

Technical Bulletin

Determining the Appropriateness of the Auditor's Reporting Framework – Assurance or Agreed-upon Procedures Engagements



Hong Kong Institute of
Certified Public Accountants
香港會計師公會

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HONG KONG INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

TECHNICAL BULLETIN

**DETERMINING THE APPROPRIATENESS OF THE AUDITOR'S REPORTING
FRAMEWORK – ASSURANCE OR AGREED-UPON PROCEDURES
ENGAGEMENTS**

This Technical Bulletin is issued by the Auditing and Assurance Standards Committee of the Hong Kong Institute of Certified Public Accountants (HKICPA). This Technical Bulletin does not constitute an auditing or assurance standard. Professional judgement should be used by practitioners in its application. No responsibility for loss occasioned to any person acting or refraining from action as a result of any material in this Technical Bulletin can be accepted by the HKICPA.

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Section 1 Introduction

Objective of the guidance

1. This Technical Bulletin is non-authoritative guidance (hereafter the “Guidance”). It is intended to assist practitioners in determining an appropriate reporting framework for engagements other than an audit or review of financial statements. The Guidance may also help assist the intended users of the practitioner’s report to understand the purposes of different types of auditor’s reporting to meet their needs (e.g. regulatory obligations).
2. Among the Hong Kong Standards as defined in the [Preface to the Hong Kong Quality Management, Auditing, Review, Other Assurance, and Related Services Pronouncements](#), the Guidance focuses on the following two common standards as the reporting frameworks for engagements other than an audit or review of financial statements:
 - [HKSAE 3000 \(Revised\), Assurance Engagements Other than Audits or Reviews of Historical Financial Information](#) (“HKSAE 3000 (Revised)”); and
 - [HKSRS 4400 \(Revised\), Agreed-Upon Procedures Engagements](#) (“HKSRS 4400 (Revised)”).
3. The Guidance does not amend or override HKSAE 3000 (Revised) and HKSRS 4400 (Revised), the text of which alone is authoritative. The Guidance is not intended to be exhaustive and reference to HKSAE 3000 (Revised) and HKSRS 4400 (Revised) should always be made for the detailed guidelines and procedures when conducting the assurance engagement or the agreed-upon procedures engagement.

Background

4. In addition to requiring an audit engagement for its financial statements, a reporting entity may be required under legislation, regulation or contractual arrangement with another party to request a practitioner to report on other financial information or non-financial information (for example, to report on controls or adherence to specified contractual terms and conditions). Any such information may or may not have been extracted from its audited financial statements. The practitioner undertaking such an engagement is generally the entity’s auditor although this may not always be the case. Where financial information to be reported upon is not included in the financial statements subject to audit, the entity may be required to engage a practitioner to issue a separate report on such information. For example:
 - (a) Regulated entities (e.g. authorized institutions) may be requested by their regulators (e.g. the Hong Kong Monetary Authority) to provide supplemental financial and/or non-financial information (e.g. on internal control relevant to compliance of certain regulations) to the regulators in addition to the audited financial statements, on which the entity’s auditors are required to issue a report.
 - (b) A recipient of grants, subsidies or donations may be required, as a condition of the grant, subsidy or donation, to provide supplemental information (e.g. statement of income and expenditures, statement of financial position) to the donor (e.g. a department of the Government of Hong Kong Special Administrative Region (“HKSAR”)), together with a practitioner’s report on the information.
 - (c) Where a retail outlet rents its premises, its rent may be determined in part with reference to its turnover. Such a tenant may be required under the terms of its tenancy agreement to submit details of its turnover to its landlord together with a practitioner’s report on the reported turnover figure.
5. In a number of situations, in particular for entities regulated by the Hong Kong Monetary Authority, the Securities and Futures Commission and the Insurance Authority, practitioners’ reports on many of the supplemental reporting requirements required by those regulators are dealt with in various Practice Notes and Circulars issued by the HKICPA. In such situations, the practitioner should refer to the relevant pronouncements issued by the HKICPA for guidance on the appropriate scope of work and report.

6. There are other situations where the scope of work to be performed and the form of the practitioner's report may be subject to discussion and agreement between the practitioner and his/her client. Depending on the requirements, it may be possible for the practitioner to undertake an assurance engagement or an agreed-upon procedures engagement on the subject matter in order to satisfy the client's and the intended user's needs. In such circumstances, it would generally be advisable for the practitioner, his/her client and, where appropriate, the intended users to discuss and consider the relative merits of each of these alternatives.
7. The diagram in Appendix 1 gives a brief overview of the different types of engagements typically performed by practitioners. Sections 2 to 5 of the Guidance explain the key features of the two reporting frameworks highlighted in paragraph 2.

Section 2 What is an assurance engagement?

