



**30 June 2016**

**To: Members of the Hong Kong Institute of CPAs  
All other interested parties**

**INVITATION TO COMMENT ON EXPOSURE DRAFT PRACTICE NOTE**

**ED Practice Note 840 (Revised) *The Reporting Engagement on Solicitors' Accounts under the Solicitors' Accounts Rules and the Accountant's Report Rules***

***Comments to be received by 30 July 2016***

The Hong Kong Institute of Certified Public Accountants' (Institute) Auditing and Assurance Standards Committee is seeking comments on the ED which has been posted on the Institute's website at:

<http://www.hkicpa.org.hk/en/standards-and-regulations/standards/auditing-assurance/exposure-drafts/>

In December 2012, amendments to the Solicitors' Accounts Rules and the Accountant's Report Rules (the "Amendment Rules") were gazetted and the Amendment Rules will come into effect on 1 July 2016.

The details of the amendments can be found in the links below:

<http://www.legco.gov.hk/yr12-13/english/subleg/negative/ln151-12-e.pdf>

<http://www.legco.gov.hk/yr12-13/english/subleg/negative/ln152-12-e.pdf>

PN 840 is revised to incorporate changes arising from the Amendment Rules.

In addition, PN 840(Revised) has included guidance in the following areas:

- Circularization
- Engagement documentation
- Illustrative engagement letter

To align with the effective date of the Amendment Rules, the PN 840 (Revised) will be applicable for reporting engagements for periods ending on or after 1 July 2016.

In order for readers to easily identify all the proposed changes, a marked-up version accompanies a clean version of the ED.

Comments on the proposed changes should be supported by specific reasoning and should be submitted in written form. To allow your comments on the ED to be considered, comments are requested by the due date shown above.



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

Comments may be sent by mail, fax or e-mail to:

Standard Setting Department  
Hong Kong Institute of Certified Public Accountants  
37/F., Wu Chung House  
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E-mail: [commentletters@hkiipa.org.hk](mailto:commentletters@hkiipa.org.hk)

Comments will be acknowledged and may be made available for public review unless otherwise requested by the contributor.

30 June 2016  
Exposure Draft

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Response Due Date  
30 July 2016

*ED of PN 840 (Revised)*

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# **The Reporting Engagement on Solicitors' Accounts under the Solicitors' Accounts Rules and the Accountant's Report Rules**



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

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This Exposure Draft may be filed in the "Exposure Drafts, Invitations to Comment" section of Volume III of the Institute Members' Handbook.

The Exposure Draft can also be found on the Institute's website at:

<http://www.hkicpa.org.hk/en/standards-and-regulations/standards/auditing-assurance/exposure-drafts/>.



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

Effective from 1 July 2016

*Practice Note 840 (Revised)*

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# **The Reporting Engagement on Solicitors' Accounts under the Solicitors' Accounts Rules and the Accountant's Report Rules**



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

**PRACTICE NOTE 840 (REVISED)**

**THE REPORTING ENGAGEMENT ON SOLICITORS' ACCOUNTS UNDER  
THE SOLICITORS' ACCOUNTS RULES AND  
THE ACCOUNTANT'S REPORT RULES**

*(Issued [ ] 2016)*

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## PRACTICE NOTE 840 (REVISED)

### THE REPORTING ENGAGEMENT ON SOLICITORS' ACCOUNTS UNDER THE SOLICITORS' ACCOUNTS RULES AND THE ACCOUNTANT'S REPORT RULES

*The purpose of Practice Notes issued by the Hong Kong Institute of Certified Public Accountants (HKICPA) is to assist the practitioner in applying Hong Kong Engagement Standards of general application to particular circumstances and industries.*

*Practice Notes are persuasive rather than prescriptive. However they are indicative of good practice and have similar status to the explanatory material in Hong Kong Engagement Standards. This Practice Note provides guidance to assist the practitioner to fulfill the objectives of the engagement. The practitioner should be prepared to explain departures when called upon to do so.*

#### Introduction

1. Practice Note 840 has been revised for The Solicitors' Accounts (Amendment) Rules 2012 and The Accountant's Report (Amendment) Rules 2012 (collectively, the Amendment Rules) which were passed by the Legislative Council on 5 December 2012. The President of The Law Society of Hong Kong (the "Law Society") has appointed 1 July 2016 as the commencement date of the Amendment Rules. The Amendment Rules come into effect on 1 July 2016. This Practice Note is effective for engagement with reporting date ending on or after 1 July 2016.
2. In this Practice Note:
  - a. "accountant" means a qualified person to give an accountant's report on behalf of a firm, if
    - (a) he is a certified public accountant (practising) as defined in the Professional Accountants Ordinance;
    - (b) he has neither been at any time during the accounting period, nor subsequently, before giving the report, become a partner, clerk or servant of such firm or of any partner of such firm; and
    - (c) he is not subject to notice of disqualification under paragraph (2) of the Accountant's Report Rules.
  - b. "client" means any person on whose account a solicitor holds or receives client's money;
  - c. "client account" means, subject to Rule 15 of the Solicitors' Accounts Rules, a current or deposit account at a bank located and licensed in Hong Kong in the name of the solicitor in the title of which the word "client" appears;
  - d. "client ledger" means the accounting document that draws together all transaction types i.e. receipts, payments and journals relating to one matter in order to provide the history relative to that matter and the matter balance. The client ledger comprises of clients' individual client ledger accounts with credit balances.

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- e. "client's money" means money held or received by a solicitor on account of a person for whom he is acting in relation to the holding or receipt of such money either as a solicitor or, in connection with his practice as a solicitor, as agent, bailee, stakeholder, solicitor-trustee or in any other capacity, but not money to which the only person entitled is the solicitor himself or, in the case of a firm of solicitors, one or more of the partners in the firm;
  - f. "disbursements" means any sum spent or to be spent by a solicitor on behalf of the client or trust;
  - g. "firm" means a sole practitioner or a partnership of 2 or more solicitors, carrying on the business of practising as a solicitor;
  - h. "office money" means money held or received by a solicitor which is not client's money, and to which the only person entitled is the solicitor himself or herself or, in the case of a firm of solicitors, one or more of the partners in the firm;
  - i. "practice year" means a period of 12 months ending on 31 October each year;
  - j. "principal" means a sole practitioner or partner of a firm;
  - k. "solicitor" includes a solicitor of the Court, a firm of solicitors, a solicitor corporation, a foreign lawyer and a foreign firm;
  - l. "solicitor-trustee" means a solicitor who is a sole trustee or who is co-trustee only with a partner, clerk or servant of his or with more than one of such persons;
  - m. "trust money" means money held or received by a solicitor or a firm which is not client's money and which is subject to a trust of which the solicitor or his firm is a trustee, whether or not he is solicitor-trustee of such trust; and
  - n. "working day" means any day other than
    - (a) a general holiday; or
    - (b) a gale warning day or black rainstorm warning day as defined in section 71(2) of the Interpretation and General Clauses Ordinance (Cap.1).
3. The purpose of this Practice Note is to give guidance to accountants on the reporting of firms' accounts under the Solicitors' Accounts Rules and the Accountant's Report Rules. This Practice Note takes account of the law as at 1 July 2016.
4. This Practice Note deals exclusively with those aspects of the Solicitors' Accounts Rules and the Accountant's Report Rules which are concerned with client's money held by firms. The Solicitors' Accounts Rules and the Accountant's Report Rules, which are given statutory force by the Ordinance, are designed to prevent a firm from improperly handling client's money entrusted to it. Broadly speaking, this is achieved by requiring such money to be kept separate from the firm's own money. In addition, transactions are required to be arranged in such a way that money belonging to one client may not be used for the benefit of another.
5. It is emphasised therefore that this Practice Note does not cover an audit of firms' financial

statements.

## Terms of Engagement

6. The procedures required to conduct an engagement should be determined by the accountant having regard to the guidance of this Practice Note and the Solicitors' Accounts Rules and the Accountant's Report Rules.

The accountant should exercise professional judgment in accepting and planning the engagement as to whether the information provided is sufficient for the accountant to complete the engagement under the particular circumstances.

The accountant and solicitor should agree on the terms of the engagement to avoid misunderstandings. The agreed terms would be recorded in an engagement letter and the content of an engagement letter may vary based on different circumstances. Appendix 4 sets out an illustrative example of an engagement letter.

## Engagement Performance

7. A summary of the major points of the Solicitors' Accounts Rules (paragraphs 8 to 30) and the Accountant's Report Rules (paragraphs 31 to 39) is given below. Key revisions as a result of the Amendment Rules are shaded for easy reference. Full details of the Solicitors' Accounts Rules and the Accountant's Report Rules may be obtained from the Ordinance, which should be consulted before commencing any work on firms' accounts.

### *The Solicitors' Accounts Rules*

8. A list of key questions based on the Solicitors' Accounts Rules is attached as Appendix 1. Additional questions as a result of the Amendment Rules are shaded for easy reference. The additional questions are only applicable for the period from 1 July 2016. Any "NO" answers to these key questions would normally suggest that the Solicitors' Accounts Rules have not been complied with. An accountant would make any further investigation as may be necessary to enable him to sign the accountant's report. The accountant would issue a qualified opinion (paragraph 10(1)(b)) in the accountant's report where the accountant has come across any breaches of the Solicitors' Accounts Rules during the course of the engagement.
9. Rule 3 provides that all client's money and trust money, on receipt, must be paid without delay into a client account, except in the cases specified in Rule 9 (see paragraph 22 below). More than one client account may be maintained and the bank accounts of individual trusts are counted for this purpose as client account (but do not require to be included in the scope of the accountant's report). There is no provision in this Rule allowing for client's money to be withdrawn from client account and to be retained as petty cash. Cash disbursements must be made from an office account, for subsequent reimbursement (in bulk) by cheque on the appropriate client account.
10. Rule 4 stipulates that the only other money which may be paid into a client account are:
  - a. trust money - (Rule 4(a));
  - b. those which may be necessary to open or maintain the account in being - (Rule 4(b));

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- c. those required to make good any accidental withdrawal in contravention of Rule 8(2) - (Rule 4(c)); and
- d. a cheque, of which only part is client's money - under Rule 5 the firm is entitled, where practicable, to split such a cheque but may elect to pay it all into the client account - (Rule 4(d)).

In particular, deposit interest which the firm retains must be credited to a separate office account.

Law Society Circular 04-4 (SG) suspends the operation of Practice Direction J prior to 1 July 2016 and Law Society Circular 16-443 (SD) suspends the operation of Rule 6A after 1 July 2016 until further notice.

