

The Recycling Fund
Notes for Auditors on Financial Statements Audit of
Funded Enterprises (“FEs”) / Funded Organizations (“FOs”)

Pursuant to the agreement made between the Government of the Hong Kong Special Administrative Region (“Government”) and the FEs (applicable to the Enterprise Support Programme (“ESP”) or the Enterprise Support Programme – Solicitation Theme on Projects from New and Start-up Enterprises (“SUP”)) / FOs (applicable to the Industry Support Programme (“ISP”) or Industry Support Programme – Solicitation Theme on Supporting Residential Buildings in Adopting Smart Bins Technology in Food Waste Collection and Recycling (“RSB”)) (collectively named as the “Grantees”) (the “Project Agreement”) in respect of each funded project and/or the “Guide to Application for the Recycling Fund” (“Guide to Application”), the Grantees are required to submit Audited Accounts¹ of each funded project to the Programme Secretariat of the Recycling Fund (the “Secretariat”) according to a stipulated timeframe. The requirement to submit Audited Accounts is to assure the Government that:

- (a) the project funds were fully and properly applied to the project for which they were paid, and received and expended in accordance with the approved project proposal and budget annexed to the Project Agreement; and
- (b) the Grantees complied with the funding terms and conditions in the administration, management and usage of the Recycling Fund (ESP / SUP / ISP / RSB) project.

These notes aim to provide a guidance for Auditors of Grantees in conducting reasonable assurance engagements and in preparing Audited Accounts for each Recycling Fund (ESP / SUP / ISP / RSB) project.

¹ The Audited Accounts (includes the progress or final report of the project) should comprise of Statement of Income and Expenditure, Detailed Statement of Income and Expenditure, Statement of Financial Position, Notes to the Financial Statements and Auditors’ Report. The Audited Accounts mean accounts of the project which have been reported on by Auditors under a reasonable assurance engagement conducted in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) “Assurance Engagements Other Than Audits or Reviews of Historical Financial Information” issued by the Hong Kong Institute of Certified Public Accountants.

2. In conducting a reasonable assurance engagement, the Auditors should perform such procedures² as they consider necessary in the circumstances and obtain all the information and explanations which they consider necessary in order to provide them with sufficient evidence to give their conclusion as to whether the Grantee has complied with, in all material respects, the requirements set by the Secretariat and/or Government (including the requirements to keep proper books and records and to prepare Audited Accounts of the project), and all the terms and conditions of Recycling Fund (ESP / SUP / ISP / RSB), as specified in the following documents:

- (a) the Project Agreement made between the Government and the Grantee in respect of the project and the appendices thereto (which includes the approved project proposal and budget);
- (b) the prevailing Guide to Application as at the date of submission of the application by the Grantee to the Secretariat; and
- (c) all instructions and correspondences issued by the Secretariat and/or Government to the Grantee in respect of the project.

3. The Auditors should comply with the Hong Kong Standard on Assurance Engagements 3000 (Revised) “Assurance Engagements Other than Audits or Reviews of Historical Financial Information” issued and updated from time to time by the Hong Kong Institute of Certified Public Accountants³. The following information is required in an Auditors’ Report prepared by the Auditors to be submitted to the Secretariat –

² The Auditors’ procedures would normally include:

- a) Performing tests of transactions and of the existence, ownership and valuation of assets and liabilities;
- b) Obtaining an understanding of the accounting systems and control in order to assess its adequacy as a basis for the preparation of the project accounts and to establish whether a proper and separate set of project books and records have been kept and maintained by the Grantee;
- c) Assessing significant estimates and judgements made by the Grantee in the preparation of the accounts, and whether the accounting policies have followed the requirements of Recycling Fund (ESP) / (SUP) / (ISP) / RSB), consistently applied and adequately disclosed; and
- d) Evaluating the overall adequacy of the presentation of information in the accounts.

³ The Hong Kong Institute of Certified Public Accountants would expect its members to apply those relevant and applicable Standards set out in Hong Kong Standards on Auditing when performing “Reasonable Assurance Engagements”.