8. The need for assurance emerges when one party seeks confidence in a subject matter prepared by another party. Assurance is provided when a third-party can provide an independent perspective. Assurance engagements therefore typically involve three distinct parties: the independent third-party (i.e. the practitioner) who provides the assurance report; the responsible party or engaging party (e.g., management of an organization), and the intended users of the assurance report.
9. An assurance engagement is an engagement in which a practitioner aims to obtain sufficient appropriate evidence in order to express a conclusion designed to enhance the degree of confidence of the intended users other than the responsible party about the subject matter information (that is, the outcome of the measurement or evaluation of an underlying subject matter against the criteria on which the underlying subject matter is prepared).
10. Assurance engagements are classified along two dimensions:
 - (i) Either a reasonable assurance engagement or a limited assurance engagement and
 - (ii) Either an attestation engagement or a direct engagement.

The [Hong Kong Framework for Assurance Engagements](#) provides in depth explanations of reasonable assurance engagements and limited assurance engagements and the differences between direct engagements and attestation engagements.

11. The practitioner expresses either a reasonable assurance conclusion (such as an assurance report on compliance with the Securities and Futures Ordinance¹), or a limited assurance conclusion (such as a limited review of an Environmental, Social and Governance (ESG) report).
 - For a reasonable assurance engagement, the practitioner reduces engagement risk to an acceptably low level in the circumstances of the engagement. This serves as the basis for the practitioner's conclusion. The practitioner's conclusion is expressed in a form that conveys the practitioner's opinion on the outcome of the measurement or evaluation of the underlying subject matter against the criteria.
 - For a limited assurance engagement, the practitioner reduces engagement risk to a level that is acceptable in the circumstances of the engagement, but where that risk is greater than for a reasonable assurance engagement. This serves as the basis for expressing a conclusion in a form that conveys whether, based on the procedures performed and evidence obtained, a matter(s) has come to the practitioner's attention to cause the practitioner to believe the subject matter information is materially misstated. The nature, timing and extent of procedures performed in a limited assurance engagement is limited compared with that necessary in a reasonable assurance engagement but is planned to obtain a level of assurance that is, in the practitioner's professional judgment, meaningful. To be meaningful, the level of assurance obtained by the practitioner is likely to enhance the intended users' confidence about the subject matter information to a degree that is clearly more than inconsequential.

¹ [PN 820 \(Revised\), The Audit of Licensed Corporations and Associated Entities of Intermediaries.](#)

- Relative to a reasonable assurance engagement, a limited assurance engagement provides a negative form of expression of the practitioner's conclusion. The work performed in a limited assurance engagement is less extensive in terms of the depth and rigour of the procedures performed compared to a reasonable assurance engagement. The practitioner typically performs different or fewer tests, or uses smaller sample sizes than would be required for a reasonable assurance engagement.
12. Some examples of assurance engagements for regulatory reporting in Hong Kong include:
- Reporting on the income and expenditure account of flag days, general charitable fund-raising activities and solicitation of signed authorization forms covered by public subscription permits issued by the Social Welfare Department of the HKSAR Government in accordance with PN 850².
 - Reporting on annual financial reports of non-governmental organizations (NGOs) pursuant to the requirements of the prevailing Lump Sum Grant ("LSG") Manual published by the Social Welfare Department of the HKSAR Government in accordance with PN 851³.
 - Reporting on the producer responsibility scheme on waste electrical and electronic equipment according to the [Circular on Reporting under Section 20 of the Product Eco-responsibility \(Regulated Electrical Equipment\) Regulation \(Cap. 603B\)](#).
 - Reporting on the producer responsibility scheme on glass beverage containers according to the [Circular on Reporting under Section 20 of the Product Eco-responsibility \(Regulated Articles\) Regulation \(Cap. 603C\)](#).
13. Not all engagements performed by practitioners are assurance engagements. Some examples of engagements that practitioners frequently perform, which are not assurance engagements, include:
- Engagements covered by Hong Kong Standards on Related Services (HKSRS), such as agreed-upon procedures engagements according to [HKSRS 4400 \(Revised\)](#) and compilation engagements according to [HKSRS 4410 \(Revised\)](#).
 - The preparation of tax returns where no conclusion conveying assurance is expressed.
 - Consulting (or advisory) engagements, such as management and tax consulting.
14. Practitioners should be mindful that an assurance engagement under HKSAE 3000 (Revised) can be accepted or continued only when the following preconditions are present:
- A three-party relationship involving the practitioner, a responsible party and intended users;
 - An expectation that the relevant ethical requirements, including independence, will be satisfied;
 - An appropriate underlying subject matter that is identifiable and capable of consistent measurement or evaluation against the applicable criteria such that the resulting subject matter information can be subjected to procedures;
 - Suitable criteria which exhibit relevance, completeness, reliability, neutrality and understandability, and such criteria will be available to the intended users;
 - The practitioner expects to be able to obtain the evidence needed to support the conclusion;
 - The practitioner's conclusion to be contained in a written report;

² [PN 850 \(Revised\), Reporting on Flag Days, General Charitable Fund-raising Activities and Solicitation of Signed Authorisation Forms Covered by Public Subscription Permits issued by the Social Welfare Department](#).

