

Chapter 7 – Reporting, Audit and Assurance

Reporting

Financial Statements

7.1 Institutions are required to keep proper accounting records. In preparing statements of its income and expenditure and of its assets and liabilities, institutions should follow the Hong Kong Financial Reporting Standards¹ (HKFRS) issued by the Hong Kong Institute of Certified Public Accountants (HKICPA) from time to time and, where appropriate, the guidelines and requirements in the Statement of Recommended Practice for the UGC-Funded Institutions (“SORP”)².

7.2 Institutions are required to disclose in their financial statements statistics, in bands of \$150,000, on the number of highest paid staff member(s) whose total annual equivalent remuneration in that reporting year exceeds \$1,800,000, irrespective of the funding sources. The highest paid staff member(s) should also be disclosed in appropriate bands (e.g. \$4,950,000 to \$5,100,000 but not >\$3,600,000).

7.2A To enhance financial transparency, institutions are required to provide *segment reporting* information in their financial statements for the accounting period commencing 1 July 2016. Details of the requirements are set out in the SORP. Institutions are also required to disclose the interests in *all* subsidiaries, associates and joint ventures, irrespective of their materiality. The information to be disclosed should follow the requirements in the prevailing HKFRS.

7.3 Institutions should make reasonable arrangements to make copies of their audited financial statements publicly available. Institutions are requested to provide UGC with **35** copies of the audited financial statements for distribution to UGC members and for internal use by the Secretariat, within 4 months after the year end. Of these, two copies would be sent to the Government (Secretary for Education and Director of Audit).

Annual Return on the use of UGC funds

7.4 Institutions shall only use UGC funds for the activities eligible for funding as specified in the allocation letters. For the purpose of management on the use of UGC funds, institutions are required to submit to the UGC, within 4 months after the financial year end, an annual return showing the income and expenditure of the UGC funded activities which should reflect the practices required in paragraphs 7.6 to 7.15 and the **Annex 7A**. The annual return should be prepared in accordance with the same accounting practices as for the institutions’ audited financial statements except

¹ The Hong Kong Financial Reporting Standards include all HKFRS, Hong Kong Accounting Standards (HKAS), and Interpretations issued by the HKICPA.

² The SORP is accessible on UGC’s website.

otherwise for compliance with the requirements of this Chapter.

7.5 The Annual Return shall comprise three parts. The first part on Recurrent Grants other than Earmarked Grants for Specific Purposes, the second part on Earmarked Grants for Specific Purposes, capital grants and all other UGC grants, and the third part on Matching Grant Schemes. A sample of the format and details of the Annual Return is set out in Annex 7A.

Recurrent Grants other than Earmarked Grants for Specific Purposes

7.6 Institutions are required to account for under this heading the Block Grants, Earmarked Recurrent Grants and Supplementary Grants/Adjustments from the UGC, and tuition fees and other income including fees, rental income, etc derived from the UGC-funded activities or the use of UGC-funded resources (e.g. buildings) and expenditure of UGC-funded activities funded by such income. Any surplus/deficit should be transferred to the General and Development Reserve Fund or dealt with as Amount Refundable of Unspent Recurrent Grants³ to UGC (please see paragraphs 7.7 to 7.12).

General and Development Reserve Fund

7.7 To encourage longer-term planning and prudent financial management and to encourage institutions to save up for future and new developmental needs, institutions are allowed to make allocations from the surplus mentioned in paragraph 7.6 above to a General and Development Reserve Fund (“GDRF”) to carry over unspent funds from one funding period (usually a triennium) to the next. Such allocation should not affect the calculation of student unit cost for the purpose of determining the recurrent funding requirements of the institutions and the tuition fee levels. The balance of the GDRF at the end of a funding period (usually a triennium) that can be carried over to the next funding period should not exceed 20% of the institution’s approved Recurrent Grants other than the Earmarked Grants for Specific Purposes for that funding period ending (i.e. 20% of the total of the Block Grants and/or Earmarked Recurrent Grants of the funding period ending plus or minus any Supplementary Grants/Adjustments made during the funding period as appropriate).

7.8 Should the balance of the GDRF at the end of the funding period (usually a triennium) exceed the ceiling allowed (paragraph 7.7) for that funding period, the excess should be transferred to Amount Refundable of Unspent Recurrent Grants³ to UGC pending the recovery by the UGC at the end of the funding period.

7.9 The use of the GDRF should be subject to the same rules and regulations governing the use of Recurrent Grants. For any institution funded by Earmarked Recurrent Grants instead of the Block Grants, the account of the GDRF should show separately the balance of the allocations under each of the agreed expenditure headings (pursuant to the requirements set out in Annex 4A) to ensure that they will be spent within the ambit of the original headings from which the allocations were set aside.

³ Recurrent Grants other than earmarked grants for specific purposes.

