

**MEMO**

<p><i>From</i> <u>Secretary-General, University Grants Committee</u></p> <p><i>Ref.</i> <u>(30) in UGC/GEN/290/96</u></p> <p><i>Tel. No.</i> <u>2524 1795</u></p> <p><i>Fax No.</i> <u>2526 8436</u></p> <p><i>Email</i> <u>ptcheung@ugc.edu.hk</u></p> <p><i>Date</i> <u>30 May 2003</u></p>	<p><i>To</i> <u>Director of Audit</u></p> <p><i>(Attn.: Mr Albert Wong )</i></p> <p><i>Email</i> _____</p> <p><i>Your Ref.</i> <u>(14) in U1/UGC/GOV/0</u></p> <p><i>Dated</i> <u>29.5.2003</u> <i>Fax No.</i> <u>2587 9741</u></p> <p><i>Total Pages</i> <u>2</u></p>
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**The Director of Audit's Report on the  
Results of value for money audits (Report No. 40)**

**Chapter 8: University Grants Committee funded institutions –  
Governance, strategic planning and financial and performance reporting**

Thank you for your memo under reference.

2. UGC is of the view that the preparation of financial statements to report on the financial performance of an institution as a whole is a statutory responsibility of the institution. The choice of accounting policy and practice is therefore primarily a matter for the institutions to decide and their auditors to accept. Nevertheless, UGC supports that institutions should develop a Statement of Recommended Practice (SORP) to harmonise accounting practices among themselves, in order to encourage good practices and facilitate comparison.
3. Apart from the statutory obligation above, the institutions are required under the funding rules of the UGC to report on the use of grants allocated to them.
4. UGC provides institutions with different kinds of grants for different purposes (e.g. the capital grants to cover the building and capital works requirements, block grants to cover the bulk of the recurrent requirements of the UGC-funded activities and earmarked grants for some specific purposes, like research projects). The Committee will need reports from institutions in order to monitor how these individual grants have been committed and spent. Dependent upon the nature of the grant, reporting requirements may need to be on a different accounting basis. For example, where the cost of a building is fully covered by a capital grant, there should not be a depreciation charge in the block grants; although by the SSAPs, normally building costs can be amortised in the recurrent account over the useful life of building.

5. We can understand the merits of institutions' running a system which satisfies both of the above requirements and which is cost effective. However, as a matter of principle, we subscribe that financial statements by and large should comply with the SSAPs, even if on specific items, the institutions will have to make adjustments for the particular purpose of a separate report to the UGC. Towards this, we have been working with a task force of the institutions to devise the basic rules and we believe that good progress is being made for the institutions to adopt a new set of SORP soon.

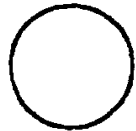


( P T Cheung )  
Secretary-General  
University Grants Committee

c.c. C, PAC (Fax: 2810 1691)

Urgent by Fax

MEMO



<i>From</i>	Director of Audit	<i>To</i>	Secretary-General, University Grants Committee		
<i>Ref.</i>	(14) in UI/UGC/GOV/0	<i>(Att.:)</i>	Mr P CHEUNG		
<i>Tel. No.</i>	2829 4307	<i>Your Ref.</i>	in _____		
<i>Fax No.</i>	2587 9741	<i>dated</i>	_____	<i>Fax. No.</i>	2523 1522
<i>Date</i>	29 May 2003	<i>Total Pages</i>	1		

**The Director of Audit's Report on the results of value for money audits (Report No. 40)**

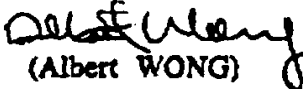
**Chapter 8: University Grants Committee funded institutions — Governance, strategic planning and financial and performance reporting**

In paragraph 4.53(a) of the Audit Report, the President, The Hong Kong Polytechnic University (PolyU) and the Vice-Chancellor, The University of Hong Kong (HKU) have said that the annual audited accounts have been historically referred to by the University Grants Committee (UGC) for assessing whether any unspent balance at the end of a triennium is required to be refunded by the institutions to the UGC. It was for this reason that the institutions could not adopt certain Statements of Standard Accounting Practice of Hong Kong (HKSSAPs), such as those on depreciation of fixed assets, the recognition of expenses based on goods/services received instead of orders placed, etc.

2. Members of the Public Accounts Committee (PAC) of the Legislative Council have asked for clarification on this matter, particularly whether the failure of the institutions to adopt certain HKSSAPs was attributable to the particular funding arrangements.

3. It is noted that on 23 February 2001, in order to provide an incentive to save money for future use, the Finance Committee approved the arrangement for the institutions to carry up to 20% of their respective recurrent grant in a triennium to the next as reserves with effect from the 1998/99 to 2000/01 triennium. With this new arrangement in place, please advise us whether you consider the institutions still need to adopt the SORP referred to in paragraph 4.8 of the Audit Report.

4. I should be grateful for your comments on the said arrangements. Please let me have your comments by 31 May 2003 for onward submission to the PAC.

  
(Albert WONG)  
for Director of Audit

c.c. Clerk, PAC