³ [PN 851, Reporting on the Annual Financial Reports of Non-governmental Organisations](#).

- A rational purpose, example considerations of which include whether the practitioner believes that the engaging party intends to associate the practitioner's name with the subject matter information in an inappropriate manner.
15. Practitioners should refer to HKSAE 3000 (Revised) for a detailed description of an assurance engagement.

Section 3 What is an agreed-upon procedure engagement?

16. An agreed-upon procedures ("AUP") engagement is an engagement in which a practitioner is engaged to carry out procedures to which the practitioner and the engaging party (and if relevant, other parties) have agreed and to communicate the procedures performed and the related findings in an agreed-upon procedures report. These procedures cover an agreed aspect of the reporting entity's business information (i.e. financial or non-financial), rather than the whole set of the financial statements. In other words, the AUP report does not extend to information beyond subject matters on which the agreed-upon procedures are performed. No opinion or conclusion will be provided by the practitioner. Intended users may form their own conclusions based on the findings reported by the practitioner.
17. Given the wide variation in the needs of an engaging party, the nature, timing and extent of the procedures may vary accordingly. The value of the AUP comes from the practitioner's objective execution of procedures and tests, leveraging the practitioner's relevant expertise to spare the engaging party or the intended users the need to perform those procedures and tests themselves.
18. Some examples of AUP engagements for regulatory reporting in Hong Kong include:
- Reporting on the engaging party's procedures in relation to the Hong Kong Monetary Authority's guideline on certification of funds issued according to the [Circular on Reporting for Certification of Funds under Schedule 16D to the Inland Revenue Ordinance \(Cap. 112\)](#).
 - Reporting on the engaging party's procedures in relation to the New Capital Investment Entrant Scheme according to the [Circular on Reporting under Rule 4.2 and Rule 4.4 relating to Net Asset Requirement and Rule 4.6 relating to Investment Requirements of the New Capital Investment Entrant Scheme](#).
 - Reporting on the engaging party's internal controls according to the [Circular on Reporting to Grantees of the Language Fund](#).
19. More examples of AUP engagements can be found in the IFAC's publication.⁴
20. In conducting an agreed-upon procedures engagement, the need for the practitioner to exercise professional judgment is limited as compared with an assurance engagement. However, the practitioner may need to exercise professional judgement in different stages of an AUP engagement. For example, during the acceptance of an AUP engagement, the practitioner exercises professional judgement in determining the appropriate actions if the practitioner becomes aware of facts or circumstances suggesting that the proposed agreed-upon procedures are inappropriate for the purpose of the AUP engagement.
21. An AUP engagement offers flexibility to an engaging party and the intended users as the procedures can be tailored to satisfy intended users' needs. The procedures to be performed during the AUP engagement may be prescribed by law or regulation.
22. An AUP report can provide additional information to intended users in respect of a specific element of the financial statements. For example, the practitioner is engaged to perform certain procedures to test a specific account, e.g. other revenue account, based on the request from the engaging party. The agreed-upon procedures on the other revenue account may include:

⁴ [Agreed-upon Procedures Engagements—A Growth and Value Opportunity](#) published by the International Federation of Accountants (IFAC).

- Obtaining from management of the engaging party the list of all items under the other revenue account of the entity for the year ended 31 December 20XX, and checking the revenue items included in the list to relevant service agreement/sales contracts and payment records;
 - Agreeing the total amount of the other revenue items in the list to the amount disclosed in the entity's audited financial statements for the year ended 31 December 20XX;
 - Agreeing the total amount of the other revenue items in the list to the corresponding amount stated in the underlying books and records from which the other revenue items are extracted.
23. An AUP engagement can also be performed for non-financial subject matters, such as volume of greenhouse gas emissions, particular financial reporting processes and controls, and non-financial management targets for performance evaluation purposes.
24. Practitioners should be mindful that an AUP engagement can be accepted or continued only when the following conditions are met:
- The engaging party acknowledges that the expected procedures to be performed by the practitioner are appropriate for the purpose of the engagement;
 - The practitioner expects to be able to obtain the information necessary to perform the agreed-upon procedures;
 - The agreed-upon procedures and related findings can be described objectively, in terms that are clear, not misleading, and not subject to varying interpretations. Examples of descriptions of actions that may be acceptable include confirm, compare, agree, trace, inspect, inquire, recalculate and observe;
 - The practitioner has no reason to believe that relevant ethical requirements and independence requirements (where applicable) will not be complied with.
25. Practitioners should refer to HKSRS 4400 (Revised) for a detailed description of an AUP engagement.