- 11. Under Rule 5, where a solicitor holds or receives a cheque or draft which includes client's money or trust money of one or more trusts-
  - (a) he may where practicable split such cheque or draft and, if he does so, he shall deal with each part thereof as if he had received a separate cheque or draft in respect of that part; or
  - (b) if he does not split the cheque or draft, he shall, if any part thereof consists of client's money, and may, in any other case, pay the cheque or draft into a client account provided that he must transfer all office money out of the client account within 14 days of receipt.
- 12. Under Rule 6A(1) and subject to Rule 6A(2), when a solicitor holds or receives money in respect of a particular matter, the solicitor must without delay deposit the money in a designated interest bearing client account and must account to the client for any interest earned on the account, failing which the solicitor must pay to the client a sum equivalent to the interest which would have accrued for the benefit of the client if the money had been deposited in a Hong Kong dollar savings account of The Hongkong and Shanghai Banking Corporation Limited.
- 13. Rule 6A(2) states that a solicitor is only be required to account to a client of the solicitor for any interest earned in accordance with Rule 6A(1) above where the solicitor holds a sum of money in the amount specified in column 1 of the Schedule in the Solicitors' Accounts Rules for a period which equals to or exceeds the period specified in column 2 of the Schedule in the Solicitors' Accounts Rules and the amount of interest accrued exceeds \$500.
- 14. Rule 6A(3) states that without prejudice to any other remedy available to a client who feels aggrieved that interest, or an equivalent sum, has not been paid to the client under these rules, the client is entitled to require the solicitor to obtain from the Council of the Law Society a certificate as to whether or not interest ought to have been earned for the client, and if so, the amount of such interest. On receipt of the client's request for a certificate, the Council of the Law Society must cause the matter to be investigated and, if it determines that interest should have been earned for the client, issue a certificate to that effect setting out the amount of interest which should have been earned in accordance with these Solicitors' Accounts Rules. On the issue of the certificate, the sum certified on that certificate to be due is payable by the solicitor to the client.
- 15. Subject to Rule 6A(5), nothing in these Solicitors' Accounts Rules is to:
  - a. affect any agreement in writing whenever made between a solicitor and a client of the solicitor as to the application of the client's money or interest on the money;

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- b. apply to money received by a solicitor, being money subject to a trust of which the solicitor is a trustee; or
- c. affect any agreement in writing for payment of interest on money held by the solicitor as a stakeholder.

16. Rule 6A(5) states that any arrangement made to the effect that no interest is payable in respect of money deposited with a solicitor is void.

17. Rule 6A(6) states that a solicitor who deposits client's money in accordance with Rule 6A(1) is entitled to charge and be paid a sum that is fair and reasonable by way of an administration charge in respect of the work undertaken in the deposit and withdrawal of money and accounting to the client for the interest earned on the money.

18. Rule 6A(7) states that the Council of the Law Society may, on prior written application, suspend or waive the operation of Rule 6A taking into consideration the prevailing interest rate and the costs associated with the administration of this rule.

In Law Society Circular 16-443 (SD), the Law Society has suspended the operation of Rule 6A with effect from 1 July 2016 until further notice.

19. Under Rule 7 withdrawals are only permitted as follows:

- a. for a payment to or on behalf of a client, or made on the client's authority - (Rules 7(a)(i) and (iii));
- b. to reimburse the firm for expenditure on the client's behalf or in payment of a debt properly due by the client to the firm - (Rule 7(a)(ii));
- c. in settlement of a bill of costs which has been rendered to the client, with a notification in writing that it will be settled from client's money held - (Rule 7(a)(iv));
- d. trust money may be expended in any way proper for the trust, or may be transferred to a separate bank account for the particular trust - (Rule 7(b)); and
- e. to withdraw office money which has found its way into the client account, either as a result of the provisions of Rule 4(b) or (d) (see paragraph 10 above) or by mistake or accident - (Rules 7(c) and (d)).

No client can be paid out of the client account more than it contains to its credit.

20. Rule 7A lays down the authority required for drawing money from a client account.

21. Rule 8(1) states that when a firm withdraws money from a client account for its own use under Rule 7(a)(ii) or (iv) or 7(c) or 7(d) (see paragraphs 19(b), 19(c) and 19(e) above) it may do so only by cheques drawn in favour of itself or by transfers to its office bank account; i.e. a firm cannot reimburse itself in cash from a client account.

22. Rule 9 states that client's money shall not be under an obligation to pay into client account when:

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- a. such money (which can include cash) are immediately paid over to or on behalf of the client (and a cheque must be endorsed over to comply with this requirement); or
  - b. they are paid into a bank account opened in the name of the client or his nominee, who has been designated in writing.
23. Rule 9 further states that client's money must not be paid into a client account when the client for his own convenience requests a firm not to do so. For example, a client gives a cheque for the deposit on the purchase of property and the transaction is then held up, with the result that to save interest charges the client asks for the cheque not to be presented for his own convenience.
24. Finally Rule 9 forbids the payment of client's money into a client account when the money is really the firm's (i.e. it is paid in settlement of or on account of a debt due to it). When the debt is for costs, however, a bill must have been delivered or an "agreed fee" settled.
25. Rule 9(2A) states on receipt of any payment which includes disbursements as well as client's money of the nature described in Rule 9(2), a solicitor must.
  - a. determine the composition of the payment without delay;
  - b. for any part of the payment that is for disbursements anticipated but not yet incurred, pay that part of the payment into the client account; and
  - c. for any part of the payment that is for disbursement incurred but not yet paid, either
    - (i) Pay that part of the payment into the client account; or
    - (ii) Pay it into the office account and settle the disbursements in any event not later than the 4<sup>th</sup> working day following the receipt from the client, failing which the payment should be paid into the client account not later than the 5<sup>th</sup> working day following the receipt.
26. Rule 9(3) states that where cheque or draft includes mixed money, such as payment of costs (that is office money - see Rule 9(2)(c)(i) & (ii)) as well as client's money then the firm may deposit the same into client account under Rule 5.
27. Rule 9(4) states that the Council of the Law Society may upon an application made to them by a firm specifically authorise it in writing to withhold any client's money from a client account.
28. Rule 9A imposes a duty on the principals of a firm to remedy any breach of the Solicitors' Accounts Rules promptly upon discovery.
29. Rule 10A requires a solicitor to prepare monthly reconciliation statements on balances of client accounts.
30. Rule 10 provides for the keeping of proper books of account spelling out in some detail what records must be kept and the timing of entries in them. Such records must be kept in Hong Kong (Rule 10(6A)) and retained for six years (Rule 10(6)). Rule 10 (5A) states that if books, ledgers or records are kept by a computerised accounting system, every solicitor must ensure that (a) the computer system has enough capacity and back-up capability to record

the information required to be kept under these rules; and (b) the computer system is backed up at least once a month. Rule 10(8) provides that notwithstanding Rule 10(6A), the Council of the Law Society may specifically exempt a foreign lawyer from that Rule upon such conditions as it thinks fit. Rule 11 gives the Council of the Law Society power to call for their production.

### *The Accountant's Report Rules*

31. To ensure that the Solicitors' Accounts Rules are complied with, every firm is required to produce annually an accountant's report, in accordance with the Accountant's Report Rules. The prescribed format of an accountant's report is attached as Appendix 3.
32. When an accountant signs an accountant's report, the accountant has to sign in the accountant's own name and not in the practising firm's or corporate practice's name under the Accountant's Report Rules.
33. Rule 4 lays down the duties of an accountant.
  - a. Rule 4(1) lays down what is expected of an accountant's examination and, inter alia, requires an examination of the bookkeeping system to verify that it complies with the Solicitors' Accounts Rules and is so designed that:
    - i. an appropriate ledger account is kept for each client;
    - ii. such ledger accounts show separately from other information particulars of all client's money received, held or paid on account of each client; and
    - iii. transactions relating to client's money and any other money dealt with through a client account are recorded in the firm's books so as to distinguish such transactions from transactions relating to any other money received, held or paid by the firm.
  - b. Rule 4(2) requires that if in the performance of the duties required in Rule 4(1) it appears to the accountant that there is evidence that the Solicitors' Accounts Rules have not been complied with or the accountant 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, the accountant shall include in the accountant's report signed by the accountant such details of the contravention or matter.

Under Rule 6(A) of the Solicitors' Accounts Rules, a firm is required to pay interest on client account.

In Law Society Circular 16-443 (SD), the Law Society has suspended the operation of Rule 6A with effect from 1 July 2016 until further notice.

34. In order to meet the requirement of Rule 4 as to specific tests the Engagement Programme in Appendix 2 would be followed. Please note that the tests performed should cover all branches of the firm. The Engagement Programme is an indication of what is required by the Accountant's Report Rules; the extent of work to be done will be decided in the light of the systems examinations, any weaknesses revealed and any other available evidence. If anything is discovered which indicates that the Solicitors' Accounts Rules are not being complied with, a more detailed examination will be necessary. It should be borne in mind when carrying out the tests that omissions from the books may be just as important as items included in them.

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35. Under Rule 5 all accountant's reports delivered by a firm under the Accountant's Report Rules shall be in accordance with Form 1 in the Schedule to the Accountant's Report Rules, which is reproduced in Appendix 3.
36. Rule 6 states that the Council of the Law Society will be satisfied that the delivery by a solicitor of an accountant's report for a practice year is unnecessary if the solicitor has not practised as a principal during the practice year.
37. Rule 8 states the following with regard to accounting periods:
- Rule 8 (1) "A firm shall once in each practice year deliver to the Council of the Law Society an accountant's report containing the information prescribed by rules made by the Council of the Law Society under section 73(1)(b) of the Ordinance."
- Rule 8 (2) "The firm shall deliver the accountant's report to the Council of the Law Society not more than 6 months (or the period prescribed by rules made under section 73(1)(b) of the Ordinance) after the accounting period specified in the report."
- Rule 8 (3) "An accountant's report for a firm is taken to be delivered on behalf of all principals of the firm."
- Rule 8 (4) "A firm is not required to deliver an accountant's report in the practice year in which it commenced business if it would result in a report being delivered for less than 1 month of practice."
- Rule 8 (5) "Subject to paragraphs (6) and (7), a firm shall:
- (a) deliver an accountant's report for the accounting period adopted by it and notified to the Law Society in accordance with the Solicitors' Practice Rules;
  - (b) not adopt an accounting period which corresponds to the practice year; and
  - (c) not change an accounting period without the permission of the Council of the Law Society whose permission shall only be given in exceptional circumstances."

Rule 8 (6) "Where a firm commences business, the first accounting period for the firm:

    - (a) shall begin on the date on which it commenced business and shall end at the end of the accounting period adopted by the firm and notified to the Law Society in accordance with the Solicitors' Practice Rules;
    - (b) may cover a period of less than 12 months; and
    - (c) shall in all other respects comply with the requirements of section 8(2) of the Ordinance."

