

Circular on Gross Fee Income Report of Rule 8 of the Solicitors (Professional Indemnity) Rules

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Appendix 1 to this Circular has been updated for the conforming and consequential amendments (“amendments”) as a result of the new and revised quality management standards. The amendments will be effective for engagements beginning on or after 15 December 2022. The effective date of the amendments does not amend or override the effective date of HKSQM 1¹.

A. Introduction

1. As part of the Institute’s International Convergence Programme with pronouncements issued by the International Auditing and Assurance Standards Board of the International Federation of Accountants in recent years, the Institute has issued and revised a number of professional standards. Amongst these, the Institute has issued a number of standards on different reporting engagements typically undertaken by professional accountants in public practice in Hong Kong such as agreed-upon procedures engagements, which falls under Hong Kong Standard on Related Services (“HKSRS”) 4400 (Revised), *Agreed-Upon Procedures Engagements*.

B. Compliance with Rule 8 of the Solicitors (Professional Indemnity) Rules

2. In relation to Rule 8 of the Solicitors (Professional Indemnity) Rules, solicitors are required to submit a report containing particulars of the gross fee income of a law firm (“Gross Fee Income Report”) on or before 15 August each year to enable the Manager of the Professional Indemnity Scheme to renew their professional indemnity insurance, without which they are unable to renew their practising certificates.

¹ Hong Kong Standard on Quality Management 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*.

3. The Institute's Auditing and Assurance Standards Committee ("AASC") considers that the Gross Fee Income Report required under Rule 8 of the Solicitors (Professional Indemnity) Rules is one such report that needs to be updated in accordance with HKSRS 4400 (Revised).
4. In this regard, the AASC, in consultation with The Law Society of Hong Kong, has produced a Gross Fee Income Report in July 2007 for reference by certified public accountants (practising) ("practitioners") to ensure that there is consistency in the reports issued by practitioners to solicitors' firms. Amendments as a result of changes to the Solicitors (Professional Indemnity) Rules in 2016 are set out in paragraphs 10 to 12. The revised report attached at Appendix 1 of this Circular is based on HKSRS 4400 (Revised) which is effective for agreed-upon procedures engagements for which the terms of engagement are agreed on or after 1 January 2022.
5. HKSRS 4400 (Revised) introduced requirements and application material to provide more clarity in the agreed-upon procedures report. Practitioners are reminded to read HKSRS 4400 (Revised) for the requirements.
6. In particular, practitioners should refer to paragraphs 21 – 23 and A28 – A38 of HKSRS 4400 (Revised) for the engagement acceptance and continuance conditions. Practitioners should include the terms as set out in paragraph 24 of HKSRS 4400 (Revised) in the engagement letter. Among the terms, the engagement letter should include the purpose of the engagement and the intended users of the agreed-upon procedures report as defined by the engaging party. An illustrative engagement letter for an agreed-upon procedures engagement can be found in Appendix 1 to HKSRS 4400 (Revised).
7. Attached at Appendix 1 is an illustrative example Gross Fee Income Report for reference by practitioners.
8. A copy of the illustrative example Gross Fee Income Report will also be issued by the Manager of the Professional Indemnity Scheme to solicitors.
9. The Law Society of Hong Kong will accept a Gross Fee Income Report under Rule 8 of the Solicitors (Professional Indemnity) Rules.

C. Solicitors (Professional Indemnity) (Amendment) Rules 2012

10. The Law Society of Hong Kong made changes to the Solicitors' Accounts Rules and certain consequential amendments to the Solicitors (Professional Indemnity) Rules in 2016. The amendments to the latter are set out in the Solicitors (Professional Indemnity) (Amendment) Rules 2012 which were gazetted in 2012 and came into operation on 1 July 2016.