Section 4 Which standard is appropriate for the engagement?

26. An entity may receive requests from regulatory bodies or other stakeholders to submit information, prompting a consideration of the need for practitioner's services. In some instances, the request may be very specific. For example, an entity is required by a regulatory body to appoint a practitioner to conduct an assurance engagement on internal control or compliance with contract terms.
27. In other instances, the request may be less specific. For example, management may approach a practitioner for a report but is unsure of what type of report can best meet their needs. In such case, the practitioner should probe further to understand more about management's needs in order to determine which type of engagement is appropriate in the circumstances.
28. A practitioner needs to understand the nature of the information and the intended purpose of the engagement. These include consideration of the following questions:
- What is the nature of the subject matter? Examples may include historical financial performance, future financial performance, systems and processes and aspects of compliance that are the subject of the assurance opinion or conclusion.
 - Who is (are) the intended user(s) of the practitioner's deliverable? Examples may include government, lenders, funders, those charged with governance and the general public.

- What will the intended user(s) be using the practitioner's deliverable for and the level of assurance or comfort required (e.g. an assurance opinion or conclusion, or factual results of agreed-upon procedures)? Examples may include specification by a third party, regulations or contracts, as well as to address concerns about information reliability; evaluating the accuracy and completeness of a statement; and drawing conclusions from the specified work performed.
29. Leveraging the information obtained above, the practitioner should consider the potential type(s) of engagement that can meet the needs of management and the intended users of reports and evaluate whether the pre-conditions are met for the type of engagement as well as any other requirements, in accordance with the applicable standard(s).
 30. As mentioned in Sections 2 and 3, preconditions must be present before the practitioner can render the respective services. If not all of the preconditions are present, the practitioner should discuss the matter with the engaging party. If the preconditions as mentioned in Section 2 cannot be met, the practitioner should refrain from categorizing the engagement as an assurance engagement under assurance standards. Instead, the practitioner may explore alternative types of engagements, such as agreed-upon procedures, provided that the necessary preconditions are present.
 31. Regardless of the type of engagement, the practitioner should be satisfied that the engagement team collectively has the appropriate competence and capabilities to perform the engagement in accordance with the applicable standard(s).
 32. Where the practitioner is unable to comply with all requirements of the applicable standard(s) relevant to the engagement, the practitioner should not represent compliance with that standard(s).
 33. The Institute has also issued guidance for different types of engagements. In addition to the applicable professional standard(s), the practitioner should also refer to the relevant [Practice Notes](#) and [Circulars](#), where applicable.

Section 5 Common pitfalls

34. Below is a summary of some of the common pitfalls when determining the appropriateness of the reporting framework adopted by illustrating different reporting requirements observed in practice.

| Pitfall 1- Appropriateness of the Auditor's Reporting Framework | |
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| Reporting requirements | <p>ABC Company (i.e. the recipient of a project fund) is required by XYZ (i.e. the project donor) to prepare a set of financial information consisting of a statement of income and expenditures and a statement of financial position ("project accounts") annually and submit an assurance report on the project accounts in respect of the project.</p> <p>The practitioner is engaged by ABC Company to conduct an engagement in accordance with HKSAE 3000 (Revised). In particular, the following statement is required to be included in the practitioner's report for ABC Company's project accounts:</p> <p style="text-align: center;"><i>"We have performed a reasonable assurance engagement to report on whether ABC Company has complied with, in all material respects, the requirements set by XYZ for the period from [DD/MM/YY] to [DD/MM/YY] (the "project accounts") in accordance with all applicable HKFRS Accounting Standards as issued by the HKICPA"</i></p> |
| Issues | <p>The required reporting statement to be disclosed in the practitioner's report creates doubts on the appropriateness of using HKSAE 3000 (Revised) for reporting the engagement:</p> <p>If ABC Company is required to prepare its project accounts in accordance with XYZ's requirements (e.g. accounting policies determined by XYZ and a prescribed presentation format of the project accounts), it is not appropriate for the practitioner to report the engagement using HKSAE 3000 (Revised) as it does not deal with an audit or review of historical financial information that includes financial statements prepared in accordance with a special purpose framework.</p> |