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- Rule 8 (7) "Where a firm ceases business, the final accounting period for the firm:
- (a) shall begin at the end of the accounting period specified in the preceding accountant's report or, where the firm commenced business in the same practice year in which it ceases business, on the day on which it commenced business, and shall end at the date on which the firm ceased business;
  - (b) may cover a period of less than 12 months; and
  - (c) shall in all other respects comply with the requirements of section 8(2) of the Ordinance."
38. In February 2016, the Law Society issued Circular 16-126 (PA), Law Society Guidelines on Cessation of Practice by Hong Kong Firms which states that when the firm ceases to practice, a firm of solicitors practicing with at least 2 partners must be appointed to be the firm's agent to deal with all consequential matters pursuant to Law Society Direction D7 as amended in June 2012.
39. Rule 9 states the following with regard to change in composition of firm:
- Rule 9 (1) "Where a solicitor ceases to be a principal in a firm but the remaining partners continue the firm's practice, the accountant's report delivered by the firm shall state the date on which the solicitor ceased to be a principal."
- Rule 9 (2) "Where a solicitor commences to be a principal in an existing firm, the accountant's report delivered by the firm shall state the date on which the solicitor commenced to be a principal."
- Rule 9 (3) "Where a solicitor is a principal in two or more firms -
- (a) the firms shall each deliver an accountant's report;
  - (b) the accounting periods for the accountant's reports may overlap; and
  - (c) the accountant's reports shall in all other respects comply with section 8(2) of the Ordinance and these Rules."

### *Circularisation*

40. The accountant should refer to HKSA 505, *External Confirmations* for further guidance on circularisation of client ledger accounts and client account(s). There is only requirement to obtain bank confirmations at two different dates for the client account(s). There is no explicit requirement to have client ledger accounts balances circularised at two different dates.
41. If no response is received from client ledger accounts circularisation, the accountant should perform alternative procedures as guided in HKSA 505. In substance, the alternative procedures should be able to provide evidence about the assertions that the confirmation request was intended to provide.

42. 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.

### *Engagement Documentation*

43. The accountant should prepare on a timely basis engagement documentation that provides a record of the basis for the accountant's report that is sufficient and appropriate to enable an experienced practitioner, having no previous connection with the engagement, to understand:
- (a) The nature, timing and extent of the procedures performed to comply with the Accountant's Report Rules;
  - (b) The results of the procedures performed, and the evidence obtained; and
  - (c) Significant matters arising during the engagement, the conclusions reached thereon, and significant professional judgements made in reaching those conclusions.
44. The accountant should assemble the engagement documentation in an engagement file and complete the administrative process of assembling the final engagement file on a timely basis after the date of the accountant's report.
45. After the assembly of the final engagement file has been completed, the accountant should not delete or discard engagement documentation of any nature before the end of its retention period.
46. If the accountant finds it necessary to amend existing engagement documentation or add new engagement documentation after the assembly of the final engagement file has been completed the accountant should, regardless of the nature of the amendments or additions, document:
- (a) The specific reasons for making the amendments or additions; and
  - (b) When, and by whom, they were made and reviewed.

## Appendix 1

### KEY QUESTIONS BASED ON THE SOLICITORS' ACCOUNTS RULES

	ANSWER (YES, NO or N/A)	COMMENT (Where answer is NO)
1. Is a separate client account(s) in the name of the firm maintained at a bank located and licensed in Hong Kong, unless exempted by Rule 15, in the title of which the word "client" appears? (Rule 2)		
2. Where the firm holds or receives client's money, is such money paid into a client account without delay (except under 5 below)? (Rule 3)		
3. Is the only other money which is paid into the client account within the following categories:  a. trust money  b. money which is necessary to maintain the account in being  c. money required to make good any accidental withdrawal in contravention of Rule 8(2)  d. a cheque of which only part is client's money? (Rule 4)		
4. Is interest on client account(s) correctly accounted for in accordance with Rule 6A?  (Rule 6A)  In Law Society Circular 16-443 (SD), the Law Society has suspended the operation of Rule 6A with effect from 1 July 2016 until further notice.		
5. Do those client's money which are not paid into a client account consist only of:  a. money which are immediately paid over to or on behalf of the client (but note that details should still be recorded in the books of account as a transaction conducted on behalf of the client)  b. money which are paid into a bank account opened in the name of the client or his nominee		

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<p>c. money which the client for his own convenience requests not to be banked</p> <p>d. money which really belong to the firm (i.e. paid in settlement of or on account of a debt due to it)?</p> <p>(Rule 9)</p>		
<p>6. Is all money withdrawn from a client account within the following categories:</p> <p>a. a payment to or on behalf of a client or made on the client's authority</p> <p>b. to reimburse the firm for expenditure on the client's behalf or in payment of a debt properly due by the client to the firm</p> <p>c. in settlement of a bill of costs which has been rendered to the client with a notification in writing that it will be settled in this manner</p> <p>d. in the case of a trust fund a payment which is proper for the trust, or a transfer to a separate bank account for the particular trust</p> <p>e. money which in fact belongs to the firm and has found its way into the client account, whether by mistake or accident or as a result of 3(b) or 3(d) above?</p> <p>(Rule 7)</p>		
<p>7. Are all withdrawals from a client account authorised in writing by:</p> <p>a. the solicitor in whose name the client account is kept or, where the client account is kept in the name of a firm, any solicitor, partner, consultant or foreign lawyer in the firm;</p> <p>b. a certified public accountant (practising) as defined in the Professional Accountants Ordinance (Cap.50) and countersigned by a person referred to in (a); or</p> <p>c. a person approved by the Council of the Law Society, which approval shall only be given in exceptional circumstances, upon application in writing made to it by the solicitor or firm and subject to such conditions as the Council of the Law Society may think fit, if any and countersigned by a person referred to in (a)?</p> <p>(Rule 7A)</p>		

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<p>8. Are all withdrawals from a client account for the firm's own use (as per 6(b), (c) and (e) above) by cheque drawn in favour of itself or by transfers to its office bank account? (Rule 8)</p>		
<p>9. Are all breaches of the Solicitors' Accounts Rules remedied promptly upon discovery? (Rule 9A)</p>		
<p>10. Is receipt of any payment which includes disbursements as well as client's money of the nature described in Rule 9(2) handled accordingly?</p> <p>(a) determine the composition of the payment without delay;</p> <p>(b) for any part of the payment that is for disbursements anticipated but not yet incurred, pay that part of the payment into the client account; and</p> <p>(c) for any part of the payment that is for disbursements incurred but not yet paid, either</p> <p>(i) pay that part of the payment into the client account; or</p> <p>(ii) pay it into the office account and settle the disbursements in any event not later than the 4<sup>th</sup> working day following the receipt from the client, failing which the payment should be paid into the client account not later than the 5<sup>th</sup> working day following the receipt.</p> <p>(Rule 9(2A))</p>		
<p>11. Are records kept properly written up to record separately:</p> <p>a. client's money received, held or paid</p> <p>b. any other money dealt with through a client account</p> <p>c. a ledger account for each client detailing all transactions</p> <p>d. transfers between accounts in the client ledger?</p> <p>(Rule 10)</p>		
<p>12. Are a cash book and ledger maintained for dealings of the practice other than with clients? (Rule 10)</p>		

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<p>13. Is a record kept of all bills of costs (distinguishing between profit costs and disbursements)? (Rule 10)</p> <p>14. If books, ledgers or records are kept by a computerised accounting system,</p> <p>(a) does the computer system have enough capacity and back-up capability to record the information required to be kept under the rules? and</p> <p>(b) is the computer system backed up at least once a month?</p> <p>(Rule 10(5A))</p>		
<p>Are monthly reconciliation statements on balances of client accounts prepared?</p> <p>15. (Rule 10A)</p>		
<p>16. Have any transfers between individual clients in the records been made other than under the rules relating to lodgement and withdrawal?</p>		
<p>17. Whether receipts are split between several banks or retained whole, is at all times the location of client's money ascertainable from the books?</p>		

## Appendix 2

### ENGAGEMENT PROGRAMME UNDER RULE 4 OF THE ACCOUNTANT'S REPORT RULES

In order to meet the requirement of Rule 4 as to specific tests the Engagement Programme set out below would be followed. Please note that the tests performed should cover all branches of the firm. The Engagement Programme is an indication of what is required by the Accountant's Report Rules; the extent of work to be done will be decided in the light of the systems examinations, any weaknesses revealed and any other available evidence. If anything is discovered which indicates that the Solicitors' Accounts Rules are not being complied with a more detailed examination will be necessary. It should be borne in mind when carrying out the tests that omissions from the books may be just as important as items included in them.

	Extent of Test
<p>1. Test check that all recorded cheques, cash, etc. received are entered in the cash book and banked (or otherwise accounted for) without delay. This objective will normally embrace the following steps, each of which should be signed for separately:</p> <p>a. Test check record of cash received and/or cashbook with bank stamped paying-in slips, noting individual items as well as totals, and enquiring into any delays in banking.</p> <p>b. Test check cash book with record of cash received.</p> <p>c. Test check receipts in cash book with bank statements.</p> <p>Watch for any evidence of teeming and lading, and consider obtaining original paying-in slips from bank where stamped copies are not available or where there are doubts as to adequacy of the internal control.</p>	
<p>2. Test check that receipts of client's money are correctly posted to personal accounts in client ledger and to nominal accounts.</p>	
<p>3. Test vouch payments in cash book with bank statements.</p>	
<p>4. Test vouch all cheque payments from client account to ensure that they have been made to or to the instructions of the clients, or that if they have been paid to the firm, the provisions of the Solicitors' Accounts Rules have been complied with.</p>	
<p>5. Test check that payments of client's money are correctly posted to personal accounts in client ledger and to nominal accounts.</p>	
<p>6. Ensure that monthly reconciliation statements on balances of client accounts are prepared.</p>	

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7. Extract or check extractions of all balances on client ledger accounts.	Not less than two dates during year*
8. a. Compare such balances with cash book balance on client account and with control account in nominal ledger.  <u>OR</u>  b. Compare the extraction of balances on a test basis if the conditions specified in 6(b) above are satisfied.	Not less than two dates during year*
9. Scrutinise client ledger accounts to ensure that no accounts have gone into debit, and that no incorrect items have been included.	Not less than two dates during year*
10. Obtain bank certificate(s) for client account(s).	Not less than two dates during year*
11. Prepare or check bank reconciliation and note subsequent date of clearance of outstanding items, enquiring into reasons for undue delay.	Not less than two dates during year*
12. Test check additions in client ledger accounts and client cash book.	
13. Circularise client ledger account(s) on a test basis in accordance with HKSA 505, <i>External confirmations</i> .	
14. Test check that interest on client account(s) has been correctly accounted for in accordance with Rule 6A of the Solicitors' Accounts Rules.  In Law Society Circular 16-443 (SD), the Law Society has suspended the operation of Rule 6A with effect from 1 July 2016 until further notice.	
15. Obtain written confirmation from the managing partner/designated partner of the firm that the computerised accounting system complies with Rule 10(5A) of the Solicitors' Accounts Rules.	

\* Note - these dates must be random; it is not sufficient to select month-ends regularly.

### Appendix 3

The following is the accountant's report which must be delivered by a firm under the Accountant's Report Rules and is reproduced from Form 1 in the Schedule to the Accountant's Report Rules.

