon procedures report¹ issued by the auditor to the Grantor within three months after completion of the project. For the purpose of these project accounts, the reporting entity is the Grantee. If a Grantee receives the QEF grants under more than one Grant Agreement, a separate set of project accounts (including the agreed-upon procedures report) shall be prepared for each in-scope project. The “project accounts” mean the Income and Expenditure Statement, Balance Sheet and Notes (comprising a summary of significant accounting policies and other explanatory notes) of a project.

Basis of Presentation

3. The Grantee is responsible for proper use of the Grant in conformity with the approved budget. To demonstrate compliance with budgetary constraints, the project accounts shall present a comparison of budget and actual amounts. The QEF requires the presentation of final budget figures in the Income and Expenditure Statement for budget-to-actual comparison on the same classification basis.

Basis of Accounting

4. Costs under the “Actual” column of the project accounts are the actual amount for allowable items incurred by the Grantee and funded by the Grant. It should be noted that the Grantee shall ensure that the project expenditure will not exceed the amount of the Grant (i.e. no overspending). When there is overspending upon completion of the project, the Grantee is responsible for the deficit and shall cover the shortfall by non-QEF sources of funding; and such amount shall be reported in the supplementary information document.

¹ A report of factual findings should be submitted if the terms of the agreed-upon procedures engagement are agreed before 1 January 2022.

5. The measurement focus is concerned with the inflow and outflow of the Grant on the project. The primary focus is on the receipt and use of the Grant, and assets and liabilities reported on the Balance Sheet are current in nature. The project accounts shall also report the balance of the Grant which cannot be negative. Fund balance, if any, represents the unused Grant and must be returned to the Grantor within three months after completion of the project.

6. Incomes are recognised when they become measurable and available. Incomes are considered “measurable” if a reasonable estimate can be provided and “available” if they are collectible within the project period or within three months after completion of the project.

7. Expenditures are recognised when the related liability is incurred and measurable. In addition, the liability shall be paid no later than three months after completion of the project. The liability is incurred when the goods or services have been received with the exception of audit service which is engaged during the project period and performed after project completion. Goods and services are expensed when acquired. No capitalisation of expense is required for durable goods or products acquired from the project (i.e. the item(s) shall be reported in the Income and Expenditure Statement rather than the Balance Sheet).

Reporting Framework

8. The project accounts shall be prepared using a special purpose financial reporting framework designed to meet the QEF Grantor’s needs. These accounts are primarily used to assist the Grantor in monitoring and reviewing the Grantee’s use of budgetary grant resources. They are, therefore, different from general propose accounts reports prepared pursuant to the Hong Kong Financial Reporting Standards (“HKFRSs”). When the QEF financial reporting framework conflicts with the HKFRSs, the former prevails over the latter.

Foreign Currency Translation

9. Where the project has entered into a transaction denominated in a foreign currency, the transaction shall be deemed to have been converted into Hong Kong dollar at the exchange rate applicable on the date on which the transaction becomes effective. Where the transaction payment / receipt is not paid / received at the project completion date, the value of the transaction in Hong Kong dollar shall be deemed to have been reconverted using the spot exchange rate at the completion date of the project. Resulting gains and losses shall be recognised in the Income and Expenditure Statement.

Components of Project Accounts

10. The fundamental components of project accounts are:
- (a) an Income and Expenditure Statement (**Annex A**);
 - (b) a Balance Sheet (**Annex B**); and
 - (c) Notes, comprising a summary of significant accounting policies and other explanatory notes.

The components set out in (a) to (c) above shall be presented with equal prominence.

11. Each component shall be clearly identified. The following information shall be displayed prominently and repeated when necessary for a proper understanding of the information presented:

- (a) the name of the reporting entity;
- (b) the project title;
- (c) the project number;
- (d) the reporting period end date (i.e. completion date of the project) or the period covered (i.e. project period); and
- (e) the presentation currency.

Income and Expenditure Statement

12. The Income and Expenditure Statement is a statement of the QEF Grant and income earned on the project as well as the project-related expenditure eligible for the QEF funding. Income and expenditure shall not be offset in the statement.