- (a) the Auditors should state whether, in their conclusion, the Grantee has complied with, in all material respects, the requirements set by the Secretariat and/or Government (including the requirements to keep proper books and records and to prepare Audited Accounts of the project), and all the terms and conditions of Recycling Fund (ESP / SUP / ISP / RSB), as specified in documents mentioned in paragraph 2 above⁴;
- (b) if the Auditors are of the opinion that there exists any material non-compliance as identified in paragraph 3(a) above, they should make full disclosure and quantify the effects of such non-compliance in the Auditors' Report; and
- (c) if the Auditors are of the opinion that a proper and separate set of books and records have not been kept by the Grantee for the project, or the project accounts have not been properly prepared, or if the Auditors fail to obtain all the information and explanations which are necessary for the purpose of their reasonable assurance engagement, they should make appropriate qualifications in their Auditors' Reports.

4. The Auditors should plan and conduct the reasonable assurance engagement to satisfy paragraphs 2 and 3 above. In case of any ambiguity regarding the terms and conditions contained in the Project Agreement and rules and regulations governing Recycling Fund projects, Auditors should seek clarification from the Secretariat. Any unreasonable reservation or denial of conclusion, for example, comments about ambiguity of Recycling Fund guidelines or requirements, expressed by Auditors in the Auditors' Report, will be returned to Grantees for rectification before re-submission.

⁴ In expressing the conclusion on the Audited Accounts on the project among other things, Auditors are required to report the FE's / FO's compliance with all the relevant provisions of the Guide to Application but are allowed to report the FE's / FO's compliance (keep proper and separate set of books of accounts and records of the project for a minimum of 7 years after completion of the project or termination of the Project Agreement) of the Guide to Application up to and including the project completion / termination date.

5. The Auditors may come across during the course of their reasonable assurance engagements weaknesses/breakdown in internal control which is considered material. They should bring to the Grantee's attention the details of such weaknesses/breakdown and provide the Grantee with their recommendations for improvement by setting them out in a letter to the Grantee. A copy of such letter should be sent to the Secretariat for reference and action as appropriate.

6. Auditors are expected to follow the specimen Auditors' Report as attached at the Annex.

Secretariat
Recycling Fund
March 2022

ANNEX

SPECIMEN AUDITORS' REPORT ON THE AUDITED ACCOUNTS UNDER THE RECYCLING FUND – UNQUALIFIED CONCLUSION

ABC LIMITED/ORGANISATION

XYZ PROJECT UNDER RECYCLING FUND (the “Project”)

RECYCLING FUND – APPLICATION NUMBER

**FOR THE PERIOD FROM DD/MM/YYYY (COMMENCEMENT DATE) TO
DD/MM/YYYY *[(REPORT PERIOD END DATE / COMPLETION DATE)]
(Delete as appropriate)**

**AUDITORS' REPORT TO THE DIRECTORS OF ABC
LIMITED/ORGANISATION**

Pursuant to the agreement made between the Government of the Hong Kong Special Administrative Region (“Government”) and ABC Limited/Organisation (“Project Agreement”) and the Guide to Application for the Recycling Fund (“Guide to Application”) in respect of the project funded by *[(Enterprise Support Programme / Enterprise Support Programme – Solicitation Theme on Projects from New and Start-up Enterprises / Industry Support Programme / Industry Support Programme – Solicitation Theme on Supporting Residential Buildings in Adopting Smart Bins Technology in Food Waste Collection and Recycling)] (Delete as appropriate) (“Recycling Fund *[(ESP) / (SUP) / (ISP) / (RSB)]”) (Delete as appropriate), we have performed a reasonable assurance engagement to report on whether ABC Limited/Organisation has complied with, in all material respects, the requirements set by the Programme Secretariat of the Recycling Fund (“Secretariat”) and/or Government (including the requirements to keep proper books and records and to prepare proper accounts of the Project for the period from DD/MM/YYYY (Commencement Date) to DD/MM/YYYY *[(Report Period End Date / Completion Date)] (Delete as appropriate) on pages to (the “Project Accounts”), and all the terms and conditions of Recycling Fund *[(ESP) / (SUP) / (ISP) / (RSB)] (Delete as appropriate), as specified in the following documents:

- (a) the Project Agreement ~~*[and the change of request notification(s)]~~ *(Delete as appropriate)* made between the Government and ABC Limited/Organisation in respect of the Project and the appendices thereto (which includes the approved project proposal and budget);
- (b) Guide to Application; and
- (c) all instructions and correspondences issued by the Secretariat and/or Government to ABC Limited/Organisation in respect of the Project.

