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Government of the HKSAR
Education Bureau
14 May 2014

Education Bureau Circular No. 5/2014
Appointment of Auditors and Audit Engagement Letter

[Note : This circular should be read by

- (a) School Management Committees/Incorporated Management Committees/School Supervisors/Heads of schools receiving education subventions/subsidies and kindergartens, kindergarten-cum-child care centres and schools with kindergarten classes joining the ~~under Pre-primary Education Voucher Scheme~~ Kindergarten Education Scheme – for necessary action;*
- (b) Heads of Sections – for information.]*

Summary

Schools in receipt of education subventions/subsidies and kindergartens, kindergarten-cum-child care centres and schools with kindergarten classes joining the ~~under Pre-primary Education Voucher Scheme~~ Kindergarten Education Scheme (Scheme-KGs) are required to submit audited accounts on an annual basis to this Bureau. The annual accounts should be audited by certified public accountants (practising) registered under the ~~Professional Accountants Ordinance~~ the Accounting and Financial Reporting Council Ordinance (Cap. 588). This circular sets out the guidelines on the appointment of auditors. The Education Bureau (EDB) Circular No. 17/2008 is hereby cancelled.

Appointment of Auditors

2. The authority to appoint (and to change) auditors rests with the School Management Committee (SMC), Incorporated Management Committee (IMC), School Sponsoring Body (SSB) or School Supervisor, as appropriate. Schools should endeavour to seek audit services with a competitive selection process which should be conducted periodically (preferably every three years) so as to provide an assurance that value for money is obtained. For aided schools / Scheme-KGs, the provisions stipulated in the prevailing EDB circular / guidelines on procurement procedures in aided schools / Scheme-KGs should be observed.

3. Schools should take into account the following in the selection of auditors -
 - (a) the cost for the audit services;
 - (b) other services the auditors can provide;
 - (c) relevant experience, particularly that of the staff who would undertake the audit; and
 - (d) potential conflict of interest such as business relations with members of the SMC/IMC/SSB, School Supervisor and staff of the school.
4. When there is a change in auditors, schools should give the outgoing auditors authority to discuss the schools' affairs with the incoming auditors.

Audit Engagement Letter

5. Schools are advised to agree with their auditors on the terms of audit engagement, which should be recorded in an audit engagement letter. It is in the interests of both schools and auditors that the auditors send an audit engagement letter to the schools for acceptance before the commencement of the engagement to help avoid any misunderstandings with respect to the engagement. Schools should review the contents yearly to update the engagement letter arising from changes in audit scope or other circumstances.
6. It is a normal practice for the auditors to prepare the engagement letter. The contents of an audit engagement letter depend on the requirements of individual schools, but they would generally include the following -
 - (a) the objective and scope of the audit of financial statements;
 - (b) the respective responsibilities of the school and the auditors;
 - (c) the right of access to records, documentation and other information requested in connection with the audit;
 - (d) the form of any reports or other communication of results of the audit; and
 - (e) fees.

An outline of the audit engagement letter is set out in Appendix for reference.

EDB Requirements

7. Schools should ensure that the relevant audit requirements as specified in the Education Ordinance, Codes of Aid, service agreements and/or letters/circulars/guidelines issued by the EDB are included in the audit engagement letter. For example, the requirements for aided schools with an IMC are -
 - (a) the auditors have to satisfy themselves that the schools have complied with the requirements specified in the Education Ordinance, the Code of Aid, the relevant letters, circulars and guidelines issued to schools by the EDB;

- (b) the auditors are required to ascertain the correct balances of individual grant accounts;
- (c) the auditors should state in their reports whether in their opinion -
 - (i) the IMCs have used the government subventions in accordance with the rules and ambits of the grants as promulgated in the Code of Aid and the relevant letters, circulars and guidelines issued by the EDB;
 - (ii) the balances of individual grant accounts are, in all material respects, correct; and
 - (iii) the IMCs have complied with the accounting requirements of the Education Ordinance, the Code of Aid and the relevant letters, circulars and guidelines issued by the EDB and such instructions as may be given by the Permanent Secretary for Education, and the financial statements present fairly the state of affairs of the IMCs at the year end and of its results for the year then ended.
- (d) the auditors should draw the attention of the IMCs to weaknesses in internal controls found during the course of their audit and that they should report items which are considered material in a letter (i.e. management letter) with recommendations for improvement. The auditors should also send a copy of the management letter to the EDB for information.

8. Schools are advised to observe the above guidelines as and when an appointment or change of auditors takes place.

Enquiries

9. If you have any enquiries on this circular, please contact Management Services Sub-Division 1 at 2892 5737 or 2892 6259.

(Ms Rhoda Chan)
for Secretary for Education

Encl.

Outline of an Audit Engagement Letter

The auditors normally prepare the engagement letter and issue it to the SMC/IMC/SSB or the School Supervisor for acceptance. The letter should generally include the following matters -

- ***Objective of the audit***

The auditors state in this paragraph the objective of the audit, including the objectives of ~~expressing an opinion on the financial statements~~ **obtaining reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and issuing an auditor's report that includes an opinion.**

- ***Responsibilities of the SMC/IMC/SSB/School Supervisor***

These should include -

- (a) maintaining proper accounting records and systems of internal control;
- (b) preparing financial statements which present fairly (for IMC schools) or give a true and fair view (for all other types of schools) of the state of the affairs; and
- (c) safeguarding assets.

- ***Responsibilities of auditors***

These should include -

- (a) reporting to the SMC/IMC/SSB or School Supervisor in accordance with the requirements laid down by the Education Bureau;
- (b) reporting to the SMC/IMC/SSB or School Supervisor regarding non-compliance with applicable legislation and regulations; and
- (c) assessment/consideration of the school's accounting system and internal control system.

- ***Scope of the audit***

The auditors will spell out the professional bodies to which they adhere, and the auditing standards with which they will conduct the audit. In the context of schools, the scope of audit should include the following -

- (a) compliance with applicable legislation and regulations;
- (b) school/IMC accounts and other financial statements;
- (c) accounting and internal control systems; and
- (d) other areas specific to the school.

The auditors will also state the nature and extent of tests to be conducted with respect to the audit.

- ***Access to records, management representations and others***

The auditors will mention the right of access to records in connection with the audit. The auditors may also state the possibility of requesting from the SMC/IMC or School Supervisor written confirmation of certain oral representations. The right of the officers of the Education Bureau to communicate with the auditors on matters concerning the annual accounts and the supporting statements should also be included in the audit engagement letter.

- ***Reporting***

The letter should specify the reports which the auditors will submit, e.g. the management letter and the audit report etc. Confidentiality aspects of such reports should also be mentioned.

- ***Fees***

The auditors will state the amount of audit fees or the basis on which the fees are computed and the billing arrangements.