7.10 Spending from the GDRF constitutes part of the spending of UGC funds. Notwithstanding paragraphs 7.7 and 7.8, institutions should notify the UGC Secretariat the balance of their GDRF at the end of each funding period, even if the allowed maximum limit has not been exceeded.

7.11 While the availability of GDRF or otherwise will not affect the Government's calculation of student unit cost for the purpose of determining overall recurrent funding to UGC-funded institutions and the tuition fee levels, the interest/investment income generated by the GDRF will be treated as part of the assumed income in determining the institutions' net funding requirements.

7.12 When the institutions' audited financial statement and the annual return for the last year of each funding period (usually a triennium) have been produced, the UGC Secretariat will consider the movement and balance of GDRF at the period end date and, after confirmation with the institution on the amount refundable to the UGC, if any, report that to the Government. Recovery of any balance refundable to the UGC will normally be made by deduction from subsequent monthly grant releases.

Earmarked Grants for Specific Purposes

7.13 A separate record should be kept for each Earmarked Grant for Specific Purposes. Where the Earmarked Grant for Specific Purposes is approved on a budget involving other income, such other income should also be accounted for in the same record (e.g. royalties from a research or registration fee for holding a conference, private sponsorship secured for the project etc). Earmarked Grants for Specific Purposes should only be debited with expenditure solely for the specific purposes as set out in the grant allocation letters. As provided in paragraph 4.15, any surplus (net of any refund to donors or sponsors if applicable) after the completion of the project has to be returned to the UGC. Any shortfall should be absorbed by the other funds (private funds or UGC recurrent funds, except Earmarked Grants made for other purposes) of the institutions.

Capital Grants

7.14 A separate record should be kept for each capital project with an approved Capital Grant. Capital Grant should only be charged with expenditure for the project in accordance with the approved scope as specified in the relevant approval by the Finance Committee or the Government under delegated authority. Where the approved capital project is also funded by donation, etc the designated funding should also be accounted for as income in the same project account. Any surplus of Capital Grant plus such designated funding over the total expenditure of the project after the completion of the project has to be returned to the Government via UGC. Any shortfall must not be charged to the UGC funds.

Matching Grant Schemes

7.15 Matching Grant Schemes have been arranged to assist UGC-funded institutions in strengthening their fundraising capabilities and to encourage the growth

of a philanthropic culture in the community. Private donations have been matched by government matching grants in accordance with the terms and conditions of the Schemes. The matching grants and the matched donations should only be spent in accordance with the rules set out in the Operating Guide to the Matching Grant Schemes.

Report of the Council

7.15A In line with good practice in institutional governance, institutions are required to include in their Annual Reports a *Report of the Council* in which a commentary on the institution's financial performance, its expected future development and prospects, institutional governance arrangements and details of institution's management structure and committees' responsibilities, etc are presented alongside the financial statements. Details of the disclosure requirement are set out in the SORP.

Audit and Assurance

Assurance from External Auditors to UGC

7.16 In addition to the annual audits of the financial statements of the institutions, each of the institutions is required to have a separate assurance engagement carried out by its external auditors on the Annual Return prepared pursuant to paragraphs 7.4 and 7.5. The external auditors should conduct the engagement in accordance with Hong Kong Standard on Assurance Engagements issued by the HKICPA, and should express a conclusion as to:-

- (a) whether the institution has, in all material respects, accounted for the income and expenditure in respect of the funds received from the University Grants Committee in the Annual Return in accordance with the requirements of this Chapter; and
- (b) whether there is any material exception including fraud, errors, use of funds not in accordance with the purposes specified in the UGC Allocation Letters or other non-compliance of the guidelines and other relevant documents issued by the UGC to the institution (e.g. conditions of matching grants etc.) that come to their attention when carrying out their engagement. The assurance report should be submitted to the UGC.

Value for Money Audit

7.17 In order to strike a balance between institutional autonomy and monitoring of efficient use of public funds, it was agreed that examination of institutions' records by the Director of Audit should be done, subject to certain safeguards as follows:

- (a) the Director of Audit has the right to raise queries on a management efficiency audit, and on related matters;

- (b) the Director of Audit has no right, whether on his own initiative or under instruction, to question academic decisions properly taken – but the Government has the right through the Chief Secretary for Administration to raise academic and related matters with the UGC; and
- (c) all queries and correspondence, in both directions, must be copied to the UGC.

7.18 The decision as to which and when, an institution, or institutions, should be examined, is a matter for the Director of Audit.

Certificate of Accountability

7.19 To provide further assurance of the proper use and application of public funds as represented in the audited financial statements and the annual return, Heads of Institutions are requested to provide a Certificate of Accountability (specimen at **Annex 7B**) to the UGC annually, after the close of each financial year, to confirm that public funds allocated via the UGC and matched donations under the Matching Grant Schemes had been spent in accordance with the UGC Notes on Procedures, allocation letter and other guidelines and approved Government policies.