Income

13. Income from the QEF Grant is based on the Grant Agreement. Payments of the Grant and remittance advices will be arranged through the Treasury. The amount of the QEF Grant shall be disclosed in the Income and Expenditure Statement.

14. Other Incomes of the project shall include all incomes arising from activities relating to or exploitation of products evolved from or developed by the project to form part of the Grant and to be used exclusively for the purpose of the project in accordance with the terms of the QEF Agreement.

15. The type and amount of Other Incomes shall be disclosed separately either in the Income and Expenditure Statement or in the notes. Interest which is earned on the QEF Grant maintained in bank account shall be reportable income. If the QEF Grant for the project is maintained in a commingled bank account, the interests earned on the Grant and other funds shall be apportioned based upon their respective average monthly proportionate balances during the period when such interest is earned. The average monthly balance of the funds shall be calculated by summing up their respective beginning and ending balances and then dividing by two. Alternatively, they shall be calculated by summing up the daily or weekly balances in respect of each fund and then dividing by the total number of days or weeks in the month.

16. For a project that has matching requirement, the Grantee shall not use any project income to meet any required contribution, unless it is stated in the agreed proposal.

Expenditure

17. The budget of the Grant Agreement has identified the types of expenditures and the estimated amounts that the QEF will fund for the project. This budget shall be the basis for the Grantee to charge expenditures to the Income and Expenditure Statement of the project.

18. The Grantee shall disclose the amount of each category of expenditure for the project based on the budgetary line items which mainly are Staff Cost, General Expenses, Equipment, Services, Works and Others.

Balance Sheet

Items of the Balance Sheet

19. Balance sheet is a statement of financial position as at project completion exhibiting the project's assets, liabilities and fund balance at their respective values. Given the basis of accounting and the fact that the QEF Grant is one-off in nature for the Grantee to carry out a non-recurrent project, **Assets** are current in nature and are expected to be realised, redeployed or disposed of within three months from completion of the project. **Liabilities** are also current in nature and are expected to be settled within three months from

completion of the project. Fund balance is the difference between assets and liabilities. As the project accounts show the application of the QEF Grant, the ending fund balance shall not be negative (i.e. a deficit balance). As mentioned in paragraph 4 above, the Grantee shall cover the shortfall by non-QEF sources of funding when there is overspending.

Definition of the QEF Assets

20. The term “assets” used in the QEF “General Guidelines on Handling of Assets” refers to goods or products such as fixture, plant or equipment (including computer software / system) with unit cost equal to or more than \$1,000. They are durable and / or tangible (i.e. non-financial) in nature. For the purpose of QEF financial reporting, the costs of these goods or products are expensed and not capitalised in the Balance Sheet (see paragraph 7 above). To distinguish them from assets items reported in the Balance Sheet, these goods or products are referred to as “non-financial assets” in Appendix 2.

Notes to the Project Accounts

21. The Grantee shall make use of the explanatory notes accompanying the project accounts in order to provide further financial information.

22. All significant accounting policies adopted in the preparation and presentation of project accounts shall be disclosed. Such disclosure shall form part of the project accounts and the significant accounting policies shall normally be disclosed in the first paragraph of the Notes.

23. Information to be disclosed shall include:

(a) For income:

- (i) The type and amount of other incomes if not yet disclosed separately in the Income and Expenditure Statement;
- (ii) If there is interest earned that is apportioned to the project based upon average monthly proportionate balances, the calculation method of the average monthly balance shall be disclosed; and
- (iii) While project income collectible after three months from completion of the project is not to be included in the Income and Expenditure Statement, the nature, amount and expected date of receipt of such income as identified up to the date of sign-off the accounts, if any, shall be disclosed in the explanatory notes.

(b) For expenditure:

- (i) Staff Cost shall consist of two sub-items of basic salary / wage and the corresponding employer's contribution to the Mandatory Provident Fund, and the amounts of these two sub-items shall be disclosed.
- (ii) General Expenses shall include the sub-item of professional fees to the auditor. The budget and actual professional fees to the auditor funded by the QEF Grant shall be disclosed. As the audit of the project accounts is performed after project completion, for the purpose of charging the professional fees to the project accounts, the Grantee shall:
 - enter a written service contract with the external auditor within the project period; and
 - settle the audit fee no later than three months after completion of the project.