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| | <p>If it is an audit of an entity's project accounts, the practitioner should conduct the audit in accordance with Hong Kong Standards on Auditing ("HKSA"), including the form of reporting under HKSA 800 (Revised), Special -Considerations-Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks, where applicable.</p> |
| Factors to consider | <ul style="list-style-type: none"> • Consider which auditor's reporting framework is appropriate for reporting on the project accounts, which may or may not be a complete set of financial statements. Relevant questions or information include: <ul style="list-style-type: none"> ○ What is the objective of the reporting, e.g. the level of assurance to be obtained, reasonable or limited assurance? ○ What is the subject matter to be reported on, e.g. is it related to financial statements? ○ What is the scope of work, e.g. to report on ABC company as a legal entity or selected components based on XYZ's requirements? ○ Are the project accounts prepared using a general purpose framework (e.g. HKFRS Accounting Standards) or a special purpose framework? What is "the requirements set by "XYZ", e.g. is there a set of accounting policies specifically designed for the preparation of the project accounts? ○ Are the project accounts comprising a complete set of financial statements or less than complete set of financial statements (e.g. single financial statement)? Is there any prescribed format in the presentation of the project accounts as required by XYZ? • If the answers to the above questions indicate that an entity is required to prepare the historical financial information of the project accounts in accordance with specified accounting policies, including a prescribed format in the presentation, an audit of financial statements under HKSA 800 (Revised) would be more appropriate for reporting. • The practitioner should clarify with the engaging party regarding the criteria for preparing the project accounts and explain to the engaging party that an entity should not describe its financial statements as complying with HKFRS Accounting Standards unless all the requirements of HKFRS Accounting Standards are complied with. All relevant requirements of the HKFRS Accounting Standards should be applied once they are adopted for preparing and presenting the entity's financial statements, or the project accounts in this case (i.e. no cherry-picking of selected accounting standards is permitted). |
| Pitfall 2- Appropriateness of the Auditor's Reporting Framework | |
| Reporting requirements | <p>Under section A of the X Ordinance and section B of the Y Regulation, the applicant must submit to DEF organization periodic returns of the quantity of items sold during a specified period ("required data") and an annual audit report in respect of those periodic returns submitted.</p> |
| Issues | <p>When periodic returns of the required data are different from a full set of financial statements, an audit of periodic returns of required data using HKSA 700 (Revised) is not appropriate for reporting this type of engagement, despite the term "audit report" being stated in the X Ordinance and Y Regulation.</p> |
| Factors to consider | <p>Consider which auditor's reporting framework is appropriate for reporting on the periodic returns of the engaging party. Relevant questions or information include:</p> <ul style="list-style-type: none"> • What is the objective and the subject matter of the reporting, e.g. to address the completeness and accuracy of quantity of items sold? • Whether the preconditions for an assurance engagement as described in HKSAE 3000 (Revised) are present? • What is the level of assurance or comfort that DEF organization is expecting from the practitioner? |

| Pitfall 3- Appropriateness of the Auditor's Reporting Framework | |
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| Reporting requirements | <ul style="list-style-type: none"> • A project applicant is required by the granting organization to: <ul style="list-style-type: none"> ○ prepare a statement of income and expenditure setting out all the income collected and all the disbursements in respect of the project (“project accounts”); ○ obtain a practitioner’s report stating whether the project accounts are properly prepared from the books and records of the project applicant made available to the practitioner and any matter has come to the attention of the practitioner which indicates that the project accounts do not accurately reflect all the income collected and all the disbursements in respect of the project. • The practitioner is asked by the project applicant to conduct the engagement in accordance with HKSRS 4400 (Revised) where the practitioner will report on agreed-upon procedures performed and the related findings in respect of those procedures. |
| Issues | An agreed-upon procedures engagement is not an audit, review or other assurance engagement. It does not involve obtaining evidence for the purpose of the practitioner expressing an opinion or an assurance conclusion in any form. Therefore, by conducting the engagement under HKSRS 4400 (Revised), the practitioner will not be able to express an opinion or an assurance conclusion as expected by the granting organization. |
| Factors to consider | <ul style="list-style-type: none"> • Consider which auditor’s reporting framework is appropriate for the reporting purpose. Relevant questions or information include: <ul style="list-style-type: none"> ○ What is the objective of the reporting, e.g. to address the completeness and accuracy of all the income and expenditures of the project? ○ What is the subject matter to be reported, e.g. a statement of income and expenditures? ○ What is the scope of work, e.g. is there a set of procedures specified by the granting organization to be checked for compliance? ○ Whether the expected scope of work exceeds or does not match with the requirements of the designated reporting framework (e.g. HKSRS 4400 (Revised) in this case). • Consider if HKSAE 3000 (Revised) would be more appropriate for reporting as the practitioner is required to provide an opinion or a conclusion on the statement of income and expenditure setting out all the income collected and all the disbursements in respect of the project. |
| Pitfall 4- Appropriateness of the Auditor's Reporting Framework | |
| Reporting requirements | A landlord requires its tenant to submit an auditor’s certificate in respect of the gross receipts generated from the business at the premises leased from the landlord. The auditor is required to apply HKSAAs and report on whether the monthly gross receipts submitted to the landlord gives a “true and correct view” of the income generated from the operation of the business by the tenant. |
| Issues | <ul style="list-style-type: none"> • The word “certificate” in the title of the report and the word “correct” in the expected opinion or conclusion may give an impression to the readers that the subject matter of the certificate is of absolute accuracy and should generally be avoided. In addition, the practitioner is generally not in a position to provide absolute certainty as to the accuracy of the subject matter in a reasonable assurance engagement due to inherent limitations, and the practitioner applies materiality during the course of his/her work. |

