Alert

Updates on financial reporting, auditing and ethics

Issue 36 (October 2020)

Dear practising members,

Solicitors' accounts reporting pitfalls

Practising members are sometimes engaged to issue an Accountant's Report on a firm of solicitors, who are required to deliver an Accountant's Report to the Council of The Law Society of Hong Kong (Law Society) once in each practice year. The report is prepared with regard to the requirements of the Solicitors' Accounts Rules (SAR) and Accountant's Report Rules (ARR) made under the Legal Practitioners Ordinance (Cap. 159).

The focus of an Accountant's Report is the proper handling and custody of client's money dealt with by a firm. The Institute's Practice Note 840 (Revised) *Reporting on Solicitors' Accounts under the Solicitors' Accounts Rules and the Accountant's Report Rules* (PN 840) gives guidance to assist practices to fulfil the objectives of the reporting engagement – including key questions to ask during the engagement and a suggested programme in two appendices. Practitioners should follow the guidance and be prepared to explain any departures from it.

Pitfalls

The Institute's Compliance Department recently received a number of referrals from the Law Society concerning failures to report breaches of the SAR in Accountant's Reports. An inadequate understanding of the relevant requirements on the part of the reporting accountants appears to have contributed to these failures.

PN 840 contains a summary of the major points of SAR and ARR. In conducting an Accountant's Report engagement, the reporting accountant should also consult the full details of the SAR and ARR. Reference should also be made to relevant Practice Directions issued by the Law Society, which explain some provisions of the SAR.

An issue repeatedly raised by the Law Society stems from an apparent misunderstanding of SAR rule 7A(1), which provides that no money shall be withdrawn from a client account under rule 7 unless authorized in writing by:

(a) a solicitor in whose name the client account is kept or where the client account is kept in the name of a firm, any solicitor or partner, consultant or foreign lawyer in the firm;

(b) a certified public accountant (practising) and countersigned by a person referred to in (a); or

(c) a person approved by the Council of the Law Society and countersigned by a person referred to in (a).

Paragraph (4)(1) of Appendix 5 Guidelines for Accounting Procedures and Systems to the Practice Directions K refers to the above requirements. It explains that for withdrawals from client accounts, a firm should arrange for suitable persons consistent with rule 7A of the SAR (see (a) to (c) above) to authorize internal payment vouchers, sign client account cheques, and authorize telegraphic or electronic transfers, and that *no other personnel should be allowed to authorize or sign the documents*.

A reporting accountant should take note of the above explanation in the Practice Directions when carrying out procedures on client account withdrawals, in particular when checking authorizations and signatures on the relevant documents.

In addition, it is suggested that a reporting accountant should review correspondence between the Law Society and the firm to see if there are issues arising in the relevant period that would impact on the information in the Accountant's Report. Such issues may arise from findings made by the Law Society during its site visits to the firm.

Reporting engagements under the SAR and ARR are one type of compliance work on regulated entities which entails a higher risk. Practising members are referred to the previous Alert *Compliance work for regulated entities* (Issue 35, June 2020) which draws attention to certain matters concerning engagement acceptance, compliance work and compliance reports.

Sincere regards,

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