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9 October 2003

Ms Miranda Hon  
Clerk  
Public Accounts Committee  
Legislative Council  
Legislative Council Building  
8 Jackson Road  
Central  
Hong Kong

Dear Ms Hon

**Statement of Recommended Accounting Practice (“SORP”) for  
the University Grants Committee-funded Institutions**

Attached please find a reply from the Hong Kong Society of Accountants (“HKSA”) to our letter of 16 July 2003 on the captioned subject. The content of their reply is self-explanatory. Further refinements will be made to the Statement of Recommended Accounting Practice in light of the comments from the HKSA. We would like to draw the attention of the Public Accounts Committee to the fact that comments from the auditors of the UGC-funded institutions were duly taken into account in the SORP and the auditors have, consistently in the past, certified the financial statements of the institutions to the effect of presenting a true and fair view of their financial affairs.

Should the Public Accounts Committee require further information, please let me know.

Yours sincerely

Alex Shuen  
Director of Finance

Encl

cc: Mr John Chu, Audit Commission  
Mr Martin Siu, UGC  
Mr Gabriel Chan, CityU  
Mr Herdip Singh, LU  
Mr Terence Chan, CUHK  
Ms Sarah Wong, HKIEd  
Mr Chris Mong, PolyU  
Mr Philip Wong, HKUST  
Mr Philip Lam, HKU



By e-mail & Post ([apcshuen@hkbu.edu.hk](mailto:apcshuen@hkbu.edu.hk))

Our Ref.: C/FASC, M22500

7 October 2003

Mr. Alex Shuen  
Hong Kong Baptist University,  
Finance Office,  
8/F, Sir Run Run Shaw Building,  
Kowloon Tong, Hong Kong

Dear Mr. Shuen,

**Statement of Recommended Accounting Practice for  
University Grants Committee-funded Institutions**

Thank you for your letter dated 16 July 2003 and related material contained in faxes dated 23 July 2003 and 2 September 2003.

I have pleasure in responding on behalf of the Society on the query raised in your letter, which primarily involves whether the HKSA could offer an official comment on the document known as a "Statement of Recommended Accounting Practice for UGC-Funded Institutions" (UGC Statement).

I should perhaps comment from the outset that the HKSA does not offer ad hoc (non-authoritative) opinions on proposed accounting treatments of the nature proposed in the UGC Statement promulgated by a third party outside the HKSA's accounting standard setting due process. As background to this requirement, you may wish to note that the HKSA issues authoritative statements on financial reporting standards in accordance with a Statement of due process<sup>1</sup>. The Foreword<sup>2</sup> to Hong Kong Accounting Standards promulgated by the HKSA also sets out the processes for issuing, and the form of, HKSA authoritative pronouncements on financial reporting standards. The Foreword is due to be updated and replaced by another Statement known as the "Preface to Hong Kong Financial Reporting Standards"<sup>3</sup>, the exposure draft version of this document is available for viewing on the HKSA website. The links to all the documents mentioned in this letter are provided in the footnotes to this letter.

The HKSA Due Process and Preface exist to ensure that the standards and supporting guidance promulgated by the HKSA are of high quality and support the HKSA's policy to converge financial reporting requirements applicable in Hong Kong with international best practice. Accordingly, the due process would necessarily be followed prior to an expression of any official view or endorsement by the HKSA of the guidance proposed in the UGC Statement.

- <sup>1</sup> HKSA Statement of Standard-setting Due Process is published on the HKSA's website at <http://www.hksa.org.hk/professionalttechnical/accounting/dueprocess/statementofdueprocess.pdf>.
- <sup>2</sup> "Foreword to Hong Kong SSAPs" is available on the HKSA website at [http://www.hksa.org.hk/professionalttechnical/pronouncements/handbook/volume2a/2\\_0.htm](http://www.hksa.org.hk/professionalttechnical/pronouncements/handbook/volume2a/2_0.htm).
- <sup>3</sup> ED "Preface to Hong Kong Financial Reporting Standards" is published at [http://www.hksa.org.hk/professionalttechnical/accounting/exposedraft/ED\\_Preface\\_I2C.pdf](http://www.hksa.org.hk/professionalttechnical/accounting/exposedraft/ED_Preface_I2C.pdf).

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In setting authoritative pronouncements, the HKSA would take a number of factors into consideration, including but not necessarily limited to the utility of the document (for example, a document has greater utility with the greater number of entities affected), the degree to which existing accounting guidance fails to prescribe appropriate accounting treatment.

We believe there are a number of flaws (see below) in the version of the UGC Statement supplied to us with your letter dated 16 July 2003, which would prevent the HKSA from considering the UGC Statement at the present time. Furthermore, the purpose being served by the UGC Statement, and the limited number of entities to which the Statement would apply, may cause the HKSA's standard setting committee to assign a low priority to the project, relative to the busy project agenda currently being attended to by the HKSA.

Although it is not currently possible, within the HKSA's standard setting framework, for the HKSA to offer our official view or endorsement on the proposed UGC Statement, we are able to offer some observations on certain aspects of the Statement, the purpose being served by the Statement, the relevance of the limited number of reporting entities directly affected by the UGC Statement, and the Report of the Audit Commission regarding the Value-for-Money Audit of UGC Institutions (an extract of this was supplied to us by Ms Wong on 2 September).

