

PROJECT AND FUNDING GUIDE

Guidance Note (B) on Funding Administration and Project Account

This Guidance Note covers Section 3 (Funding Administration and Project Account).

Section 3 FUNDING ADMINISTRATION AND PROJECT ACCOUNT

3.1 *Contractual Requirement*

3.1.1 For each project for which funding has been approved, the recipient organization has to sign a project agreement with HKJCICM and comply with all the terms and conditions laid down in the agreement, in this Guide and all instructions and correspondences issued by HKJCICM from time to time in respect of the project.

3.2 *Separate Account and Interest*

3.2.1 The recipient organization is required to open a separate risk-free interest-bearing bank account (project bank account) with a licensed bank registered under the Banking Ordinance (Cap.155) specifically for processing payments of the project. HKJCICM's funding and all other receipts (including cash and/or other sponsorship and funding from other sources) arising from the project should be deposited into the project bank account and all payments exclusively applied to the project for which they were paid out from the project account. All project funds (including HKJCICM funds, all other receipts and interest income) should be kept in the project bank account by the recipient organization until such funds are spent (paid) in accordance with the compliance requirements as specified in paragraph 3.1.1 above or returned to HKJCICM by the recipient organization. All project funds and the interest shall be held by the recipient organisation as trustee for HKJCICM.

3.2.2 All interest income generated from the project bank account should be credited back to the project account, and returned to HKJCICM on completion of the project or termination of the R & D agreement (Section 6.5 of Guidance Note (D) for details on Return of Residual Funds). The recipient organizations are not entitled to charge to the project account any interest expenses or claim any compensation or relief of whatsoever nature against HKJCICM in the event of any late or withholding of payment by HKJCICM for any whatsoever reason.

3.2.3 The recipient organization may be required to compensate HKJCICM for loss of interest income if the project fund is not properly handled in accordance with paragraphs 3.2.1 and 3.2.2 above. In this regard,

HKJCICM will take such action as may be deemed necessary.

3.3 Books and Records

3.3.1 The recipient organization is required to keep a proper and separate set of books and records (project account) for each project. The project account should be maintained in such a manner as to enable the production of Statement of Income and Expenditure (items in the same format as shown in the project budget included in the approved project proposal) and Balance Sheet in respect of each project. All income and expenditure of a project should be properly and timely recorded in the books of accounts.

3.3.2 Accrual basis of accounting should be adopted for all projects. Expenditure could only be charged to the project account after the items have been received and used, or services delivered. Moreover, the expenditure so charged should be incurred between the project commencement date and completion date as specified in the project agreement. If applicable, sponsorship income and all other income, budgeted or not, should form part of the income of the project and should be used solely for the project and their usage should follow the approved project budget, this Guide and instructions laid down for the projects. All project-related income and expenditure should be received/ accrued and expended (paid)/accrued respectively in accordance with the basis of each budget line item as set out in the approved project budget.

3.3.3 The books and records of the project should be kept by the recipient organization for at least two years after completion of the project or termination of the project agreement, or as otherwise specified by HKJCICM. The funding recipient organization will be obliged to explain to HKJCICM any matters relating to the income, expenditure or custody of any money derived from the project when doubt arises. HKJCICM may carry out assessments and determine whether the project funds have been prudently spent by any organization in receipt of HKJCICM funding. HKJCICM reserves the right to require recipient organizations to return mis-spent amount together with interest income accrued.

3.4 Reporting requirements

3.4.1 The recipient organization is required to submit to HKJCICM half-yearly and final accounts of all income and expenditure as well as annual and final audited accounts prepared on accrual basis of accounting for each project. The audited accounts should comprise Statement of Income and Expenditure, Balance Sheet, Notes to the Accounts and Auditor's Report.

- (a) Annual audited accounts made up to 31 March each year should be submitted on or before 30 June of that particular year. The first annual audited accounts may cover more than 12 months but not more than 18 months; and

- (b) Final audited accounts covering the period from project commencement date to project completion date or termination date of the project agreement should be submitted within three months from the completion date of the project or termination date of the project agreement if the project fund involved is \$1 million or above, and within one month if it is below \$1 million.

3.4.2 All income received/receivable and expenditure incurred (paid or payable) for the project during the reporting period should be fully and properly accounted for in accordance with the project agreement, this Guide and all instructions and correspondences issued by HKJCICM in respect of the project and should be the same as recorded in the books of accounts for that reporting period. The annual/final accounts of a project should be properly prepared from and in agreement with the books of accounts of the project. The financial position reported in each half yearly progress reports/final report and annual/final audited accounts should tie in with the technical progress/results of that reporting period(s)/year(s). No adjustments relating to prior and/or the subsequent period(s)/year(s) are allowed once the progress report(s)/final report and/or annual/final audited accounts for that reporting period(s)/year(s) have been submitted to HKJCICM except arithmetic errors or adjustments requested by HKJCICM. Arithmetic errors should be rectified within the first three months of the period covered by the ensuing progress report.

3.4.3 Any record of mishandling of public funds or lack of discipline in financial management or non-compliance with the terms and conditions of the project agreement is a factor which HKJCICM will take into account in considering future applications from the same organization or the same project team members.

3.5 ***Auditing requirements***

3.5.1 To ensure that the project funds have been fully and properly applied to the projects for which they were paid and expended (paid)/accrued and received/accrued in accordance with the approved project budget, this Guide and other instructions set for the projects, the annual and final accounts should be audited by an independent auditors who must be Certified Public Accountants/ Public Accountants registered under the Professional Accountants Ordinance (Cap. 50) (the Auditors).

3.5.2 The recipient organization should specify in the engagement letter for the employment of the Auditors that they should strictly follow the requirements stipulated in the latest version of the Notes for Auditors of Recipient Organizations (“Notes for Audiotrs”) issued by HKJCICM in conducting audits and preparing auditors’ report for each annual/final account of each project. The engagement letter should also specify that

HKJCICM and its nominees should have the right to communicate with the Auditors on matters concerning the annual/final accounts and the supporting statements. In conducting the audits, the Auditors should comply with the relevant Standards and Statements of Professional Ethics issued and updated from time to time by the Hong Kong Society of Accountants. In the annual and final audited accounts, the Auditors are required to express an audit opinion as to whether the recipient organization and the annual/final accounts of the project have complied, in all material respects, with all the requirements set out in the Notes and to make full disclosure of any material non-compliance in the auditors' report.

- 3.5.3 Recipient organizations are required to make available to the Auditors all information, documents and explanations relating to the project being audited. The information and documents mainly comprise project agreement, this Guide, any instructions and correspondences issued by HKJCICM in respect of the project, progress report(s)/final report and project accounts and records. The Auditors should obtain all the necessary information, documents and explanations considered necessary in order to provide sufficient evidence and basis to form an audit opinion.
- 3.5.4 External audit fees relating to the project and arising from compliance with the provisions of the project agreement have to be included in the budget. The maximum funding support allowed for the annual/final audit(s) of the project costing less than \$1 million, between \$1 million and \$5 million and more than \$5 million should not be more than \$5,000, \$10,000 and \$20,000 respectively.