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## ACCOUNTANT'S REPORT RULES ACCOUNTANT'S REPORT

To: The Council  
The Law Society of Hong Kong  
3/F., Wing On House  
71 Des Voeux Road Central  
Hong Kong

1. Name of firm: \_\_\_\_\_
2. The firm does/does not\* operate a branch office or offices.
3. Address of main office: \_\_\_\_\_  
\_\_\_\_\_
4. Address(es) of branch office(s), if any: \_\_\_\_\_  
\_\_\_\_\_
5. The firm is a sole proprietorship/a partnership\*.
6. The period covered by this report:  
Commences: \_\_\_\_\_ Ends: \_\_\_\_\_
7. Full name(s) of sole proprietor or all partners: (attach additional sheet(s) if the space is not adequate)  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_
8. If any of the partners commenced or ceased to be partners in the firm during the period covered by this report, complete the following:  
Name: \_\_\_\_\_  
Date of commencing to be a partner: \_\_\_\_\_  
Name: \_\_\_\_\_  
Date of ceasing to be a partner: \_\_\_\_\_
9. If this is the first or final accountant's report for the firm, complete the following:

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For a first accountant's report:

\_\_\_\_\_ (date of firm commencing business)

For a final accountant's report:

\_\_\_\_\_ (date of firm ceasing business)

10. Accountant's statement:

In compliance with section 8 of the Legal Practitioners Ordinance and the Accountant's Report Rules, I have examined the books, accounts and documents of the firm produced to me and I certify that from my examination and from the explanations and information given to me:

(1)(a) I am satisfied that during the accounting period the firm has complied with the provisions of the Solicitors' Accounts Rules.

OR \*

(b) I am satisfied that during the accounting period the firm has complied with the provisions of the Solicitors' Accounts Rules, except for:

- (i) trivial breaches due to clerical errors or mistakes in book-keeping, all of which were rectified on discovery and which I am satisfied did not result in any loss to any client;
- (ii) the matters set out in Schedule 1. \*

(2)(a) I am not aware of any matter which appears to affect adversely any client account or any trust money held by the firm to a material extent.

OR \*

(b) I am not aware of any matter which appears to affect adversely any client account or any trust money held by the firm to a material extent, except for those matters the details of which are set out in Schedule 2.

(3) This is the final accountant's report for the firm which ceased to hold client's money on the \_\_\_\_\_ day of \_\_\_\_\_ 19\_\_\_\_\_.\*

11. Details of accountant:

Accountant's full name: \_\_\_\_\_

Firm name: \_\_\_\_\_

Address: \_\_\_\_\_

\_\_\_\_\_  
\_\_\_\_\_

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12. Accountant's signature: \_\_\_\_\_

13. Date: \_\_\_\_\_

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\* Delete whichever is not applicable

## Appendix 4

*The following example letter highlights only the aspects relating to the scope and responsibilities of the accountant for the purpose of reporting under the Solicitors' Accounts Rules and the Accountant's Report Rules. This example is for reference only and requires the inclusion of other relevant terms of the engagement which will vary according to the requirements and circumstances of the individual accountant and client. The accountant may consider it appropriate to include a limitation of liability clause in the engagement letter in accordance with the accountant's risk management policies.*

[Managing Partner or appropriate representative of management]  
[ABC & Co., Solicitors]  
[Address]

[Date]

Dear Sirs,

### Objective of services

- 1.1 You have requested that we act as an accountant for [ABC & Co., Solicitors] (the "Firm") and issue an accountant's report in accordance with the Accountant's Report Rules for the year ended [date]. We are pleased to confirm our acceptance and our understanding of this reporting engagement by means of this letter.

### Responsibilities of the Partners

- 2.1 Our engagement will be conducted on the basis that you acknowledge and understand that you have responsibility:
- a. To keep accounting records as required under the Solicitors' Accounts Rules;
  - b. To ensure that accounting records show and explain all transactions with regard to client's money under the Solicitors' Accounts Rules;
  - c. To provide us with:
    - (i) Access to all information of which you are aware that is relevant such as Firm's accounting records and all other relevant records and documentation with regard to client's money;
    - (ii) Additional information that we may request from you for the purpose of the engagement; and
    - (iii) Unrestricted access to persons related to the Firm from whom we determine it necessary to obtain evidence;
  - d. For such internal control as you determine is necessary to enable the keeping of accounting records that are free from material misstatement, whether due to fraud or error; and
  - e. To ensure compliance with all other aspects of the Solicitors' Accounts Rules.

### Responsibilities of the accountant

- 3.1 We have a responsibility to issue an accountant's report to the Council of The Law Society of Hong Kong under section 8 of the Legal Practitioners Ordinance and the Accountant's Report Rules.

### Scope of engagement

- 4.1 We will conduct our engagement in accordance with section 8 of the Legal Practitioners

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Ordinance and the Accountant's Report Rules with reference to PN 840 (Revised), *The Reporting Engagement on Solicitors' Accounts under the Solicitors' Accounts Rules and the Accountant's Report Rules* issued by the Hong Kong Institute of Certified Public Accountants.

- 4.2 We will perform procedures to obtain evidence about the transactions in regard to client's money. In order to issue an accountant's report, we will need to review and examine your accounting records and documentation of client's money. We will also need to have an understanding of internal control relevant to the engagement in order to design engagement procedures that are appropriate in the circumstance, but not for the purpose of expressing any opinion on the effectiveness of the Firm's internal control.
- 4.3 The responsibility for safeguarding the assets of the Firm and for the prevention and detection of fraud, error and non-compliance with law or regulations rests with you. However, we will inform you of any such matters which come to our attention.
- 4.4 We shall not be treated as having notice, for the purposes of our responsibilities, of information provided to members of our firm other than those engaged on the engagement (for example information provided in connection with audit, accounting, taxation and other services).

### **Reporting**

- 5.1 The format of the accountant's report is set out in the Accountant's Report Rules and is reproduced in Appendix 3 of PN 840 (Revised).
- 5.2 You are responsible for submitting the accountant's report to the Law Society of Hong Kong within six months of the end of the accounting period.
- 5.3 The accountant's report will be addressed to the Council of the Law Society of Hong Kong, in accordance with Section 8 of the Legal Practitioners Ordinance and the Accountant's Report Rules and for no other purpose. We do not assume responsibility to any other party as concerns the accountant's report.

### **Fees**

6. Our fees are computed on the basis of the time spent on the Firm's affairs by our partners and our staff and on the levels of skill and responsibility involved plus out-of-pocket expenses. Unless otherwise agreed, our fees will be billed at appropriate intervals during the course of the engagement and will be due on presentation.

### **Agreement of terms**

- 7.1 Once it has been agreed, this letter will remain effective, from one reporting engagement appointment to another, until it is replaced. Please sign and return the enclosed copy of this letter to indicate your acknowledgement of, and agreement with, the arrangements for reporting engagement under the Solicitors' Accounts Rules and the Accountant's Report Rules including our respective responsibilities.

Yours faithfully,

XYZ & Co.  
Certified Public Accountants (Practising) [or Certified Public Accountants]  
Date

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We agree to the terms of this letter.

(Signed)

..... [Title], for and on behalf of [ABC & Co., Solicitors]  
Date

PN 840 (Revised)  
Issued November 1998; revised June 2002; April 2004 and [xx2016]

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Effective upon issue from 1 July 2016

*Practice Note 840 (Revised)*

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# **The Audit Reporting Engagement of on Solicitors' Accounts under the Solicitors' Accounts Rules and the Accountant's Report Rules**



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

**PRACTICE NOTE 840 (REVISED)**

**THE ~~AUDIT REPORTING ENGAGEMENT OF ON~~ SOLICITORS' ACCOUNTS  
UNDER  
THE SOLICITORS' ACCOUNTS RULES AND  
THE ACCOUNTANT'S REPORT RULES**

*(Issued November 1998; revised June 2002; April 2004 and September 2004 (name change)  
[12016])*

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## PRACTICE NOTE 840 (REVISED)

### ~~THE AUDIT REPORTING ENGAGEMENT OF ON~~ SOLICITORS' ACCOUNTS UNDER THE SOLICITORS' ACCOUNTS RULES AND THE ACCOUNTANT'S REPORT RULES

*The purpose of Practice Notes issued by the Hong Kong Institute of Certified Public Accountants (HKICPA) is to assist the practitioner auditors in applying Hong Kong Engagement Standards Statements of Auditing Standards (SASs) and Standards on Assurance Engagements (SAEs) of general application to particular circumstances and industries.*

*Practice Notes They are persuasive rather than prescriptive. However they are indicative of good practice and have similar status to the explanatory material in Hong Kong Engagement Standards SASs and SAEs, even though they may be developed without the full process of consultation and exposure used for SASs and SAEs. This Practice Note provides guidance to assist the practitioner to fulfill the objectives of the engagement. The practitioner Auditors should be prepared to explain departures when called upon to do so.*

#### Introduction

1. Practice Note 840 has been revised for The Solicitors' Accounts (Amendment) Rules 2012 and The Accountant's Report (Amendment) Rules 2012 (collectively, the Amendment Rules) which were passed by the Legislative Council on 5 December 2012. The President of The Law Society of Hong Kong (the "Law Society") has appointed 1 July 2016 as the commencement date of the Amendment Rules. The Amendment Rules come into effect on 1 July 2016. This Practice Note is effective for engagement with reporting date ending on or after 1 July 2016.
  
42. In this Practice Note, ~~unless the context otherwise requires:~~
  - a. "accountant" means a qualified person to give an accountant's report on behalf of a firm, if
    - (a) he is a certified public accountant (practising) as defined in the Professional Accountants Ordinance;
    - (b) he has neither been at any time during the accounting period, nor subsequently, before giving the report, become a partner, clerk or servant of such firm or of any partner of such firm; and
    - (c) he is not subject to notice of disqualification under paragraph (2) of the Accountant's Report Rules.
  
  - ab. "client" means any person on whose account a solicitor ~~or a firm~~ holds or receives client's money;
  
  - bc. "client account" means, subject to Rule 15 of the Solicitors' Accounts Rules, a current or deposit account at a bank located and licensed in Hong Kong in the name of a the solicitor or a firm in the title of which the word "client" appears;
  
  - d. "client ledger" means the accounting document that draws together all transaction types i.e. receipts, payments and journals relating to one matter in order to provide the history relative to that matter and the matter balance. The client ledger comprises

of clients' individual client ledger accounts with credit balances.

