



中華人民共和國香港特別行政區政府總部教育局
Education Bureau
Government Secretariat, The Government of the Hong Kong Special Administrative Region
The People's Republic of China

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8 June 2016

Clerk to Panel on Education
Legislative Council
Legislative Council Complex
1 Legislative Council Road
Central, Hong Kong
(Attn.: Miss Polly Yeung)

Dear Miss Yeung,

**Request for information regarding the financial activities
of The Hong Kong Polytechnic University**

I refer to your letter of 7 May to the Secretary for Education and the letter from the Hon Fernando Cheung and Hon Kenneth Leung to the Chairman of the Panel on Education of the Legislative Council enclosed therewith. Our response is set out at Annex.

Yours sincerely,

(Sammy Leung)
for Secretary for Education

c.c. Secretary-General, University Grants Committee (Attn.: Ms Eva Yam)

**Legislative Council
Panel on Education**

**Request for information regarding the financial activities
of The Hong Kong Polytechnic University**

Our response to the three questions raised by Dr Hon Fernando Cheung and Hon Kenneth Leung is set out below.

1. The Notes on Procedures (NoP) of the University Grants Committee (UGC) clearly set out the requirements on the UGC-funded universities' financial reporting, audit and assurance. In preparing their financial statements, universities should follow the prevailing Hong Kong Financial Reporting Standards (HKFRS) issued by the Hong Kong Institute of Certified Public Accountants and the Statement of Recommended Practice for the UGC-funded Institutions in preparing their financial statements. It is a requirement in HKFRS that an entity (the parent) that controls one or more other entities (subsidiaries) should present consolidated financial statements. Moreover, the HKFRS provides that entities that have an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity should observe the requirements on the "Disclosure of Interests in Other Entities". Among others, it sets out the details that an entity shall disclose for each of its subsidiaries that is material to the reporting entity such details, including (a) the name of the subsidiary, (b) the principal place of business (and country of incorporation if different from the principal place of business) of the subsidiary, (c) the proportion of ownership interests held by non-controlling interests, etc. For universities which choose to disclose principal subsidiaries only, they generally would consider the materiality of the investments in subsidiaries (such as the amount of investment involved, the level of business activities, etc.) when deciding whether information on individual subsidiaries (local / offshore) should be disclosed in the financial statements.

As far as audit and assurance are concerned, in addition to the annual audit of the financial statements, universities are required to engage independent external auditors to provide an assurance as to whether a university has accounted for the income and expenditure in respect of the funds received from the UGC in accordance with the relevant provisions of the NoP and the grant allocation letters issued by the UGC.

Moreover, 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 Universities are requested to provide a Certificate of Accountability 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 NoP, allocation letter and other guidelines and approved Government policies.

In the case of PolyU, the external auditor of PolyU was of the opinion that the university's consolidated financial statements gave a "true and fair view" of the state of affairs of the university and of the consolidated entity in accordance with the HKFRS. The Head of University has also provided the UGC with a signed Certificate of Accountability.

2. The UGC NoP clearly set out strict requirements for universities' financial reports. These requirements are checked and certified by external auditors to UGC's satisfaction. The NoP also sets out the principle of no cross-subsidisation of UGC resources to non-UGC-funded activities. As a general principle, costs that can be directly attributed to the UGC-funded activities or the non-UGC-funded activities should be charged directly to the respective activity. To avoid hidden subsidy to non-UGC-funded activities, universities should also levy overhead charges on such activities, including projects / programmes conducted by the self-financing subsidiaries or associates of the universities. The declaration from both the external auditor of PolyU and the Head

of University assures UGC that public funds allocated via the UGC has been spent in accordance with the NoP, allocation letter and other guidelines and approved Government policies, including the guidelines on no cross-subsidisation.

3. PolyU is an independent statutory body established under The Hong Kong Polytechnic University Ordinance (Cap 1075). Section 6(n) of the Ordinance specifically provides that the PolyU Council has the power “to acquire, hold and dispose of interests in other corporate bodies and take part in forming corporate bodies”. The Council is the supreme governing body over all institutional matters in PolyU including establishment of other corporate entities and related shares transfer in these entities which do not involve UGC funding. Thus, the Council is accountable for these matters.

Notwithstanding the above, in view of the significant funding the universities receive in the form of Government subvention and private contributions, as well as the importance of higher education to the development of the society, universities should ensure that their funding is put to appropriate use and serve the best interests of the community and students. The UGC is committed to safeguarding academic freedom and institutional autonomy while at the same time ensuring transparency and accountability in the operations of the UGC-funded universities.

Indeed, after publication of a media report in late April on the offshore companies, the UGC requested PolyU to provide a report on the matter. On 15 May 2016, PolyU released a Report on the BVI-Company Arrangement (the Report), providing an account of the considerations leading to the set-up of the BVI companies, the due process that had been gone through, the subsequent development of the two BVI companies, as well as the reporting, disclosure and governance matters. It is noted that details of the share transfer in question, including the approving authority, consideration involved and financial reporting etc. are provided in the Report.

The Government and UGC understand the public's wish for the universities to enhance transparency and public accountability. In his reply to a LegCo question raised by Hon Kenneth Leung at the LegCo meeting on 18 May 2016, the Secretary for Education has, in accordance with information collected through the UGC Secretariat from the UGC-funded institutions, provided the details of the subsidiaries set up by them in the past five years, including the subsidiaries' names, purposes, principal activities, places of incorporation, lists of directors, proportion of share / equity held, etc. In the spirit of institutional autonomy balanced with the need for public accountability, the UGC will shortly consider reviewing the reporting mechanism for investments and business activities conducted by universities with a view to addressing the public's concerns as soon as practicable. In addition, the UGC notes that PolyU undertook in the Report that for clarity, PolyU will consider adopting full disclosure of all direct and indirect subsidiary companies in the PolyU Annual Report regardless of their materiality.

Education Bureau
University Grants Committee Secretariat
June 2016