Respective responsibilities of ABC Limited/Organisation and auditors

The Secretariat and/or Government require ABC Limited/Organisation to comply with the requirements set by them individually or collectively (including the requirements to keep proper books and records and to prepare proper Project Accounts), and all the terms and conditions of Recycling Fund ~~*[(ESP) / (SUP) / (ISP) / (RSB)]~~ *(Delete as appropriate)*, as specified in the documents mentioned in the above paragraph.

It is our responsibility to form an independent conclusion, based on our reasonable assurance engagement, and to report our conclusion to you.

Basis of conclusion

We conducted our reasonable assurance engagement in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) “Assurance Engagements Other Than Audits or Reviews of Historical Financial Information” issued by the Hong Kong Institute of Certified Public Accountants and the latest Notes for Auditors on Financial Statements Audit of ~~*[Funded Enterprises / Funded Organizations]~~ *(Delete as appropriate)* issued in March 2022 by the Secretariat.

Our reasonable assurance engagement includes examination, on a test basis, of evidence relevant to ABC Limited's/Organisation's compliance with the requirements set by the Secretariat and/or Government (including the requirements to keep proper books and records and to prepare proper Project Accounts), and all the terms and conditions of Recycling Fund *[(ESP) / (SUP) / (ISP) / (RSB)] (**Delete as appropriate**), as specified in the documents mentioned in the above first paragraph. It also includes an assessment of the significant estimates and judgements made by ABC Limited/Organisation in the preparation of the Project Accounts, and of whether the accounting policies have followed the requirements of Recycling Fund *[(ESP) / (SUP) / (ISP) / (RSB)] (**Delete as appropriate**), consistently applied and adequately disclosed.

We planned and performed our reasonable assurance engagement so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give our conclusion as to whether ABC Limited/Organisation has complied with, in all material respects, the requirements set by the Secretariat and/or Government (including the requirements to keep proper books and records and to prepare proper Project Accounts), and all the terms and conditions of Recycling Fund *[(ESP) / (SUP) / (ISP) / (RSB)] (**Delete as appropriate**), as specified in the documents mentioned in the above first paragraph. In forming our conclusion, we also evaluated the overall adequacy of the presentation of information in the Project Accounts. We believe that our reasonable assurance engagement provides a reasonable basis for our conclusion.

Conclusion

Based on the foregoing, in our opinion, ABC Limited/Organisation has complied with, in all material respects, the requirements set by the Secretariat and/or Government (including the requirements to keep proper books and records and to prepare proper Project Accounts), and all the terms and conditions of Recycling Fund *[(ESP) / (SUP) / (ISP) / (RSB)] (**Delete as appropriate**), as specified in the documents mentioned in the above first paragraph.

Use of this report

This report is intended for filing by ABC Limited/Organisation with the Secretariat and/or Government, and is not intended to be, and should not be, used by anyone except the above three parties for any other purposes.

PQR & Co.

Certified Public Accountants

Hong Kong

Date

Illustrative Example of Financial Statements

<COMPANY NAME>

<PROJECT NAME> UNDER RECYCLING FUND

<RECYCLING FUND - APPLICATION NUMBER>

STATEMENT OF FINANCIAL POSITION

AS AT DD/MM/YYYY (REPORT PERIOD END DATE / COMPLETION DATE)

	Notes	HK\$
Current assets		
Receivables	3	10.00
Deposits and prepayments	4	50,000.00
Bank balance / Cash and bank balance / Cash and cash equivalents		<u>124,840.00</u>
		174,850.00
Current liabilities		
Payables and accruals	5	<u>71,750.00</u>
Net assets		
		<u>103,100.00</u>
Equity		
Project reserve / Accumulated surplus		<u>103,100.00</u>
Total equity		
		<u>103,100.00</u>

Please rounded to the nearest 2 decimal places for all figures shown in the Audited Financial Statements

Please provide "ALL" bank statements as at Report Period End Date / Completion Date, and bank reconciliation statements if there is any reconciled item between the bank account(s) and the financial records.

1) Except for Bank balance and Project reserve, please provide breakdown for "ALL" line items on this Statement of Financial Position, and disclose the details in the "Notes to the Financial Statements";
 2) Please add / remove any line item(s), if thought fit.