- ~~ee.~~ "client's money" means money held or received by a solicitor ~~or his firm~~ on account of a person for whom he ~~or his firm~~ is acting in relation to the holding or receipt of such money either as a solicitor or, in connection with his practice as a solicitor, as agent, bailee, stakeholder, solicitor-trustee or in any other capacity, but not money to which the only person entitled is the solicitor himself or, in the case of a firm of solicitors, one or more of the partners in the firm:

~~Provided that the expression "client's money" shall not extend to money held or received by a solicitor holding an office to which section 75(a) of the Legal Practitioners Ordinance (the Ordinance) applies, in the course of his employment in such office, or to money paid without delay into an account subject to public or official audit;~~

- f. "disbursements" means any sum spent or to be spent by a solicitor on behalf of the client or trust;

- ~~eg.~~ "firm" means a sole practitioner or a partnership of 2 or more solicitors, carrying on the business of practising as a solicitor;

- ~~h.~~ "office money" means money held or received by a solicitor which is not client's money, and to which the only person entitled is the solicitor himself or herself or, in the case of a firm of solicitors, one or more of the partners in the firm;

- ~~ei.~~ "practice year" means a period of 12 months ending on 31 October each year; ~~and~~

- ~~f-i.~~ "principal" means a sole practitioner or partner of a firm;

- ~~k.~~ "solicitor" includes a solicitor of the Court, a firm of solicitors, a solicitor corporation, a foreign lawyer and a foreign firm;

- ~~l.~~ "solicitor-trustee" means a solicitor who is a sole trustee or who is co-trustee only with a partner, clerk or servant of his or with more than one of such persons;

- ~~m.~~ "trust money" means money held or received by a solicitor or a firm which is not client's money and which is subject to a trust of which the solicitor or his firm is a trustee, whether or not he is solicitor-trustee of such trust; and

- ~~n.~~ "working day" means any day other than

(a) a general holiday; or

(b) a gale warning day or black rainstorm warning day as defined in section 71(2) of the Interpretation and General Clauses Ordinance (Cap.1).

23. The purpose of this Practice Note is to give guidance to ~~members-accountants~~ on the audit reporting of firms' accounts under the Solicitors' Accounts Rules and the Accountant's Report Rules. This Practice Note takes account of the law as at ~~1 February 2002~~ July 2016. ~~The Solicitors' Accounts Rules and the Accountant's Report Rules are hereunder collectively referred to as the "Rules".~~

34. This Practice Note deals exclusively with those aspects of the Rules Solicitors' Accounts Rules and the Accountant's Report Rules which are concerned with clients' client's monies money held by firms. The Rules Solicitors' Accounts Rules and the Accountant's Report Rules, which are given statutory force by the Ordinance, are designed to prevent a firm from improperly handling clients' client's monies money entrusted to it. Broadly speaking, this is achieved by requiring such monies money to be kept separate from the firm's own monies money. In addition, transactions are required to be arranged in such a way that monies money belonging to one client may not be used for the benefit of another.
45. It is emphasised therefore that this Practice Note does not cover an complete audit of firms' accounts financial statements, and the auditors should ensure that other aspects are not omitted from their audit, and where necessary that the need for additional tests to verify clients' monies are considered.

### **Terms of Engagement**

6. The procedures required to conduct an engagement should be determined by the accountant having regard to the guidance of this Practice Note and the Solicitors' Accounts Rules and the Accountant's Report Rules.

The accountant should exercise professional judgment in accepting and planning the engagement as to whether the information provided is sufficient for the accountant to complete the engagement under the particular circumstances.

The accountant and solicitor should agree on the terms of the engagement to avoid misunderstandings. The agreed terms would be recorded in an engagement letter and the content of an engagement letter may vary based on different circumstances. Appendix 4 sets out an illustrative example of an engagement letter.

### **Engagement Performance**

57. A summary of the major points of the Rules Solicitors' Accounts Rules (paragraphs 8 to 30) and the Accountant's Report Rules (paragraphs 31 to 39) is given below. Key revisions as a result of the Amendment Rules are shaded for easy reference. Full details of the Rules Solicitors' Accounts Rules and the Accountant's Report Rules may be obtained from the Ordinance, which should be consulted before commencing any work on firms' accounts.

### ***The Solicitors' Accounts Rules***

68. A list of key questions based on the Solicitors' Accounts Rules is attached as Appendix 1. Additional questions as a result of the Amendment Rules are shaded for easy reference. The additional questions are only applicable for the period from 1 July 2016. Any "NO" answers to these key questions would normally suggest that the Solicitors' Accounts Rules have not been complied with. An accountant would make any further investigation as may be necessary to enable him to sign the accountant's report. ~~He~~ The accountant would issue a qualified opinion (paragraph 10(1)(b)) in the accountant's report where the accountant has come across any breaches of the Solicitors' Accounts Rules during the course of his the audit engagement.
79. Rule 3 provides that all clients' client's monies money and trust monies money, on receipt, must be paid without delay into a client's ~~bank~~ account, except in the cases specified in Rule 9 (see paragraph 44-22 below). More than one client's account may be maintained and the bank accounts of individual trusts are counted for this purpose as clients' client accounts (but do not require to be included in the scope of the accountant's report). There is no

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~~provision in this Rule allowing for client's money to be withdrawn from client account and to be retained as petty cash. This Rule precludes a firm from holding petty cash on clients' account. Cash disbursements must be made from an office account, for subsequent reimbursement (in bulk) by cheque on the appropriate clients' client bank account.~~

810. Rule 4 stipulates that the only other ~~monies~~ money which may be paid into a client's account are:

- a. trust money - (Rule 4(a));
- b. those which may be necessary to open or maintain the account in being - (Rule 4(b));
- c. those required to make good any accidental withdrawal in contravention of ~~the Rule 8(2)s~~ - (Rule 4(c)); and
- d. a cheque, of which only part is ~~clients' client's~~ money - under Rule 5 the firm is entitled, where practicable, to split such a cheque but may elect to pay it all into the ~~clients' client~~ account - (Rule 4(d)).

In particular, deposit interest which the firm retains must be credited to a separate office account.

Law Society Circular 04-4 (SG) suspends the operation of Practice Direction J prior to 1 July 2016 and Law Society Circular 16-443 (SD) suspends the operation of Rule 6A after 1 July 2016 until further notice.

11. Under Rule 5, where a solicitor holds or receives a cheque or draft which includes client's money or trust money of one or more trusts-

(a) he may where practicable split such cheque or draft and, if he does so, he shall deal with each part thereof as if he had received a separate cheque or draft in respect of that part; or

(b) if he does not split the cheque or draft, he shall, if any part thereof consists of client's money, and may, in any other case, pay the cheque or draft into a client account provided that he must transfer all office money out of the client account within 14 days of receipt.

12. Under Rule 6A(1) and subject to Rule 6A(2), when a solicitor holds or receives money in respect of a particular matter, the solicitor must without delay deposit the money in a designated interest bearing client account and must account to the client for any interest earned on the account, failing which the solicitor must pay to the client a sum equivalent to the interest which would have accrued for the benefit of the client if the money had been deposited in a Hong Kong dollar savings account of The Hongkong and Shanghai Banking Corporation Limited.

13. Rule 6A(2) states that a solicitor is only be required to account to a client of the solicitor for any interest earned in accordance with Rule 6A(1) above where the solicitor holds a sum of money in the amount specified in column 1 of the Schedule in the Solicitors' Accounts Rules for a period which equals to or exceeds the period specified in column 2 of the Schedule in the Solicitors' Accounts Rules and the amount of interest accrued exceeds \$500.

14. Rule 6A(3) states that without prejudice to any other remedy available to a client who feels aggrieved that interest, or an equivalent sum, has not been paid to the client under these

rules, the client is entitled to require the solicitor to obtain from the Council of the Law Society a certificate as to whether or not interest ought to have been earned for the client, and if so, the amount of such interest. On receipt of the client's request for a certificate, the Council of the Law Society must cause the matter to be investigated and, if it determines that interest should have been earned for the client, issue a certificate to that effect setting out the amount of interest which should have been earned in accordance with these Solicitors' Accounts Rules. On the issue of the certificate, the sum certified on that certificate to be due is payable by the solicitor to the client.

15. Subject to Rule 6A(5), nothing in these Solicitors' Accounts Rules is to:
- a. affect any agreement in writing whenever made between a solicitor and a client of the solicitor as to the application of the client's money or interest on the money;
  - b. apply to money received by a solicitor, being money subject to a trust of which the solicitor is a trustee; or
  - c. affect any agreement in writing for payment of interest on money held by the solicitor as a stakeholder.

16. Rule 6A(5) states that any arrangement made to the effect that no interest is payable in respect of money deposited with a solicitor is void.

17. Rule 6A(6) states that a solicitor who deposits client's money in accordance with Rule 6A(1) is entitled to charge and be paid a sum that is fair and reasonable by way of an administration charge in respect of the work undertaken in the deposit and withdrawal of money and accounting to the client for the interest earned on the money.

18. Rule 6A(7) states that the Council of the Law Society may, on prior written application, suspend or waive the operation of Rule 6A taking into consideration the prevailing interest rate and the costs associated with the administration of this rule.

In Law Society Circular 16-443 (SD), the Law Society has suspended the operation of Rule 6A with effect from 1 July 2016 until further notice.

919. Under Rule 7 withdrawals are only permitted as follows:

- a. for a payment to or on behalf of a client, or made on the ~~clients'~~ client's authority - (Rules 7(a)(i) and (iii));
- b. to reimburse the firm for expenditure on the ~~clients'~~ client's behalf or in payment of a debt properly due by the client to the firm - (Rule 7(a)(ii));
- c. in settlement of a bill of costs which has been rendered to the client, with a notification in writing that it will be settled from client's money held in this manner - (Rule 7(a)(iv));
- d. trust ~~funds~~ money may be expended in any way proper for the trust, or may be transferred to a separate bank account for the particular trust - (Rule 7(b)); and
- e. to withdraw ~~restore to the firm office~~ money which ~~in fact belongs to it but~~ has found its way into the ~~clients'~~ client ~~bank~~ account, either as a result of the provisions of Rule 4(b)

or (d) (see paragraph 8-10 above) or by mistake or accident ~~error~~ - (Rules 7(c) and (d)).

No client can be paid out of the ~~clients' client bank~~ account more than it contains to its credit.

209A. Rule 7A lays down the authority required for drawing money from a client account.

2140. Rule 8(1) states that when a firm withdraws money from a client's account for its own use under Rule 7(a)(ii) or (iv) or 7(c) or 7(d) (see paragraphs ~~919(b), 919(c) and 919(e)~~ above) it may do so only by cheques drawn in favour of itself or by transfers to its office bank account; i.e. a firm cannot reimburse itself in cash from a client account ~~it cannot pay private debts by cheques drawn on a client's account.~~

2244. Rule 9 states that ~~clients' client's monies~~ money shall not be under an obligation to pay into ~~need not be paid into a client's~~ account when:

- a. such ~~monies~~ money (which can include cash) are immediately paid over to or on behalf of the client (and a cheque must be endorsed over to comply with this requirement); or
- b. they are paid into a bank account opened in the name of the client or his nominee, who has been designated in writing.