The fact that the above two conditions are met shall also be disclosed in the explanatory notes.

- (iii) For a project which lasts over one year, the approved budget may have a line item "Contingency". In general, the line item is an adjustment for inflation / deflation. The provision for contingency shall normally be not more than 3% of the Non-Staff Cost budget (such provision may be made if there are no separate projections of inflation / deflation for the individual line items). The actual contingency expenditure incurred, if any, for each budgetary line item shall be disclosed in the explanatory notes.

[Name of the Grantee]		Annex A		
Quality Education Fund Project				
Income and Expenditure Statement				
For the Period from _____ to _____				
Project No. :				
Project Title :				
		Final Budget	Actual	Variance With
				Final Budget
		(unaudited)		(unaudited)
		i	ii	iii = ii-i
		HK\$	HK\$	HK\$
Income				
- QEF Grant		\$0.00	\$0.00	\$0.00
- Interest Earned		\$0.00	\$0.00	\$0.00
- Other Income		\$0.00	\$0.00	\$0.00
Total Income :		\$0.00	\$0.00	\$0.00
Less : Expenditure				
- Staff Cost		\$0.00	\$0.00	\$0.00
- General Expenses		\$0.00	\$0.00	\$0.00
- Equipment		\$0.00	\$0.00	\$0.00
- Services		\$0.00	\$0.00	\$0.00
- Works		\$0.00	\$0.00	\$0.00
- Others <i>[specified according to budget]</i>		\$0.00	\$0.00	\$0.00
Total Expenditure :		\$0.00	\$0.00	\$0.00
Excess of Income over Expenditure		\$0.00	\$0.00	\$0.00
Notes are an integral part of the project accounts.				

[Name of the Grantee]		Annex B
Quality Education Fund Project		
Balance Sheet		
As at _____		
Project No. :		
Project Title :		
		HK\$
Current Assets		
Accounts receivables		\$0.00
Other current assets		\$0.00
Cash and cash equivalents		\$0.00
		\$0.00
Current Liabilities		
Accounts Payables		\$0.00
Amount due to Grantor		\$0.00
Other Current Liabilities		\$0.00
		\$0.00
Net Assets		\$0.00
Fund Balance		\$0.00
Notes are an integral part of the project accounts.		
<i>Signature of Authorised Person</i>	<i>Name of Authorised Person</i>	
	<i>Date:</i>	
		<i>(dd/mm/yyyy)</i>

Supplementary Information

24. The schedules of budgetary information and matching amounts are supplementary information to the basic part of the project accounts. The Grantee shall prepare the unaudited information and append them to the project accounts.

Schedule of Budgetary Information

25. Spending of the QEF Grant shall be made in accordance with the approved budget. The budget is a key tool for financial management and control of the use of the QEF Grant by the Grantee. If the figures in the original budget have been revised, the Grantee shall present the adjustments and the final budget in the following format:

	Original Budget	Adjustments	Final Budget in the Income and Expenditure Statement
Incomes:			
<i>[List by Items]</i>	\$	\$	\$
	\$	\$	\$
	\$	\$	\$
Expenditures:			
<i>[List by Items]</i>	\$	\$	\$
	\$	\$	\$
	\$	\$	\$

26. The fundamental principle is that adjustments in budget shall not increase the amount of the QEF Grant for project. The adjustments shall either be re-allocation of non-salary items or variation of staff cost.

27. Budget adjustments shall require prior written approval by the Grantor unless they are covered under expanded authority. Expanded authority is the authority granted by the Grantor to the Grantee that waives certain requirements of prior approval as stated in the General Guidelines on Management and Monitoring of Projects, and are extracted below:

The re-allocation of funds (except audit fee) is allowed for approved non-salary items of the Budget. ***Unused funds from unspent budget items should not be re-allocated to offset overspending in other items.*** The re-allocation of funds must comply with the following principles:

- for projects with a total grant of \$300,000 or less, the re-allocation of any particular item in the “Budget” contained in Schedule II to the Agreement shall not exceed \$50,000;
- for projects with a total grant between \$300,001 and \$1 million, the re-allocation of any particular item in the “Budget” contained in Schedule II to the Agreement shall not exceed \$100,000; and
- for projects with a total grant exceeding \$1 million, the re-allocation of any particular item in the “Budget” contained in Schedule II to the Agreement shall not exceed \$200,000.