The accompanying notes form an integral part of these financial statements.

Approved and signed by the [Board of Directors / Sole Director] on [DD/MM/YYYY]

 (Name of the Director)

 (Name of the Director)

The accompanying notes form an integral part of these financial statements.

Illustrative Example of Financial Statements

<COMPANY NAME>

<PROJECT NAME> UNDER RECYCLING FUND

<RECYCLING FUND - APPLICATION NUMBER>

STATEMENT OF INCOME AND EXPENDITURE

FOR THE PERIOD FROM DD/MM/YYYY (COMMENCEMENT DATE) TO DD/MM/YYYY (REPORT PERIOD END DATE / COMPLETION DATE)

	Notes	HK\$
Income		
Funding from Recycling Fund		2,766,500.00
Contribution from Funded Enterprise / Organisation		2,766,500.00
Bank interest income		100.00
Total income		5,533,100.00
Expenditure		
Staff cost		4,125,000.00
Acquisition of equipment		1,225,000.00
Other direct costs		80,000.00
Total expenditure		5,430,000.00
Surplus for the period		103,100.00

Please tally with Column B under Detailed Statement of Income and Expenditure

Recognition of Funding from Recycling Fund:

According to HKAS 20, Government Grants shall NOT be recognised until there is reasonable assurance that:

a) The entity will comply with the conditions attaching to them; and

b) The grants will be received

(<https://www.hkicpa.org.hk/-/media/HKICPA-Website/Members-Handbook/volume1/hkas20.pdf>)

You are reminded that:

1) The Government Grant is subject to the approval of Advisory Committee on Recycling Fund Meeting;

2) There is NO guarantee that Government will subsidy 50% (for ESP projects) / 100% (for ISP projects) of the expenditure; and

3) The approved funding is assessed by each line item

The accompanying notes form an integral part of these financial statements.

Approved and signed by the [Board of Directors / Sole Director] on [DD/MM/YYYY]

(Name of the Director)

(Name of the Director)

The accompanying notes form an integral part of these financial statements.

Illustrative Example of Financial Statements

<COMPANY NAME>
 <PROJECT NAME> UNDER RECYCLING FUND
 <RECYCLING FUND - APPLICATION NUMBER>
 DETAILED STATEMENT OF INCOME AND EXPENDITURE
 FOR THE PERIOD FROM DD/MM/YYYY (COMMENCEMENT DATE) TO DD/MM/YYYY (REPORT PERIOD END DATE / COMPLETION DATE)

Please tally the sub-total figures with Statement of Income and Expense

Please align the breakdown and the sequence with reference to the application form and/or the Change Request Notification(s) (if applicable)

Please provide detailed breakdown for "All" unrecognisable expenses in "Notes to the Financial Statements", with corresponding explanation (e.g. Over-Budget Amount, Un-Budgeted Items, etc.)

There should be No "Negative figures" for expenditure items under Column E (i.e. the maximum recognisable expenses under Column D should be equal to or less than the Agreed Budget under Column A)