423. Rule 9 further states that ~~clients' client's monies~~ money must not be paid into a client's account when the client for his own convenience requests a firm not to do so. ~~The request must be in writing (or be acknowledged by the firm).~~ For example, a client gives a cheque for the deposit on the purchase of property and the transaction is then held up, with the result that to save ~~himself~~ interest charges ~~he~~ the client asks for the cheque not to be presented for his own convenience.

2443. Finally Rule 9 forbids the payment of ~~clients' client's monies~~ money into a client's account when the money is really the firm's (i.e. it is paid in settlement of or on account of a debt due to it). When the debt is for costs, however, a bill must have been delivered or an "agreed fee" settled.

25. Rule 9(2A) states on receipt of any payment which includes disbursements as well as client's money of the nature described in Rule 9(2), a solicitor must.

- a. determine the composition of the payment without delay;
- b. for any part of the payment that is for disbursements anticipated but not yet incurred, pay that part of the payment into the client account; and
- c. for any part of the payment that is for disbursement incurred but not yet paid, either
  - (i) Pay that part of the payment into the client account; or
  - (ii) Pay it into the office account and settle the disbursements in any event not later than the 4<sup>th</sup> working day following the receipt from the client, failing which the payment should be paid into the client account not later than the 5<sup>th</sup> working day following the receipt.

26. Rule 9(3) states that where cheque or draft includes mixed money, such as payment of costs (that is office money - see Rule 9(2)(c)(i) & (ii)) as well as client's money then the firm may deposit the same into client account under Rule 5.

~~4427.~~ Rule 9(4) states that the Council of the Law Society may upon an application made to them by a firm specifically authorise it in writing to withhold any client's money from a client's ~~bank~~ account.

2814A. Rule 9A imposes a duty on the principals of a firm to remedy any breach of the Solicitors' Accounts Rules promptly upon discovery.

2914B. Rule 10A requires a solicitor to prepare monthly reconciliation statements on balances of client accounts.

3015. Rule 10 provides for the keeping of proper books of account spelling out in some detail what records must be kept and the timing of entries in them. Such records must be kept in Hong Kong (Rule 10(6A)) and retained for six years (Rule 10(6)). Rule 10 (5A) states that if books, ledgers or records are kept by a computerised accounting system, every solicitor must ensure that (a) the computer system has enough capacity and back-up capability to record the information required to be kept under these rules; and (b) the computer system is backed up at least once a month. Rule 10(8) provides that notwithstanding Rule 10(6A), the Council of the Law Society may specifically exempt a foreign lawyer from that Rule upon such conditions as it thinks fit. Rule 11 gives the Council of the Law Society power to call for their production.

~~16.~~ ~~The Council of the Law Society has obtained the following opinion of London leading Counsel as to the application of the Solicitors' Accounts Rules.~~

~~"A solicitor will receive his client's money in some identifiable form which will need to be recorded. If the payment is by cheque or bank transfer it will go into a bank account which will be a client account.~~

~~Whether split between several banks or retained whole, at all times the location of the money in question should be ascertainable from the solicitor's books..... There is nothing to prevent a sum of money being held first in some form of holding account and then distributed amongst several bank accounts but the manner of distribution must be recorded."~~

~~The above requirement has become effective on 27 September 1994 and will be covered by Question 11 in Appendix 1.~~

### *The Accountant's Report Rules*

4731. To ensure that the Solicitors' Accounts Rules are complied with, every firm is required to produce annually an accountant's report, in accordance with the Accountant's Report Rules. The prescribed format of an accountant's report is attached as Appendix 3.

4832. When an accountant signs an accountant's report, ~~he the~~ accountant has to sign in his the accountant's own name and not in the practising firm's or corporate practice's name under the Accountant's Report Rules.

4933. Rule 4 lays down the duties of an accountant.

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- a. Rule 4(1) lays down what is expected of an accountant's examination and, inter alia, requires an examination of the bookkeeping system to verify that it complies with the Solicitors' Accounts Rules and is so designed that:
- i. an appropriate ledger account is kept for each client;
  - ii. such ledger accounts show separately from other information particulars of all ~~clients'~~client's money received, held or paid on account of each client; and
  - iii. transactions relating to ~~clients'~~client's money and any other money dealt with through a ~~client's~~ account are recorded in the firm's books so as to distinguish such transactions from transactions relating to any other ~~monies~~money received, held or paid by the firm.
- b. Rule 4(2) requires that if in the performance of the duties required of him in Rule 4(1) it appears to the accountant that there is evidence that the Solicitors' Accounts Rules have not been complied with or the accountant 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, the accountant shall include in the accountant's report signed by him the accountant such details of the contravention or matter.

~~Under Rule 6(A) of the Solicitors' Accounts Rules Practice Direction J "Interest on Clients' Account", which is contained in the Hong Kong Solicitors' Guide to Professional Conduct, Volume 2, a firm is required to pay interest on client account. The operation of Practice Direction J was suspended by the Law Society with effect from 1 January 2004 until further notice. A copy of Practice Direction J is reproduced in Appendix 4.~~

In Law Society Circular 16-443 (SD), the Law Society has suspended the operation of Rule 6A with effect from 1 July 2016 until further notice.

~~The Law Society advised the HKICPA on 13 August 2003 that it would not envisage qualification of Accountant's Reports merely on a failure to account for very small amounts of interest, particularly if those amounts of interest are less than a realistic administration fee. The Law Society is of the view that the purpose of Accountant's Reports is to verify compliance with the Solicitors' Accounts Rules and to draw attention to any breaches of the Solicitors' Accounts Rules or Practice Directions that adversely affect any client account or trust money to a material extent. An accountant would therefore exercise common sense and proportionality in deciding whether a failure to account for interest is adverse to the client account or trust money.~~

~~In arriving at a decision whether to qualify an Accountant's Report, an accountant is advised to take into account factors such as the amounts of interest involved and whether there has been a systemic failure on the part of the firm to account for interest on client account in accordance with Practice Direction J.~~

3420. In order to meet the requirement of Rule 4 as to specific tests the Audit Engagement Programme in Appendix 2 would be followed. Please note that the tests performed should cover all branches of the firm. ~~It is not intended that a complete audit is carried out although this can of course be done if the firm requires it. The~~ Audit Engagement Programme is an indication of what is required by the Accountant's Report Rules; the extent of work to be done will be decided in the light of the systems examinations, any weaknesses revealed and any other available evidence. If anything is discovered which indicates that the Rules Solicitors' Accounts Rules are not being complied with, a more detailed examination will be necessary. It should be borne in mind when carrying out the tests that omissions from the books may be just as important as items included in them.

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24. The Council of the Law Society of Hong Kong has granted a waiver on Rule 4(1)(d) of the Accountant's Report Rules on 9 February 1987. The waiver states,

~~"... where a solicitor uses a computerised or mechanised system of accounting which automatically produces an extraction of all client ledger balances, insofar as such work merely amounts to a check on the accuracy of the computer or machine, the Council waives the requirement of the Rule that all client ledger balances extracted on the list produced by the computer or machine must be checked against the individual records of ledger accounts, provided the accountant is satisfied that a satisfactory system of control is in operation, carries out a test check of the extraction against the individual records and specifies in his report that he has relied on this waiver. It should be noted that the remainder of the Rule is not waived and the appropriate comparisons must continue to be made at not fewer than two dates."~~

22. ~~If a firm employs computerised accounting, the accountant may need to consider the applicability of computer audit and refer to Statement of Auditing Standard 310 "Auditing in a computer information systems environment".~~

3523. Under Rule 5 all accountant's reports delivered by a firm under the Accountant's Report Rules shall be in accordance with Form 1 in the Schedule to the Accountant's Report Rules, which is reproduced in Appendix 3.

3624. Rule 6 states that the Council of the Law Society will be satisfied that the delivery by a solicitor of an accountant's report for a practice year is unnecessary if the solicitor has not practised as a principal during the practice year.

3725. Rule 8 states the following with regard to accounting periods:

Rule 8 (1) "A firm shall once in each practice year deliver to the Council of the Law Society an accountant's report containing the information prescribed by rules made by the Council of the Law Society under section 73(1)(b) of the Ordinance."

Rule 8 (2) "The firm shall deliver the accountant's report to the Council of the Law Society not more than 6 months (or the period prescribed by rules made under section 73(1)(b) of the Ordinance) after the accounting period specified in the report."

Rule 8 (3) "An accountant's report for a firm is taken to be delivered on behalf of all principals of the firm."

Rule 8 (4) "A firm is not required to deliver an accountant's report in the practice year in which it commenced business if it would result in a report being delivered for less than 1 month of practice."

Rule 8 (5) "Subject to paragraphs (6) and (7), a firm shall:

- (a) deliver an accountant's report for the accounting period adopted by it and notified to the Law Society in accordance with the Solicitors' Practice Rules;
- (b) not adopt an accounting period which corresponds to the practice year; and

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- (c) not change an accounting period without the permission of the Council of the Law Society whose permission shall only be given in exceptional circumstances."

Rule 8 (6) "Where a firm commences business, the first accounting period for the firm:

- (a) shall begin on the date on which it commenced business and shall end at the end of the accounting period adopted by the firm and notified to the Law Society in accordance with the Solicitors' Practice Rules;
- (b) may cover a period of less than 12 months; and
- (c) shall in all other respects comply with the requirements of section 8(2) of the Ordinance."

Rule 8 (7) "Where a firm ceases business, the final accounting period for the firm:

- (a) shall begin at the end of the accounting period specified in the preceding accountant's report or, where the firm commenced business in the same practice year in which it ceases business, on the day on which it commenced business, and shall end at the date on which the firm ceased business;
- (b) may cover a period of less than 12 months; and
- (c) shall in all other respects comply with the requirements of section 8(2) of the Ordinance."

38. In February 2016, the Law Society issued Circular 16-126 (PA), Law Society Guidelines on Cessation of Practice by Hong Kong Firms which states that when the firm ceases to practice, a firm of solicitors practicing with at least 2 partners must be appointed to be the firm's agent to deal with all consequential matters pursuant to Law Society Direction D7 as amended in June 2012.

3926. Rule 9 states the following with regard to change in composition of firm:

Rule 9 (1) "Where a solicitor ceases to be a principal in a firm but the remaining partners continue the firm's practice, the accountant's report delivered by the firm shall state the date on which the solicitor ceased to be a principal."

Rule 9 (2) "Where a solicitor commences to be a principal in an existing firm, the accountant's report delivered by the firm shall state the date on which the solicitor commenced to be a principal."

Rule 9 (3) "Where a solicitor is a principal in two or more firms -

- (a) the firms shall each deliver an accountant's report;
- (b) the accounting periods for the accountant's reports may overlap; and

- (c) the accountant's reports shall in all other respects comply with section 8(2) of the Ordinance and these Rules."