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| | <ul style="list-style-type: none"> • If the practitioner is to provide an assurance report (whether audit or review) on an individual account balance (i.e. gross receipts), additional procedures may be required to be performed possibly on the related internal control systems other than those procedures to be performed on the individual account balance. In addition, if the leased premises involved are operated by a branch of a legal entity, any financial statement audit procedures performed to express an audit opinion on the financial statements of the entity as a whole might not be sufficient and appropriate for the practitioner to report at the branch level. |
| Factors to consider | <ul style="list-style-type: none"> • Consider if an agreed-upon procedures engagement performed under HKSRS 4400 (Revised) would be more appropriate for reporting (e.g. to agree the turnover figures to the books and records). • The AUP report should follow the standard format as prescribed in HKSRS 4400 (Revised) and avoid using the word “certificate”. • The AUP report should clearly describe the procedures performed and the findings. For example, the practitioner may agree to perform the following procedures: <ul style="list-style-type: none"> ○ To check the addition of the gross receipts and compare the total balance to the books and records (e.g. trial balance, management accounts or audited financial statements). ○ To check the arithmetical accuracy of the shortfall/excess of the revenue. • The AUP report should clearly describe the procedures performed and the findings. For example, the practitioner may agree to perform the following procedures: <ul style="list-style-type: none"> ○ To check the addition of the gross revenue figures noted in the attached schedule and compare the total balance to the books and records (e.g. trial balance, management accounts or audited financial statements). ○ To check the arithmetical accuracy of the shortfall/excess of the revenue. ○ To compare the formula used in the calculation of the gross revenue and the shortfall/excess of the revenue noted in the attached schedule with the formula stated in Schedule x of the Agreement dated [date]. • Alternatively, if the practitioner is to perform an assurance engagement (e.g. an audit under HKSA 805 (Revised)) on the turnover figures (i.e. selected financial information), additional procedures to that required for the audit of the entity's financial statements would likely be necessary. When conducting an audit of the turnover figures, the practitioner shall refer to HKSA 805 (Revised) for special considerations in the application of auditing standards to an audit of specific account of a financial statement as opposed to an audit of a complete set of financial statements. |
| Pitfall 5- Appropriateness of the Auditor's Reporting Framework and the Scope of Work | |
| Reporting requirements | <p>A landlord requires the tenant to submit an auditor's certificate on the calculation of gross revenue and the shortfall/excess of the revenue fee in a prescribed format as follows:</p> <p><i>“We hereby certify that the gross revenue for that period of \$[xx] and a shortfall/excess of \$[xx] of the revenue fee as set out in the attached annex has been:</i></p> <p><i>(a) calculated in accordance with Schedule x of the Agreement dated [date]; and</i></p> <p><i>(b) properly extracted from the books and records of the Licensee.”</i></p> |