Notes	Agreed Budgeted Total for the period from DD/MM/YYYY to DD/MM/YYYY	Total Actual Income / Expenses for the period from DD/MM/YYYY to DD/MM/YYYY	Unrecognisable Income / Expenses for the period from DD/MM/YYYY to DD/MM/YYYY	Recognisable Income / Expenses for the period from DD/MM/YYYY to DD/MM/YYYY	Difference
	HK\$ (A)	HK\$ (B)	HK\$ (C)	HK\$ (D) = (B) - (C)	HK\$ (E) = (A) - (D)
Income					
Funding from Recycling Fund	5,030,000.00	2,766,500.00	-	2,766,500.00	2,263,500.00
Contribution from Funded Enterprise / Organisation	5,030,000.00	2,766,500.00	-	2,766,500.00	2,263,500.00
Bank interest income	-	100.00	-	100.00	(100.00)
Sub-Total (I)	10,060,000.00	5,533,100.00	-	5,533,100.00	4,526,900.00
Expenditure					
Staff cost					
Salaries					
Dismantling worker	2,000,000.00	1,000,000.00	-	1,000,000.00	1,000,000.00
Operation assistant	2,500,000.00	1,250,000.00	-	1,250,000.00	1,250,000.00
Driver	3,000,000.00	1,500,000.00	-	1,500,000.00	1,500,000.00
	7,500,000.00	3,750,000.00	-	3,750,000.00	3,750,000.00
Mandatory Provident Fund Contribution	750,000.00	375,000.00	-	375,000.00	375,000.00
	8,250,000.00	4,125,000.00	-	4,125,000.00	4,125,000.00
Acquisition of equipment					
Truck	600,000.00	700,000.00	100,000.00	600,000.00	-
Baler	300,000.00	150,000.00	-	150,000.00	150,000.00
Metal cages	100,000.00	50,000.00	-	50,000.00	50,000.00
Maintenance and installation	50,000.00	25,000.00	-	25,000.00	25,000.00
Plasma cutting machine	600,000.00	300,000.00	-	300,000.00	300,000.00
	1,650,000.00	1,225,000.00	100,000.00	1,125,000.00	525,000.00
Other direct costs					
Consumables					
Fuel	10,000.00	5,000.00	-	5,000.00	5,000.00
Metal cage wheels	20,000.00	10,000.00	-	10,000.00	10,000.00
Uniform	30,000.00	15,000.00	-	15,000.00	15,000.00
Gloves	40,000.00	20,000.00	-	20,000.00	20,000.00
	100,000.00	50,000.00	-	50,000.00	50,000.00
Promotional expenses	7,000.00	3,500.00	-	3,500.00	3,500.00
Rental expenses	10,000.00	5,000.00	-	5,000.00	5,000.00
External audit fee	37,000.00	18,500.00	-	18,500.00	18,500.00
Bank charges (Audit confirmation fee)	3,000.00	1,500.00	-	1,500.00	1,500.00
Bank charges (Cheque book for designated bank account)	3,000.00	1,500.00	-	1,500.00	1,500.00
	160,000.00	80,000.00	-	80,000.00	80,000.00
Sub-Total (II)	10,060,000.00	5,430,000.00	100,000.00	5,330,000.00	4,730,000.00
Total (I) - (II)	-	103,100.00	(100,000.00)	203,100.00	(203,100.00)

Approved and signed by the [Board of Directors / Sole Director] on [DD/MM/YYYY]

(Name of the Director)

(Name of the Director)

The accompanying notes form an integral part of these financial statements.

Illustrative Example of Financial Statements

<COMPANY NAME>

<PROJECT NAME> UNDER RECYCLING FUND

<RECYCLING FUND - APPLICATION NUMBER>

NOTES TO THE FINANCIAL STATEMENTS

FOR THE PERIOD FROM DD/MM/YYYY (COMMENCEMENT DATE) TO DD/MM/YYYY (REPORT PERIOD END DATE / COMPLETION DATE)

1 General Information

General information of this project under Recycling Fund and the Company (i.e. the Grantee).

2 Basis of Preparation and Accounting Policies

Please elaborate the basis of preparation and all applicable accounting policies related to these Financial Statements.

3 Receivables

	As at DD/MM/YYYY HK\$
Bank interest receivables	10.00
	<u>10.00</u>

4 Deposits and prepayments

	As at DD/MM/YYYY HK\$
Prepaid rental expenses for the period from DD/MM/YYYY to DD/MM/YYYY	<u>50,000.00</u>

5 Payables and accruals

	As at DD/MM/YYYY HK\$
Accrued staff salaries from DD/MM/YYYY to DD/MM/YYYY	
- Dismantling workers	20,000.00
- Operation assistants	25,000.00
- Drivers	30,000.00
Accrued Mandatory Provident Fund Contribution from DD/MM/YYYY to DD/MM/YYYY	3,750.00
Accrued external financial audit fee	10,000.00
Trade payables - promotional expenses	3,000.00
	<u>71,750.00</u>

6 Unrecognisable expenses on acquisition of truck

	From DD/MM/YYYY To DD/MM/YYYY HK\$
Actual cost on acquisition of truck	700,000.00
Less: Unrecognisable expenses - over-budget Acquisition cost of truck	<u>100,000.00</u> 100,000.00
Recognisable expenses on acquisition of truck	<u>600,000.00</u>

7 Please add any other Note(s) that the Grantee and/or External Auditors considered necessary.