

Questions and Answers on the Seminar on Solicitors' Accounts Rules ("SAR") and Practice Note ("PN") 840 Reporting Engagements held on 24 July 2009

The Questions and Answers ("Q&As") below are prepared by staff at the HKICPA Standard Setting Department in consultation with one of the speakers of the Seminar, Mr. Stephen Chan (Member of the Institute's Auditing and Assurance Standards Committee), in relation to the questions received at the seminar on PN 840 reporting engagements held on 24 July 2009.

This Q&As should be read in conjunction with PN 840 and other regulations, standards or guidance published and issued by the HKICPA.

The Standard Setting Department of the Institute welcomes your comments and feedback, which should be sent to commentletters@hki.org.hk, for the attention of Steve Ong, Director of Standard Setting.

The Q&As are intended for general guidance only. HKICPA and Mr. Stephen Chan DO NOT accept any responsibility or liability, and DISCLAIM all responsibility and liability, in respect of the Q&As and any consequences that may arise from any person acting or refraining from action as a result of any materials in the Q&As.

PN 840 Engagement acceptance and reporting related issues

Q1: *Is PN 840 engagement governed by the Hong Kong Standard on Assurance Engagement (HKSAE) 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information"?*

A1: Because PN 840 was issued in 1998, it does not explicitly make reference to HKSAE 3000 which was issued in 2004.

This will be addressed in the next update of PN 840.

Q2: *Is there a sample engagement letter for engagements under PN 840?*

A2: The Accountant should agree on the terms of the engagement with the engaging party to avoid misunderstandings and the content of an engagement letter may vary based on different circumstances. While the present PN 840 does not include an example engagement letter, the Accountant may refer to Hong Kong Standard on Auditing ("HKSA") 210 *Terms of Audit Engagements* for guidance on the matter. The pronouncements of HKSA can be assessed at the Institute's website at <http://www.hki.org.hk/ebook/index.php>.

This will be addressed in the next update of PN 840.

Q3: *Is there a potential conflict of interest for a CPA firm to perform PN 840 engagements for its audit client?*

A3: No, on the ground that the scope of the two engagements is different.

This is similar to the audit and compliance reporting engagements for a licensed corporation under PN 820 *The Audit of Licensed Corporations and Associated Entities of Intermediaries*.

Q4: *When should the accountant's report with reasonable assurance and negative assurance be used?*

A4: The current required accountant's report is a hybrid report which contains both positive assurance and negative assurance on different areas. For the purpose of PN 840 engagements, the report format of an accountant's report is mandated by the Accountant's Report Rules (a subsidiary legislation) where the type of assurance for the accountant's report is effectively prescribed.

Q5: *Accountant's reports under the ARR are signed in the name of the practitioner. How does the CPA firm's responsibility for compliance with professional standards come into question?*

A5: The firm is required to comply with HKSQC 1 Quality Control for Firms That Perform Audits and Reviews of Historical Financial Information, and Other Assurance and Related Services Engagements by establishing a system of quality control designed to provide it with reasonable assurance that the firm and its personnel comply with professional standards and regulatory and legal requirements, and that reports issued by the firm or engagement partners are appropriate in the circumstances.

Q6. *Is the "full name(s) of sole proprietor or all partners" in item 7 of Form 1 in the Schedule to the Accountant's Report Rules referred to the name of the partners who are still practicing at the end of the reporting period?*

A6: Yes, the name of the partners who are still practicing at the end of the reporting period should be included in item 7 of Form 1 in the Schedule to the Accountant's Report Rules.

Circularization of confirmations and test sampling

Q7: *Some tests are required to cover "not less than two dates during the year and these dates should be random and it is not sufficient to select month-end regularly". What's the consequence or impact if two month ends dates are selected for testing?*

A7: As long as the dates are selected randomly, it would not be unacceptable to have two month end dates selected for performance of the required procedures. But the requirement is to avoid selecting month-end dates regularly.

Q8: *What alternative auditing procedures could an Accountant adopt if no response is received from clients account circularization?*

A8: The Accountant can refer to HKSA 505 *External Confirmations* for further guidelines on alternative procedures. In substance, the alternative procedures should be such as to provide evidence about the assertions that the confirmation request was intended to provide. Examples of alternative procedures include but not limited to the examination of subsequent cash receipts and disbursement or review of documentation and correspondence from clients and third parties, etc..

Q9: *Is there any requirement to circularize client accounts for balances at two different dates? For example: for year-end balance and a random date during the year.*

A9: There is no explicit requirement to have the client accounts ledger balances circularized at two different dates, only the obtaining of bank confirmations at two dates.

Q10: *As the circularization of client account(s) is performed on test basis, is it a reasonable excuse for the solicitors to refuse the circularization by the Accountant on certain clients' ledger balance due to "confidentiality", "privacy", etc.? Should another sample be selected? If not, should a qualified opinion be rendered?*

A10: The Accountant should circularize client account(s) on a test basis in accordance with HKSA 505 *External Confirmations* which contains guidelines for the situation where management requests the Accountant not to confirm certain balances or other information when the Accountant seeks to confirm. In such incident, the Accountant should consider whether there are valid grounds for such a request and obtain audit evidence to support the validity of the solicitor's requests. If the Accountant agrees to the solicitor's request not to seek external confirmation regarding a particular matter, the Accountant should apply alternative audit procedures to obtain sufficient appropriate audit evidence regarding that matter.

If the Accountant does not accept the validity of the solicitor's request and is prevented from carrying out the confirmations, there has been a limitation on the scope of the Accountant's work and the Accountant should consider the possible impact on the accountant's report.

When considering the reasons provided by the solicitor, the Accountant applies an attitude of professional skepticism and considers whether the request has any implications regarding the solicitor's integrity. The Accountant considers whether solicitor's request may indicate the possible existence of fraud. If the Accountant believes that fraud exists, the Accountant applies the guidance in HKSA 240 *The Auditor's Responsibility to Consider Fraud in an Audit of Financial Statements* if situation warrants. The Accountant also considers whether the alternative audit procedures will provide sufficient appropriate audit evidence regarding that matter.