DETERMINING THE APPROPRIATENESS OF THE AUDITOR'S REPORTING FRAMEWORK – ASSURANCE OR AGREED-UPON PROCEDURES ENGAGEMENTS

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| Issues | <ul style="list-style-type: none"> • The word “certify” and “certificate” imply absolute certainty and should generally be avoided. • In the context of an auditing and assurance standard, the first opinion “calculated in accordance with” involves verification if the calculations comply with the specific criteria which indicates a reasonable level of assurance, while the second opinion “properly extracted from” appears to be an agreed-upon procedures that reports factual results. • The prescribed form of certificate makes no reference to any professional standard, nor does it follow any of the report format for assurance or agreed-upon procedures engagements. |
| Factors to consider | <ul style="list-style-type: none"> • Consider if an agreed-upon procedures engagement performed under HKSRS 4400 (Revised) would be more appropriate for reporting (e.g. to agree the turnover figures to the books and records and to check the arithmetical accuracy of the calculation of gross revenue and the shortfall/excess of the revenue fee in a prescribed format in accordance with Schedule x of the Agreement). • The AUP report should follow the standard format as prescribed in HKSRS 4400 (Revised) and avoid using the word “certificate”. • The AUP report should clearly describe the procedures performed and the findings. For example, the practitioner may agree to perform the following procedures: <ul style="list-style-type: none"> ○ To check the addition of the gross revenue figures noted in the attached schedule and compare the total balance to the books and records (e.g. trial balance, management accounts or audited financial statements). ○ To check the arithmetical accuracy of the shortfall/excess of the revenue. ○ To compare the formula used in the calculation of the gross revenue and the shortfall/excess of the revenue noted in the attached schedule with the formula stated in Schedule x of the Agreement dated [date]. |
| Pitfall 6- Determining the Scope of Work | |
| Reporting requirements | <p>Recipients of grants are sometimes requested to submit an auditor’s report on the recipient’s accounts to the donors. The practitioner may be requested to report on the following:</p> <ul style="list-style-type: none"> (a) the recipient has complied with the accounting requirements specified in the relevant grant letters and guidelines issued by the donor from time to time; (b) the recipient has used the subventions in accordance with the rules and terms of the grants as promulgated in the relevant grant letters and guidelines issued by donor from time to time; (c) the balances of the individual grant accounts are correct. |
| Issues | <ul style="list-style-type: none"> • The relevant guidelines are not specified and the practitioner needs to ascertain the completeness of the relevant guidelines. This may be challenging if the volume of guidelines is high and the records of the guidelines are not properly maintained. • It may be difficult for the practitioner to ascertain whether the recipient has complied with the rules and terms of the grants as the rules may not be related to the financial information for compiling the auditor’s report (e.g. they relate to the operational guidelines or on-time submission of unaudited quarterly returns). |

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| | <ul style="list-style-type: none"> The audit opinion can only provide reasonable assurance on the subject matter and not absolute assurance due to the inherent limitations of an audit. Hence, the practitioner may not be in a position to report on the “correctness” of the individual grant accounts based on his/her audit procedures performed without properly communicating to the intended users in his/her report that reasonable assurance instead of absolute assurance is provided. |
| Factors to consider | <ul style="list-style-type: none"> Consider if there are impacts to the practitioner’s report where inconsistencies are identified between the specified accounting requirements of the grant and the general purpose framework that the practitioner is familiar with (e.g. HKFRS Accounting Standards). The practitioner needs to restrict his/her opinion on adherence to such terms to accounting related matters which are within his/her competence. Consider if an agreed-upon procedures engagement conducted under HKSRS 4400 (Revised) would be more appropriate for reporting (e.g. to agree the figures to the books and records). |
| Pitfall 7- Determining the Scope of Work | |
| Reporting requirements | <p>A contractor is requested to submit cost data and to provide an auditor’s report which includes a prescribed auditor’s opinion as follows:</p> <p style="text-align: center;"><i>As an independent auditor, we have audited the information in Form [abc] in full for the year ended [date]. In our opinion, the information given in Form [abc] is reasonable and acceptable for completeness and correctness.</i></p> |
| Issues | <ul style="list-style-type: none"> “Audited in full” implies an absolute assurance opinion which may not be appropriate as an audit can only provide reasonable assurance on the information as a whole due to inherent limitations in an audit and typically uses sampling rather than 100% testing. The practitioner may not be in a position to confirm the “correctness” of the subject information. As it is not uncommon that the preparer of the information would exercise judgement in preparing the subject information and a number of alternative outcomes may fall within an acceptable range, there may not be a single correct answer. For the confirmation of “completeness”, if the practitioner is unable to confirm the completeness of the subject information, this may result in an inability to obtain sufficient appropriate audit evidence and may require modifications in the practitioner’s report. Assuming the suitable criteria (i.e. the framework against which the subject matter information is evaluated) is absent, not all the preconditions under HKSAS 3000 (Revised) are met and potentially resulting in the practitioner being unable to accept or continue the engagement and unable to report on the information as required. It is unclear as to how the practitioner is to judge “reasonable and acceptable” without referencing to a professional standard which forms the basis of the practitioner’s work. |
| Factors to consider | <p>Considering the purpose of the engagement, the information needs of the intended users and the level of assurance or comfort required, the practitioner should discuss and agree with the client as to the scope of work to be performed and the types of opinion to be provided. The report should follow the format specified in the relevant standard and describe clearly the scope of work performed. The following alternatives are potentially available:</p> |