Extracted from paragraph 3 of the General Guidelines on Management and Monitoring of Projects

All project personnel shall be remunerated on a fixed salary point during the entire project period. In normal circumstances, salary increment is not permitted. In exceptional circumstances such as difficulties in recruitment / replacement of project staff, variation of the approved salary items is allowed on the conditions that:

- the revised Budget on salary does not exceed 20% of the approved Budget on salary;
- the number of staff to be employed for each approved post in support of the project remains unchanged; and
- the variation of salaries (monthly or total) of individual posts does not exceed 20% of the budgeted salary amount.

Extracted from paragraph 5 of the General Guidelines on Management and Monitoring of Projects

Matching Amount

28. A project with matching requirement signifies that the Grantee has agreed to provide other sources of funding as indicated in the approved proposal. If the Grantee’s actual matching contributions are lower than the budgeted amount, the actual amount of the QEF Grant will be reduced to maintain the budgeted sharing percentage or ratio.

29. As mentioned in paragraph 4 above, when there is overspending, the Grantee shall cover the shortfall by non-QEF sources of funding. The amount of such funding shall be reported as the matching amount.

30. The Grantee shall compile a matching amount schedule as supplementary information to the project accounts. The schedule shall detail the budgeted and actual amounts of the matching and their sources. The suggested format is as follows:

Costs funded by non-QEF sources:

<u>Expenditures</u>	<u>Budget</u>		<u>Actual</u>	
	Total Cost	Matching amount	Total Cost	Matching amount
<i>[List by Items]</i>	\$	\$	\$	\$
	\$	\$	\$	\$
	\$	\$	\$	\$
	i	ii	i'	ii'
Matching amount over total cost		$ii \div i = _\% $		$ii' \div i' = _\% $

Analysis of non-QEF sources of the matching amounts:

<u>Non-QEF Sources</u>	<u>Budget</u>	<u>Actual</u>
	Matching amount	Matching amount
<i>[List by sources]</i>	\$	\$
	\$	\$
	\$	\$

Appendix 2

Summary on Internal Controls for QEF Projects

Introduction

The Grantee shall observe the following guidelines and establish appropriate internal controls accordingly.

- “General Guidelines on Management and Monitoring of Projects”
- “General Guidelines on Staff Administration and Procurement Matter”
- “General Guidelines on Handling of Assets”

2. This document lists the main internal controls in paragraphs 3 to 8 below that should be established by the Grantee with a view to following the financial requirements of the QEF such as ensuring the proper use of the QEF Grant and maintaining books and records. The document serves as a summary for reference of the auditor when reporting findings on the internal controls of the Grantee. To have a full understanding of the financial requirements, reference should be made to the full text of the above QEF General Guidelines.

3. Internal controls on expenditure

- (a) Processes are established to review that expenditures have only been made in accordance with the approved budget.
- (b) Procedures are in place to regularly monitor that variances among approved budget items do not exceed the prescribed limits.
 - (i) The re-allocation of funds (except audit fee) is allowed for approved non-salary items of the Budget. ***Unused funds from unspent budget items should not be re-allocated to offset overspending in other items.*** The re-allocation of funds must comply with the following principles:

QEF Grant

***Re-allocation of any particular item
in the “Budget” contained in
Schedule II to the Agreement***

\$300,000 or less	shall not exceed \$50,000
between 300,001 and \$1,000,000	shall not exceed \$100,000
exceeding \$1,000,000	shall not exceed \$200,000

[See paragraph 3 of the General Guidelines on Management and Monitoring of Projects]

(ii) Variation of approved salary items when there are difficulties in recruitment / replacement of project staff on the conditions that:

- the revised Budget on salary does not exceed 20% of the approved Budget on salary;
- the number of staff to be employed for each approved post in support of the project remains unchanged; and
- the variation of salaries (monthly or total) of individual posts does not exceed 20% of the budgeted salary amount.

[See paragraph 5 of the General Guidelines on Management and Monitoring of Projects]

(c) Procedures to check the quality of goods / service received before making payments are established.