### Circularisation

40. The accountant should refer to HKSA 505, *External Confirmations* for further guidance on circularisation of client ledger accounts and client account(s). There is only requirement to obtain bank confirmations at two different dates for the client account(s). There is no explicit requirement to have client ledger accounts balances circularised at two different dates.
41. If no response is received from client ledger accounts circularisation, the accountant should perform alternative procedures as guided in HKSA 505. In substance, the alternative procedures should be able to provide evidence about the assertions that the confirmation request was intended to provide.
42. 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.

### Engagement Documentation

43. The accountant should prepare on a timely basis engagement documentation that provides a record of the basis for the accountant's report that is sufficient and appropriate to enable an experienced practitioner, having no previous connection with the engagement, to understand:
- (a) The nature, timing and extent of the procedures performed to comply with the Accountant's Report Rules;
- (b) The results of the procedures performed, and the evidence obtained; and
- (c) Significant matters arising during the engagement, the conclusions reached thereon, and significant professional judgements made in reaching those conclusions.
44. The accountant should assemble the engagement documentation in an engagement file and complete the administrative process of assembling the final engagement file on a timely basis after the date of the accountant's report.
45. After the assembly of the final engagement file has been completed, the accountant should not delete or discard engagement documentation of any nature before the end of its retention period.
46. If the accountant finds it necessary to amend existing engagement documentation or add new engagement documentation after the assembly of the final engagement file has been completed the accountant should, regardless of the nature of the amendments or additions, document:
- (a) The specific reasons for making the amendments or additions; and
- (b) When, and by whom, they were made and reviewed.

## Appendix 1

### KEY QUESTIONS BASED ON THE SOLICITORS' ACCOUNTS RULES

	ANSWER (YES, NO or N/A)	COMMENT (Where answer is NO)
1. Is a separate client account(s) in the name of the firm maintained at a bank <u>located and licensed in Hong Kong, unless exempted by Rule 15</u> , in the title of which the word "client" appears? (Rule 2)		
2. Where the firm holds or receives client's money, is such money paid into a <del>clients'</del> <u>client</u> bank-account without delay (except under 4-5 below)? (Rule 3)		
3. Is the only other money which is paid into the client account within the following categories:  a. trust money  b. money which is necessary to maintain the account in being  c. money required to make good any accidental withdrawal in contravention of <del>the Rules</del> <u>Rule 8(2)</u>  d. a cheque of which only part is client's money? (Rule 4)		
4. <u>Is interest on client account(s) correctly accounted for in accordance with Rule 6A?</u>  <u>(Rule 6A)</u>  <u>In Law Society Circular 16-443 (SD), the Law Society has suspended the operation of Rule 6A with effect from 1 July 2016 until further notice.</u>		
54. Do those <del>clients'</del> <u>client's monies</u> <del>money</del> which are not paid into a <del>clients'</del> <u>client</u> bank-account consist only of:  a. <del>monies</del> <u>money</u> which are immediately paid over to or on behalf of the client (but note that details should still be recorded in the books of account as a transaction conducted on behalf of the client)  b. <del>monies</del> <u>money</u> which are paid into a bank account opened in the name of the client or his nominee		

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<p>c. <del>monies</del>money which the client for his own convenience requests not to be banked</p> <p>d. <del>monies</del>money which really belong to the firm (i.e. paid in settlement of or on account of a debt due to it)?</p> <p>(Rule 9)</p>		
<p>65. Is all money withdrawn from a client account within the following categories:</p> <p>a. a payment to or on behalf of a client or made on the client's authority</p> <p>b. to reimburse the firm for expenditure on the client's behalf or in payment of a debt properly due by the client to the firm</p> <p>c. in settlement of a bill of costs which has been rendered to the client with a notification in writing that it will be settled in this manner</p> <p>d. in the case of a trust fund a payment which is proper for the trust, or a transfer to a separate bank account for the particular trust</p> <p>e. money which in fact belongs to the firm and has found its way into the <del>clients'</del>client bank account, whether by <u>mistake or accident</u><del>error</del> or as a result of 3(b) or 3(d) above?</p> <p>(Rule 7)</p>		
<p>75A. Are all withdrawals from a client account <del>authorized</del><u>authorised</u> in writing by <del>one of the following persons</del>:</p> <p>a. the solicitor in whose name the client account is kept or, where the client account is kept in the name of a firm, any solicitor, partner, consultant or foreign lawyer in the firm;</p> <p>b. a certified public accountant (practising) as defined in the Professional Accountants Ordinance (Cap.50) <u>and countersigned by a person referred to in (a)</u>; or</p> <p>c. a person approved by the Council of the Law Society, which approval shall only be given in exceptional circumstances, upon an application in writing made to it by the solicitor or firm and subject to such conditions as the Council of the Law Society may think fit, if any <u>and countersigned by a person referred to in (a)</u>?</p> <p>(Rule 7A)</p>		

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<p>68. Are all withdrawals from a client account for the firm's own use (as per 56(b), (c) and (e) above) by cheque drawn in favour of itself or by transfers to its office bank account? (Rule 8)</p>		
<p>6A9. Are all breaches of the Solicitors' Accounts Rules remedied promptly upon discovery? (Rule 9A)</p>		
<p>10. Is receipt of any payment which includes disbursements as well as client's money of the nature described in Rule 9(2) handled accordingly?</p> <p>(a) determine the composition of the payment without delay;</p> <p>(b) for any part of the payment that is for disbursements anticipated but not yet incurred, pay that part of the payment into the client account; and</p> <p>(c) for any part of the payment that is for disbursements incurred but not yet paid, either</p> <p>(i) pay that part of the payment into the client account; or</p> <p>(ii) pay it into the office account and settle the disbursements in any event not later than the 4<sup>th</sup> working day following the receipt from the client, failing which the payment should be paid into the client account not later than the 5<sup>th</sup> working day following the receipt.</p> <p>(Rule 9(2A))</p>		
<p>711. Are records kept properly written up to record separately:</p> <p>a. <del>clients'</del> client's money received, held or paid</p> <p>b. any other money dealt with through a client account</p> <p>c. a ledger account for each client detailing all transactions</p> <p>d. transfers between accounts in the client ledger?</p> <p>(Rule 10)</p>		
<p>812. Are a cash book and ledger maintained for dealings of the practice other than with clients? (Rule 10)</p>		

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<p>913. Is a record kept of all bills of costs (distinguishing between profit costs and disbursements)? (Rule 10)</p> <p>14. <u>If books, ledgers or records are kept by a computerised accounting system,</u></p> <p>(a) <u>does the computer system have enough capacity and back-up capability to record the information required to be kept under the rules? and</u></p> <p>(b) <u>is the computer system backed up at least once a month?</u></p> <p><u>(Rule 10(5A))</u></p>		
<p>9A. Are monthly reconciliation statements on balances of client accounts prepared? 15. (Rule 10A)</p>		
<p>169. Have any transfers between individual clients in the records been made other than under the rules relating to lodgement and withdrawal?</p>		
<p>174. Whether receipts are split between several banks or retained whole, is at all times the location of <del>clients'</del><u>client's</u> money ascertainable from the books?  (See paragraph 16 of the Practice Note)</p>		

## Appendix 2

### **AUDIT ENGAGEMENT PROGRAMME UNDER RULE 4 OF THE ACCOUNTANT'S REPORT RULES**

In order to meet the requirement of Rule 4 as to specific tests the Engagement Programme set out below would be followed. Please note that the tests performed should cover all branches of the firm. The Engagement Programme is an indication of what is required by the Accountant's Report Rules; the extent of work to be done will be decided in the light of the systems examinations, any weaknesses revealed and any other available evidence. If anything is discovered which indicates that the Solicitors' Accounts Rules are not being complied with a more detailed examination will be necessary. It should be borne in mind when carrying out the tests that omissions from the books may be just as important as items included in them.

	Extent of Test
<p>1. Test check that all recorded cheques, cash, etc. received are entered in the cash book and banked (or otherwise accounted for) without delay. This objective will normally embrace the following audit steps, each of which should be signed for separately:</p> <p>a. Test check record of cash received and/or cashbook with bank stamped paying-in slips, noting individual items as well as totals, and enquiring into any delays in banking.</p> <p>b. Test check cash book with record of cash received.</p> <p>c. Test check receipts in cash book with bank statements.</p> <p>Watch for any evidence of teeming and lading, and consider obtaining original paying-in slips from bank where stamped copies are not available or where there are doubts as to adequacy of the internal control.</p>	
<p>2. Test check that receipts of <del>clients'</del> client's money are correctly posted to personal accounts in client ledger and to nominal accounts.</p>	
<p>3. Test vouch payments in cash book with bank statements.</p>	
<p>4. Test vouch all cheque payments from client account to ensure that they have been made to or to the instructions of the clients, or that if they have been paid to the firm, the provisions of the Solicitors' Accounts Rules have been complied with.</p>	
<p>5. Test check that payments of <del>clients'</del> client's money are correctly posted to personal accounts in client ledger and to nominal accounts.</p>	
<p><del>5A</del>6. Ensure that monthly reconciliation statements on balances of client accounts are prepared.</p>	

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<p>67. a. Extract or check extractions of all balances on <del>clients'</del><u>client</u> ledger accounts.</p> <p style="text-align: center;"><u>OR</u></p> <p>b. <del>If a satisfactory system of control is in operation, and the accountant relies on the waiver of Rule 4(1)(d) of the Accountant's Report Rules, carry out a test check of the extraction against the individual records.</del></p> <p><del>It should be noted that, where the accountant relies on the above waiver, he specifies in the accountant's report that he has done so. (See paragraph 21 of the Practice Note)</del></p>	<p>Not less than two dates during year*</p>
<p>78. a. Compare such balances with cash book balance on client account and with control account in nominal ledger.</p> <p style="text-align: center;"><u>OR</u></p> <p>b. Compare the extraction of balances on a test basis if the conditions specified in 6(b) above are satisfied.</p>	<p><u>Not less than two dates during year*</u> <del>do-</del></p>
<p>98. Scrutinise <del>clients'</del><u>client</u> ledger accounts to ensure that no accounts have gone into debit, and that no incorrect items have been included.</p>	<p><u>Not less than two dates during year*</u> <del>do-</del></p>
<p>910. Obtain bank certificate(s) for client account(s).</p>	<p><u>Not less than two dates during year*</u> <del>do-</del></p>
<p>110. Prepare or check bank reconciliation and note subsequent date of clearance of outstanding items, enquiring into reasons for undue delay.</p>	<p><u>Not less than two dates during year*</u> <del>do-</del></p>
<p>124. Test check additions in <u>client</u> ledger accounts and <u>client</u> cash book.</p>	
<p>132. Circularise client <u>ledger</u> account(s) on a test basis in accordance with SAS 402<u>HKSA 505</u>, "<u>External confirmations</u>".</p>	
<p>143. Test check that interest on client account(s) has been correctly accounted for in accordance with <u>Rule 6A of the Solicitors' Accounts Rules Practice Direction J "Interest on Clients' Account"</u> contained in the <u>Hong Kong Solicitors' Guide to Professional Conduct, Volume 2</u>.</p> <p><u>In Law Society Circular 16-443 (SD), the Law Society has suspended the operation of Rule 6A with effect from 1 July 2016 until further notice.</u></p> <p>15. <u>Obtain written confirmation from the managing partner/designated partner of the firm that the computerised accounting system complies with Rule 10(5A) of the Solicitors' Accounts Rules.</u></p>	

\* Note - these dates must be random; it is not sufficient to select month-ends regularly.

