

Alert

Updates on financial reporting and auditing



Issue 20 (April 2015)

Dear members,

Auditor's report signing arrangements

The Practice Review Committee is a statutory committee responsible for exercising the powers and duties given to the Institute as the regulator of auditors in Hong Kong under the Professional Accountants Ordinance. From time to time the Committee becomes aware of matters arising from the practice review programme carried out by the Quality Assurance Department of the Institute that warrant further communication with members. This Alert sets out some matters concerning auditor's report signing arrangements.

Background

It is not uncommon for practices to have arrangements in place for a partner/director who is not the engagement leader of that engagement to sign the auditor's report. The following are three common scenarios found in practices:

- a) A signing partner/director signs an auditor's report for an engagement led by an engagement leader who does not hold a practising certificate ("PC") issued by the Institute.
- b) A signing partner/director, who is a senior or an equity partner/director of the practice, signs an auditor's report for a high risk engagement, e.g. a listed company engagement, led by an engagement leader, who is a junior or salaried partner/director with a PC, due to quality control or client relationship reasons. In this case, the signing partner/director is named in the engagement letter or recognized by the client as the engagement partner.
- c) A signing partner/director signs an auditor's report for an engagement led by an engagement leader with a PC when the engagement leader is temporarily unable to physically sign the auditor's report e.g. away from Hong Kong or medical reasons.

If the practice is a corporate practice, the auditor's report has to specify the name of the responsible partner/director as well as his/her PC number as required by the Corporate Practices (Registration) Rules. There is currently no such requirement for a practice that is a firm or a partnership as the auditor's report is signed in the name of the practice. However, ISA 700 (revised) *Forming an Opinion and Reporting on Financial Statements*, issued on 16 January 2015 and effective for audits of financial statements for periods ending on or after 15 December 2016, requires the name of the engagement partner to be stated in the auditor's report of a listed company engagement. Accordingly, once ISA 700 (revised) is adopted and becomes effective in Hong Kong, the name of the engagement partner will have to be specified in the auditor's reports for all Hong Kong listed company engagements.

Issues

The above signing arrangements give rise to the following issues:

- 1) What is the role of a signing partner/director?
- 2) What should be the extent of involvement of the signing partner/director in the audit engagement?

These matters have recently been considered by the Practice Review Committee.

Analyses

HKSQC 1 *Quality Control for Firms that Perform Audits and Review of Financial Statements, and other Assurance and Related Services Engagements* states that the engagement partner is the partner or other person in the firm who is responsible for the engagement and its performance, and for the report that is issued on behalf of the firm, and who, where required, has the appropriate authority from a professional, legal and regulatory body.

HKSA 220 *Quality Control for an Audit of Financial Statements* specifies that the engagement partner should, through a review of the audit documentation, in particular documentation on critical areas of judgment and significant risks, and discussion with the engagement team, be satisfied that sufficient appropriate audit evidence has been obtained to support the conclusions reached and for the auditor's report to be issued. In addition, he/she should document the extent and timing of reviews.

Section 29 of the Professional Accountants Ordinance provides that except for a PC holder or a corporate practice, no other person shall hold any appointment or render any services as an auditor in respect of a set of Hong Kong statutory financial statements. The Hong Kong Listing Rules also recognize that Hong Kong primary listed audit engagements must normally be performed by certified public accountants who are qualified under the PAO for appointment as auditors.

Based on the above, it is apparent that only a PC holder can (normally) be the engagement partner/director for a Hong Kong statutory or a Hong Kong primary listed engagement and sufficient documentation is required to evidence his/her extent and timing of involvement in the engagement.

Based on past disciplinary cases, in the event of an audit failure, the signing partner/director in arrangements (a) and (b) above would be named as the defendant in the disciplinary process. For arrangement (c), the signing partner/director would be named in the disciplinary process unless he/she can provide evidence that his/her role is limited only to signing of the audit report on behalf of the engagement leader under the name of the practice.

Expectations and decisions of the Practice Review Committee

Signing arrangements allow a practice to use its resources more efficiently and effectively. In the event that the engagement leader is not a PC holder, the signing partner/director should properly discharge his/her duty as the PC holder recognized by the PAO or the listing rules to be responsible for the engagement.



Accordingly, a practice with signing arrangements (a) and (b) is expected to have policies and procedures in place to ensure there is evidence that the signing partner/director has properly discharged his/her responsibility under the engagement as the responsible PC holder in signing arrangement (a) or the engagement partner in signing arrangement (b). As a minimum, there should be evidence on file that the signing partner/director has performed a review of audit documentation on critical areas of judgment and significant risks (that normally includes the planning and completion memoranda) and, based on the review and communication with the engagement team, is satisfied that sufficient appropriate evidence has been obtained to support the opinion to be given.

For signing arrangement (c), as a minimum, the practice is expected to have evidence on file that the engagement leader has confirmed to the signing partner/director that he has undertaken procedures expected of him/her as the engagement partner for the engagement, including a file review to ensure sufficient appropriate evidence has been obtained to support the audit opinion, and shall take full responsibility for the engagement before the signing partner/director signs the audit report.

Practices that have auditor's report signing arrangements that do not exactly match any of the three scenarios should still make reference to the above and develop appropriate policies and procedures.

Practices should also avoid having signing arrangements that create independence issues. For example, it would be inappropriate to have arrangements for the engagement quality control reviewer to act as the signing partner/director as it would give a perception that the engagement quality control review is not independent from the engagement team.

Practices are expected to take appropriate actions to address the above matters if they have signing arrangements in place. The Quality Assurance Department will give more attention to signing arrangements in future practice reviews and communicate further issues identified when needed.

Sincere regards,

Chris Joy
Executive Director
Hong Kong Institute of Certified Public Accountants

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