(d) There are measures to properly record expenditures in ledger, and maintain the relevant accounting and financial documents.

4. Internal controls on cash and bank

(a) The Grantee shall open and maintain with a licensed bank in Hong Kong a bank account or to set up a separate ledger in the Grantee’s accounting system designated for the sole purpose of keeping and transacting all monies of the Grant (the Designated Account).

(b) Processes are established to reconcile bank statements relating to the Designated Account against the ledger of income and expenditure on a regular basis.

(c) There are measures to monitor that no cash payment out of the QEF Grant exceeds \$5,000.

5. Internal controls on procurement

(a) Procedures are in place for:

- (i) segregation of duties in procurement processes.
- (ii) providing potential suppliers identified in a purchase with the same information.
- (iii) compiling specifications to reflect the procurement needs rather than restricting to a particular brand or supplier.
- (iv) notifying in writing to each bidder / tenderer the result of its submission after selection on the supplier of a purchase is made.
- (v) maintaining the confidentiality of the information from potential suppliers.
- (vi) selection of the lowest conforming bid (or the highest score, where applicable).

[See paragraphs 7-13 of the General Guidelines on Staff Administration and Procurement Matter]

(b) There are procedures to select the appropriate procurement method based on the value of the procurement. The summary is:

<i>Purchase of goods, equipment and the procurement of services including consulting services with a value</i>	<i>Minimum requirement</i>
over \$5,000 but not exceeding \$50,000	obtain a minimum of two verbal or written quotations
over \$50,000 but not exceeding \$1,350,000	obtain at least five written quotations
over \$1,350,000	use competitive tendering procedure

[See paragraph 15 of the General Guidelines on Staff Administration and Procurement Matter]

- (c) There are processes to detect and prevent contract splitting when selecting the procurement method.
- (d) Measures are implemented to disallow bid for outsourced service from the Grantee or project team members or their direct relatives.

- (e) Procedures are established to properly maintain procurement documentation such as quotation records, tendering documents, signed contracts, etc.

6. Internal controls on staffing and recruitment

- (a) There are processes to check that the staffing of the project is consistent with the manpower schedule in the budget plan of the proposal.
- (b) There are measures to adopt open recruitment process when filling in staff position.
- (c) Procedures are in place to prevent the granting of award in the form of cash allowance to the project leader or the principal investigator.

7. Internal controls on non-financial assets handling

- (a) Processes are in place to identify non-financial assets purchased for the project.
- (b) Procedures are established to properly record acquisitions and disposals of non-financial assets (including deployment according to the proposal's "Asset Usage Plan") on the "Assets Register".
- (c) There are processes to properly maintain accounting records and supporting documents for acquisitions and disposals of non-financial asset acquisitions.
- (d) Written procedures are maintained for non-financial assets to be disposed of through the following methods in descending order of priority:

For serviceable items:

- to be re-allocated to the Grantee's other QEF projects;
- to be re-allocated to the Grantee's other projects;
- to be used as trade-in items for the purchase of new items by the Grantee;
- to be sold if saleable or residual value exceeds administrative cost involved;
- to be donated to non-profit making organisations or the needy;
- to be dumped.

[See paragraph 9 of the General Guidelines on Handling of Assets]

For unserviceable items:

- to be used as trade-in items for the purchase of new items by the Grantee;
- to be sold if the saleable or residual value exceeds administrative cost involved;
- to be dumped.

[See paragraph 12 of the General Guidelines on Handling of Assets]

8. Other internal controls

- (a) There are procedures to identify and disclose real or perceived conflicts of interest of the Grantee in administering the QEF Grant and implementing the project.
- (b) Measures are in place for adherence to the QEF financial reporting submission requirements as stipulated in the General Guidelines:

- To submit Interim Financial Report(s) in accordance with the report submission date(s) stipulated in the Report Submission Schedule of the QEF Agreement.

[See paragraph 13 of the General Guidelines on Management and Monitoring of Projects]

- To submit Final Financial Report within three months after completion of the project or immediately in case of early termination of the project; together with audited project accounts with appended unaudited supplementary information and refund cheque for any unused fund.

[See paragraph 17 of the General Guidelines on Management and Monitoring of Projects]