The following is provided based on a limited technical review on the Statement:

1. The UGC Statement, in its present form and content, is closest to an Accounting Guideline except that the UGC Statement would appear to prohibit accounting treatments permitted under SSAPs (paragraph 53 of the Statement is but one of many examples) and to permit treatments not otherwise permitted under the SSAPs (paragraph 48 for example), contrary to the general requirement of SSAP 1. Furthermore, a number of paragraphs appear to be superfluous (paragraphs 57 to 60, for example). Per the proposed Preface, the purpose of an Accounting Guideline is to offer guidance additional to that found in the SSAPs rather than to contradict or limit the application of accounting policies permissible under the SSAPs.
2. We note that one purpose served by the UGC Statement is to standardise accounting treatment between the eight UGC-funded entities. In principle the UGC Statement appears to serve a useful purpose to the limited number of entities who apply that document in the preparation and presentation of their financial statements, to attain consistency in the financial reporting of UGC-funded entities.
3. SSAP 17 paragraph 2 (available on the HKSA website)<sup>4</sup> states: "Charitable, government subvented and not-for-profit organisations whose long-term financial objective is other than to achieve operating profits (e.g. trade associations, clubs and retirement schemes) are exempted from compliance with this Statement provided that full disclosure of their accounting policies is made. Nonetheless, these enterprises are encouraged to follow the accounting practices set out in this Statement".

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<sup>4</sup> HK SSAP 17 is published at [http://www.hksa.org.hk/professionaltechnical/pronouncements/handbook/volume2a/2\\_117.htm](http://www.hksa.org.hk/professionaltechnical/pronouncements/handbook/volume2a/2_117.htm).

4. The Audit Commission Report makes no mention of the exemption provided by SSAP 17 paragraph 2 and asserts, incorrectly, that UGC-funded entities' financial statements are not in compliance with SSAPs because property plant and equipment is accounted for in a manner that differs from the requirements of SSAP 17. It is clear that UGC-funded entities are (currently) exempt from SSAP 17. The fact that such entities apply policies that may not comply with SSAP 17 does not therefore instantly call into question whether their financial statements are SSAP-compliant (contrary to paragraphs 4.16 to 4.18 of the Audit Commission Report).
5. The question appropriately raised, however, is if entities such as UGC-funded entities, are entitled to prepare their financial statements in compliance with SSAPs and yet are not required to apply SSAP 17, what should be done instead?

The answer we will give is to apply the general requirement in SSAP 1 particularly paragraphs 10-23<sup>5</sup>, i.e., Standards issued by the International Federation of Accountants (IFAC) Public Sector Committee (PSC) may be of relevance. For example, International Public Sector Accounting Standard 17 on property plant and equipment<sup>6</sup>.

6. The PSC has issued other guidance, which may be of relevance to not-for-profit, quasi-public sector, and government subvented organisations such as those funded by the UGC. One example is the PSC material developed on the transition from a cash basis to an accrual basis of accounting<sup>7</sup>, which we presume will be of relevance to the UGC-funded entities when they prepare for full compliance with SSAP 17. (Note that Point 7 below on the impending revision to SSAP 17 is also relevant.)
7. The recommendation in paragraph 4.45(b)-(e) of the Audit Commission Report are not consistent with the general requirement under SSAP 1 referred to above. However, it should be noted that the SSAP 17, along with many other SSAPs, is currently under revision with the ED issued last year<sup>8</sup>. Impending developments to the SSAPs (note that the Related Parties SSAP is also proposed for revision) resulting from this ED would necessitate a revision to the UGC Statement as currently drafted. Finalisation of the proposals put forward in the ED is dependent on progress made by the International Accounting Standards Board of the equivalent International Statements, on which Hong Kong Accounting Standards promulgated by the HKSA are based.

<sup>5</sup> HK SSAP 1 is published at [http://www.hksa.org.hk/professionaltechnical/pronouncements/handbook/volume2a/2\\_101a.htm](http://www.hksa.org.hk/professionaltechnical/pronouncements/handbook/volume2a/2_101a.htm).

<sup>6</sup> IPSAS 17 on Property Plant and Equipment is published at the IFAC website at <http://www.ifac.org/Store/Details.tmp?SID=105188782956670>.

<sup>7</sup> IFAC PSC "Transition from a Cash Basis to an Accrual Basis of Accounting". See <http://www.ifac.org/Store/Category.tmp?Category=Public%20Sector%20Accounting&Cart=1062580409211641>.

<sup>8</sup> ED on revised SSAP 17: <http://www.hksa.org.hk/professionaltechnical/accounting/exposedraft/edimprovements.pdf> and <http://www.hksa.org.hk/professionaltechnical/accounting/exposedraft/02-imp-ed.pdf>.

8. The UGC-funded entities have already received professional opinions from their auditors on the material contained in the UGC Statement. This is appropriate because, bearing in mind we are discussing accounting issues for an extremely limited number of entities, the development and application of appropriate accounting policies is first and foremost rests with those within the entity who take responsibility for the financial statements. The auditor then expresses an opinion as to whether the accounting policies are appropriate and whether they have been applied accordingly.

We have attempted to cover as many matters as we see relevant in this communication from you at this time, but there may be additional matters that come to light as a result of further correspondence and/or the application of a standard setting due process should we get to that stage.

I trust that you will find the above comments helpful. If you have any questions on any of the points covered in this letter, please do not hesitate to contact us. Please direct your enquiries to Mr. Simon Riley, our Deputy Director (Accounting) in the first instance.

Yours sincerely,



WINNIE C.W.CHEUNG  
SENIOR DIRECTOR  
PROFESSIONAL & TECHNICAL DEVELOPMENT  
HONG KONG SOCIETY OF ACCOUNTANTS

WCC/SR/ky