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來函檔號 Your Ref. :

17 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 for the UGC-funded Institutions

I refer to the letter dated 7 October 2003 (ref. C/FASC, M22500) issued by the Senior Director, Professional & Technical Development of the Hong Kong Society of Accountants (HKSA), which was copied to me by the Director of Finance of the Hong Kong Baptist University on 9 October 2003.

In her letter, the Senior Director of the HKSA made reference to some paragraphs of Chapter 8 of Report No. 40 of the Director of Audit on University Grants Committee (UGC) funded institutions — Governance, strategic planning and financial and performance reporting (the Audit Report). In response, I would like to make the following clarifications.

Paragraph 4 of Page 3 of the Senior Director's letter on Statement of Standard Accounting Practice of Hong Kong (HKSSAP) 17

Audit fully appreciated that non-compliance with HKSSAP 17 on the depreciation of assets *per se* by the institutions did not call into question whether their financial statements were SSAP-compliant. These are separate and different issues. We were aware that the Scope of HKSSAP 17 on property, plant and equipment states that charitable, government subvented and not-for-profit organisations whose long-term financial objective is *other than* to achieve operating profits are exempted from compliance with this Statement. **However, it should be noted that the Statement also states that such enterprises are encouraged to follow the accounting practices set out in the Statement.**

Furthermore, our research had shown that universities in advanced countries usually adopt depreciation accounting for their property, plant and equipment. Therefore, Audit made a statement in paragraph 4.41 of the Audit Report that “it would be desirable for the institutions, which are the highest academic institutions for advancing accounting knowledge, to adhere to the international best practices on the preparation of financial statements”.

Paragraph 7 of Page 3 of the Senior Director’s letter on HKSSAP 1

In paragraph 7 of page 3 of her letter, the Senior Director said that “The recommendation in paragraph 4.45(b)-(e) of the Audit Commission Report are (*sic*) not consistent with the general requirement under HKSSAP 1 referred to above”. It should be noted that paragraph 4.45(a) to (e) of the Audit Report only reported the views of the members of the Task Force on Review of the Statement of recommended practice for UGC-funded institutions in Hong Kong (SORP). Paragraph 4.45 of the Audit Report is restated below for your reference:

“In early 2002, a Task Force on Review of SORP was formed comprising members from the eight institutions. The terms of reference of the Task Force was to review and revise the SORP for the preparation of financial statements of the institutions. The objective was to ensure that the financial statements will give a true and fair view of the financial affairs of the institutions. At its first meeting held in March 2002, members of the Task Force agreed that the review would take into account the following materials:

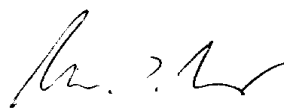
- (a) the HKSA’s HKSSAPs;
- (b) the UK Statement of Recommended Practice on Accounting in Further and Higher Education Institutions;
- (c) Accounting Standards and publications issued by the Financial Accounting Standards Board;
- (d) International Accounting Standards; and
- (e) UGC’s Guidance Notes.”

Audit has said that (see para. 4.47 of the Audit Report), in the Task Force’s review of the SORP, consideration should be given to overseas practices and standards, in addition to the HKSA’s HKSSAPs.

General

I hope the above will help the Public Accounts Committee in its consideration of the matter. I have no other comments on the HKSA's letter dated 7 October 2003. With hindsight, it would have been better if the Senior Director of the HKSA had asked us for an informal interlocution before issuing her letter.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'D. M. T. Leung', with a stylized flourish at the end.

(David M T LEUNG)
for Director of Audit