



# Financial reporting and auditing alert

Updates on current issues

Issue 3 • May 2009

Dear members,

*This series of alerts from the Institute's Standards and Quality division is intended to draw members' attention to topical financial reporting and auditing issues that should be given particular attention. In view of the current global financial crisis the first few issues of the alerts will deal with the potential implications for our members involved in preparing and auditing financial statements. The focus of the alerts will change over time as circumstances change. The Institute believes that it is an important element of both its regulatory and member support functions that this channel of communication is established.*

## **The Audit of Solicitors' Accounts under The Solicitors' Accounts Rules and The Accountant's Report Rules – Client money**

1. In this third issue of our series of alerts, we would like to remind practising members to be vigilant in their audit of solicitors' accounts given that the handling of client money has always been a matter of public interest and is likely to take on an increased sensitivity in the current economic conditions.
2. **Practising members are reminded of the importance of ensuring that adequate work is performed and documented before issuing an accountant's report under The Solicitors' Accounts Rules. As the work done and the reports issued relate to the sensitive area of client money any audit failures are likely to result considerable public exposure. In the context of the current economic conditions, there is also a heightened concern that solicitor firms may shed staff and as a result risk management functions over client money may be weakened.**
3. The Solicitors' Accounts Rules govern how solicitors should handle client money. The Rules, which are given statutory force by the Legal Practitioners Ordinance, are designed to prevent the improper handling or misappropriation of clients' monies entrusted to a solicitor. Broadly speaking, this is achieved by requiring such monies to be kept separate from the solicitor firm's own monies. In addition, bank accounts have to be set up and transactions arranged in such a way that monies belonging to one client may not be used for the benefit of another.

4. To ensure that the Solicitors' Accounts Rules are complied with, the Accountant's Report Rules require that every solicitor firm must appoint a practising member of the Institute to produce an accountant's report. The accountant's report is submitted by the solicitor firm to the Law Society.
5. The Law Society monitors compliance by its members of the Solicitor's Accounts Rules. If the Law Society identifies any non-compliance with the Rules which should have been identified by the practising member of the Institute, it may lead to a complaint to the Institute against the practising member.
6. If in the performance of the duties required under the Solicitors' Accounts Rules, it appears to the practising member that there is evidence that the Solicitors' Accounts Rules have not been complied with or he becomes aware of any matter which appears to affect adversely any client account or any trust money held by the firm to a material extent, he shall include in the accountant's report signed by him such details of the contravention or matter.
7. The Institute has issued Practice Note 840 - The Audit of Solicitors' Accounts under the Solicitors' Accounts Rules and The Accountant's Report Rules (PN840) [http://www.hkicpa.org.hk/ebook/HKSA\\_Members\\_Handbook\\_Master/volumell/pn840.pdf](http://www.hkicpa.org.hk/ebook/HKSA_Members_Handbook_Master/volumell/pn840.pdf) as guidance and assistance for practising members in performing work on the accountant's report.

PN840 includes the following important guidance:

- a. Highlights of the Solicitors' Accounts Rules and the Accountant's Report Rules;
  - b. Appendix 1 – Key questions based on the Solicitors' Accounts Rules
  - c. Appendix 2 – Audit Programme under Rule 4 of the Accountant's Report Rules
  - d. Appendix 3 – The prescribed format of an accountant's report under the Accountant's Report Rules
  - e. Appendix 4 – The Law Society's Practice Direction J "Interest on Clients' Account".
8. **Practising members are strongly encouraged to carefully read PN840 regarding the application of the Solicitors' Accounts Rules and the Accountant's Report Rules and to make use of the questionnaire and the work programme provided in the appendices to the practice note in performing their work on the accountant's report.**
  9. In determining the necessary extent of work procedures, practising members are encouraged to make reference to the Hong Kong Standard on Auditing (HKSA) 530 *Audit Sampling and Other Means of Testing*, rather than solely relying on judgment. Practising members are also encouraged to make reference to HKSA 230 *Audit Documentation* to ensure that the work procedures performed are adequately documented.

10. Practising members are reminded that though PN840 is persuasive rather than prescriptive, it is indicative of good practice and has similar status to the explanatory materials in HKSA and Hong Kong Standards on Assurance Engagements. Practising members should be prepared to explain departures from PN840 when called upon to do so.

Sincere regards,

A handwritten signature in black ink that reads "Chris Joy". The signature is written in a cursive style with a long horizontal stroke extending to the left and a vertical stroke extending downwards from the end of the horizontal stroke.

Chris Joy  
Executive Director  
Hong Kong Institute of CPAs