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| | <ul style="list-style-type: none"> • Perform an assurance engagement conducted under HKSAE 3000 (Revised) on the figures included in the submission if preconditions are present (ref.: Paragraph 14); or • Perform an agreed-upon procedures conducted under HKSRS 4400 (Revised) on the figures included in the submission if the preconditions are met (ref.: Paragraph 24). |
| Pitfall 8- Sufficiency and Appropriateness of Audit Evidence | |
| Reporting requirements | <p>The applicant is required to submit the application documents for obtaining the project funding. Once the funding authority/organization approves the application, the applicant (i) receives an approval letter indicating acceptance of the project funding and (ii) must sign the project agreement detailing the funding terms and conditions which includes requirements for accounting of the transactions and submitting an auditor's report for the applicant's statement of income and expenditures and statement of financial position in respect of the project ("project accounts"). In particular, the following statement is required to be included in the auditor's report:</p> <p style="text-align: center;"><i>"Pursuant to the project agreement made between XYZ and ABC company and the relevant XYZ guidelines referred to in the project agreement in respect of the ABC company's project funded by XYZ, we have performed a reasonable assurance engagement to report on"</i></p> <p>While conducting the field work, the applicant provided the approval letter to the practitioner but declined to give the signed project agreement to the practitioner.</p> |
| Issues | <ul style="list-style-type: none"> • As set out in the statement to be included in the auditor's report, the auditor is required to perform a reasonable assurance engagement which could raise a concern on the appropriateness of the auditor's reporting framework. Refer to Pitfall 1 for more information. • The guidelines for accounting for the income and expenditure transactions within the project accounts are outlined in the project agreement and form essential components of the engagement conditions. Without obtaining the signed project agreement, it may be difficult for the practitioner to carry out the engagement. In addition, it is unclear whether there are suitable criteria established (i.e. the framework against which the subject matter information is to be evaluated). |
| Factors to consider | <p>Consider if the preconditions of an assurance engagement are present, for example, whether the practitioner expects to be able to obtain the evidence needed to support the auditor's conclusion. (ref.: Paragraph 14)</p> <p>If it is discovered after the engagement has been accepted that one or more preconditions for an assurance engagement is not present, the practitioner should discuss the matter with the appropriate party(ies), and should determine:</p> <ol style="list-style-type: none"> Whether the matter can be resolved to the practitioner's satisfaction; Whether it is appropriate to continue with the engagement; and Whether and, if so, how to communicate the matter in the assurance report. (Paragraph 42 of HKSAE 3000 (Revised)) <p>If it is discovered after the engagement has been accepted that some or all of the applicable criteria are unsuitable or some or all of the underlying subject matter is not appropriate for an assurance engagement, the practitioner should consider withdrawing from the engagement, if withdrawal is possible under applicable law or regulation. If the practitioner continues with the engagement, the practitioner should express a qualified or adverse conclusion, or disclaimer of conclusion, as appropriate in the circumstances. (Ref.: Paragraph 43 of HKSAE 3000 (Revised))</p> <p>The practitioner should evaluate the sufficiency and appropriateness of the evidence obtained in the context of the engagement and, if necessary in the circumstances, attempt to obtain further evidence. (Ref.: Paragraph 64 of HKSAE 3000 (Revised))</p> |

Appendix 1 Overview of different types of engagements

| Nature of service | Assurance engagements | | Agreed-upon procedures | Compilation |
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| Comparative level of assurance provided by the practitioner | Reasonable assurance e.g. an assurance report on compliance with the Securities and Futures Ordinance | Limited assurance e.g. review of income and expenditure account | Not applicable ¹ | Not applicable ¹ |
| Report provided | Conclusion expressed in positive form ² | Conclusion expressed in a form that conveys whether, based on the procedures performed and evidence obtained, a matter(s) has come to the practitioner's attention to cause the practitioner to believe the subject matter information is materially misstated ³ | Findings (factual results) of agreed-upon procedures performed | Identification of information compiled |
| Relevant standards which apply within these categories: | HKSAs HKSIRs ⁴ HKSAEs | HKSREs HKSIRs ⁴ HKSAEs | HKSRS 4400 (Revised) HKSIRs ⁴ | HKSRS 4410 |
| Level of work involved | Procedures undertaken are designed by the practitioner to ensure sufficient evidence for giving an opinion | Procedures undertaken are more limited than a reasonable assurance engagement | Fewer procedures undertaken than an assurance engagement | Compilation procedures are undertaken |
| Cost and timing considerations | Most costly and time-consuming | Less costly and time-consuming than a reasonable assurance engagement | Less costly and time-consuming than an assurance engagement | Less costly and time-consuming than an assurance engagement |

¹ These are not "assurance" engagements in so far as "assurance" is a defined term in the HKICPA's Standards and therefore the term is used only in specific circumstances.

² As the outcome of a reasonable assurance engagement is expressed in a positive form of expression, such engagements are sometimes referred to as "positive assurance" engagements.

³ As the outcome of a limited assurance engagement is expressed in a negative form of expression, such engagements are sometimes referred to as "negative assurance" engagements.

⁴ Engagements performed under HKSIRs may involve the practitioner expressing an opinion and in some situations, the practitioner may be performing an agreed-upon procedures engagement.