### Appendix 3

The following is the accountant's report which must be delivered by a firm of ~~solicitors~~ under the Accountant's Report Rules and is reproduced from Form 1 in the Schedule to the Accountant's Report Rules.

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## ACCOUNTANT'S REPORT RULES ACCOUNTANT'S REPORT

To: The Council  
The Law Society of Hong Kong  
3/F., Wing On House  
71 Des Voeux Road Central  
Hong Kong

1. Name of firm: \_\_\_\_\_
  
2. The firm does/does not\* operate a branch office or offices.
  
3. Address of main office: \_\_\_\_\_  
\_\_\_\_\_
  
4. Address(es) of branch office(s), if any: \_\_\_\_\_  
\_\_\_\_\_
  
5. The firm is a sole proprietorship/a partnership\*.
  
6. The period covered by this report:  
Commences: \_\_\_\_\_ Ends: \_\_\_\_\_
  
7. Full name(s) of sole proprietor or all partners: (attach additional sheet(s) if the space is not adequate)  
\_\_\_\_\_  
\_\_\_\_\_
  
8. If any of the partners commenced or ceased to be partners in the firm during the period covered by this report, complete the following:  
Name: \_\_\_\_\_  
Date of commencing to be a partner: \_\_\_\_\_  
  
Name: \_\_\_\_\_  
Date of ceasing to be a partner: \_\_\_\_\_

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9. If this is the first or final accountant's report for the firm, complete the following:

For a first accountant's report:

\_\_\_\_\_ (date of firm commencing business)

For a final accountant's report:

\_\_\_\_\_ (date of firm ceasing business)

10. Accountant's statement:

In compliance with section 8 of the Legal Practitioners Ordinance and the Accountant's Report Rules, I have examined the books, accounts and documents of the firm produced to me and I certify that from my examination and from the explanations and information given to me:

(1)(a) I am satisfied that during the accounting period the firm has complied with the provisions of the Solicitors' Accounts Rules.

OR \*

(b) I am satisfied hat during the accounting period the firm has complied with the provisions of the Solicitors' Accounts Rules, except for:

(i) trivial breaches due to clerical errors or mistakes in book-keeping, all of which were rectified on discovery and which I am satisfied did not result in any loss to any client;

(ii) the matters set out in Schedule 1. \*

(2)(a) I am not aware of any matter which appears to affect adversely any client account or any trust money held by the firm to a material extent.

OR \*

(b) I am not aware of any matter which appears to affect adversely any client account or any trust money held by the firm to a material extent, except for those matters the details of which are set out in Schedule 2.

(3) This is the final accountant's report for the firm which ceased to hold client's money on the \_\_\_\_\_ day of \_\_\_\_\_ 19\_\_\_\_\_.\*

11. Details of accountant:

Accountant's full name: \_\_\_\_\_

Firm name: \_\_\_\_\_

Address: \_\_\_\_\_

\_\_\_\_\_  
\_\_\_\_\_

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12. Accountant's signature: \_\_\_\_\_

13. Date: \_\_\_\_\_

\_\_\_\_\_

\* Delete whichever is not applicable

## Appendix 4

### J. INTEREST ON CLIENTS' ACCOUNT

#### 1. REQUIREMENT TO PAY INTEREST

~~Subject to paragraph 2 hereof, on each occasion when a solicitor holds or receives money for or on account of a client in respect of a particular matter, the solicitor shall deposit such money in a designated interest bearing clients' account in a bank and shall account to the client for any interest earned thereon failing which the solicitor shall pay to the client a sum equivalent to the interest which would have accrued for the benefit of the client if the money had been deposited in a Hong Kong dollar savings account of the Hongkong and Shanghai Banking Corporation Limited.~~

#### 2. MINIMUM AMOUNT AND TIME

~~A solicitor shall only be required to account in accordance with paragraph 1 above where the solicitor holds the money for as long as or longer than the time set out in the right hand column of the Table below and the minimum amount held equals or exceeds the corresponding figure in the left hand column of the Table:~~

**The Table**

Minimum Amount	Minimum Time
Exceeding \$3,000,000.00	4 Banking Days
Exceeding \$250,000.00 but not exceeding \$3,000,000.00	2 Weeks
Exceeding \$100,000.00 but not exceeding \$250,000.00	4 Weeks
Exceeding \$50,000.00 but not exceeding \$100,000.00	8 Weeks

#### 3. REMEDY AVAILABLE TO CLIENT

~~Without prejudice to any other remedy which may be available to him, any client who feels aggrieved that interest, or a sum equivalent thereto, has not been paid to him under these Practice Directions shall be entitled to require the solicitor to obtain from the Council of the Law Society a certificate as to whether or not interest ought to have been earned for him, and if so, the amount of such interest. Upon receipt of such a request the Council shall cause the matter to be investigated and if it determines that interest should have been earned it shall issue a certificate to that effect setting out the amount of interest which should have been earned in accordance with these Practice Directions. On the issue of such a certificate the sum certified to be due shall be payable by the solicitor to the client.~~

**4. EXCEPTIONS**

~~Subject to paragraph 5 hereof nothing in the Practice Directions shall:~~

- ~~- (a) affect any agreement in writing whenever made between a solicitor and his client as to the application of the client's money or interest thereon;~~
- ~~- (b) apply to money received by a solicitor, being money subject to a trust of which the solicitor is a trustee; or~~
- ~~- (c) affect any agreement in writing for payment of interest on stakeholder money held by the solicitor.~~

**5. ARRANGEMENT FOR NO INTEREST SHALL BE VOID**

~~Any arrangement howsoever made to the effect that no interest shall be payable in respect of monies deposited with a solicitor shall be void.~~

**6. ADMINISTRATION FEE PERMITTED**

~~A solicitor who deposits a client's money in accordance with paragraph 1 hereof shall be entitled to charge and be paid such sum as is fair and reasonable by way of an administration charge in respect of the work undertaken in the deposit and withdrawal of monies and accounting to the client for the interest accrued thereon.~~

~~This Practice Direction came into effect on 1 January 1997. The operation of this Practice Direction was suspended by the Law Society with effect from 1 January 2004 until further notice.~~

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~~- - - - -~~

## **Appendix 4**

The following example letter highlights only the aspects relating to the scope and responsibilities of the accountant for the purpose of reporting under the Solicitors' Accounts Rules and the Accountant's Report Rules. This example is for reference only and requires the inclusion of other relevant terms of the engagement which will vary according to the requirements and circumstances of the individual accountant and client. The accountant may consider it appropriate to include a limitation of liability clause in the engagement letter in accordance with the accountant's risk management policies.

[Managing Partner or appropriate representative of management]

[ABC & Co., Solicitors]

[Address]

[Date]

Dear Sirs,

### **Objective of services**

1.1 You have requested that we act as an accountant for [ABC & Co., Solicitors] (the "Firm") and issue an accountant's report in accordance with the Accountant's Report Rules for the year ended [date]. We are pleased to confirm our acceptance and our understanding of this reporting engagement by means of this letter.

### **Responsibilities of the Partners**

2.1 Our engagement will be conducted on the basis that you acknowledge and understand that you have responsibility:

- a. To keep accounting records as required under the Solicitors' Accounts Rules;
- b. To ensure that accounting records show and explain all transactions with regard to client's money under the Solicitors' Accounts Rules;
- c. To provide us with:
  - (i) Access to all information of which you are aware that is relevant such as Firm's accounting records and all other relevant records and documentation with regard to client's money;
  - (ii) Additional information that we may request from you for the purpose of the engagement; and
  - (iii) Unrestricted access to persons related to the Firm from whom we determine it necessary to obtain evidence;
- d. For such internal control as you determine is necessary to enable the keeping of accounting records that are free from material misstatement, whether due to fraud or error; and
- e. To ensure compliance with all other aspects of the Solicitors' Accounts Rules.

### **Responsibilities of the accountant**

3.1 We have a responsibility to issue an accountant's report to the Council of The Law Society of Hong Kong under section 8 of the Legal Practitioners Ordinance and the Accountant's Report Rules.

### **Scope of engagement**

4.1 We will conduct our engagement in accordance with section 8 of the Legal Practitioners Ordinance and the Accountant's Report Rules with reference to PN 840 (Revised), *The*

Reporting Engagement on Solicitors' Accounts under the Solicitors' Accounts Rules and the Accountant's Report Rules issued by the Hong Kong Institute of Certified Public Accountants.

- 4.2 We will perform procedures to obtain evidence about the transactions in regard to client's money. In order to issue an accountant's report, we will need to review and examine your accounting records and documentation of client's money. We will also need to have an understanding of internal control relevant to the engagement in order to design engagement procedures that are appropriate in the circumstance, but not for the purpose of expressing any opinion on the effectiveness of the Firm's internal control.
- 4.3 The responsibility for safeguarding the assets of the Firm and for the prevention and detection of fraud, error and non-compliance with law or regulations rests with you. However, we will inform you of any such matters which come to our attention.
- 4.4 We shall not be treated as having notice, for the purposes of our responsibilities, of information provided to members of our firm other than those engaged on the engagement (for example information provided in connection with audit, accounting, taxation and other services).

**Reporting**

- 5.1 The format of the accountant's report is set out in the Accountant's Report Rules and is reproduced in Appendix 3 of PN 840 (Revised).
- 5.2 You are responsible for submitting the accountant's report to the Law Society of Hong Kong within six months of the end of the accounting period.
- 5.3 The accountant's report will be addressed to the Council of the Law Society of Hong Kong, in accordance with Section 8 of the Legal Practitioners Ordinance and the Accountant's Report Rules and for no other purpose. We do not assume responsibility to any other party as concerns the accountant's report.

**Fees**

6. Our fees are computed on the basis of the time spent on the Firm's affairs by our partners and our staff and on the levels of skill and responsibility involved plus out-of-pocket expenses. Unless otherwise agreed, our fees will be billed at appropriate intervals during the course of the engagement and will be due on presentation.

**Agreement of terms**

- 7.1 Once it has been agreed, this letter will remain effective, from one reporting engagement appointment to another, until it is replaced. Please sign and return the enclosed copy of this letter to indicate your acknowledgement of, and agreement with, the arrangements for reporting engagement under the Solicitors' Accounts Rules and the Accountant's Report Rules including our respective responsibilities.

Yours faithfully,

XYZ & Co.  
Certified Public Accountants (Practising) [or Certified Public Accountants]  
Date

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We agree to the terms of this letter.

(Signed)

..... [Title], for and on behalf of [ABC & Co., Solicitors]  
Date