11. The amendments to the Solicitors (Professional Indemnity) Rules prescribed the qualifications that a certified public accountant (practising) must have before the accountant is qualified to sign a Gross Fee Income Report for a solicitors' firm. They were added under Rule 8 of the Solicitors (Professional Indemnity) Rules:

(1A) For the purposes of subrule (1)(a), a certified public accountant (practising) is qualified to sign the report referred to in subrule (1)(a)(i) or (ii) only if –

- (a) the accountant is a certified public accountant (practising) holding a practising certificate as provided in the Accounting and Financial Reporting Council Ordinance (Cap. 588);
- (b) the accountant has neither been at any time during the period covered by the report, nor subsequently before signing the report, a partner, clerk or servant of the Practice to which the report relates; and
- (c) the accountant is not subject to any notice of disqualification under subrule (1B).

(1B) If –

- (a) the accountant has been found guilty of–
 - (i) professional misconduct or dishonourable conduct under the Professional Accountants Ordinance (Cap. 50) as in force from time to time before the day on which section 3 of the Financial Reporting Council (Amendment) Ordinance 2021 (41 of 2021) comes into operation^{*}; or
 - (ii) CPA misconduct under section 37AA of the Accounting and Financial Reporting Council Ordinance (Cap. 588); or

^{*} Operation date: 1 October 2022.

(b) the Council is satisfied that the gross fee income of the Practice reported by the accountant was inaccurate and that the accountant was negligent in signing that report,

the Council may at any time notify the accountant concerned that the accountant is not qualified to sign the report, and the Council may give notice of this fact to any firm on whose behalf the accountant may have signed the report, and after the accountant has been so notified, unless and until the notice of disqualification is withdrawn by the Council, the accountant is not qualified to sign the report.

(1C) In coming to its decision under subrule (1B), the Council must take into consideration any observations or representations made or given by the accountant or on whose behalf by the professional body of which the accountant is a member.

12. In order to facilitate the Manager of the Professional Indemnity Scheme in verifying the qualification of the signor, The Law Society of Hong Kong requested that the practitioner's full name and practising certificate number should also be inserted in the signatory section of the Gross Fee Income Report.

D. Conclusion

13. Practitioners are reminded that the attached Appendix 1 provides an illustrative example only. Practitioners are reminded to use their professional judgement to ascertain the exact circumstances of each of their engagements.

14. The AASC of the Institute welcomes your comments and feedback, which should be sent to the Standard Setting Department at: commentletters@hki CPA.org.hk.

Date of Circular: 27 February 2023

APPENDIX 1
Illustrated Example
Gross Fee Income Report

For purposes of this illustrative agreed-upon procedures report, the following circumstances are assumed:

- The Law Firm is the engaging party, the responsible party and the intended user. The report is also intended to be provided to the Manager of the Professional Indemnity Scheme.
- No exceptions were found.
- The practitioner did not engage a practitioner's expert to perform any of the agreed-upon procedures.
- There is a restriction on the use and distribution of the report.
- The practitioner is the auditor of the financial statements of the Law Firm. The practitioner has agreed with the Law Firm that the practitioner's compliance with the independence requirements applicable to audits of financial statements is appropriate for the purpose of the agreed-upon procedures engagement. The practitioner has agreed to include, in the terms of engagement, compliance with the independence requirements applicable to audits of financial statements for the purpose of the agreed-upon procedures engagement.
- The practitioner included a reference to the date when the agreed-upon procedures were agreed in the terms of the engagement.

To: The Principals¹ of [Name of Law Firm]

Purpose of this Agreed-Upon Procedures Report and Restriction on Use and Distribution

Our report is solely for the purpose of assisting [Name of Law Firm] (the "Practice") in satisfying the requirement of Rule 8 of the Solicitors (Professional Indemnity) Rules and may not be suitable for another purpose. This report is intended solely for the Practice, and should not be used by, or distributed to, any other parties, except that we agree that a copy of this report may be provided to the Manager of the Professional Indemnity Scheme.

¹ Or the terms that are appropriate in the circumstances.

Responsibilities of the Practice

The Practice has acknowledged that the agreed-upon procedures are appropriate for the purpose of the engagement.

The Practice is responsible for the schedule of gross fee income of the Practice prepared by the principals on which the agreed-upon procedures are performed.

Practitioner's Responsibilities

We have conducted the agreed-upon procedures engagement in accordance with Hong Kong Standard on Related Services (HKSRS) 4400 (Revised), *Agreed-Upon Procedures Engagements* issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). An agreed-upon procedures engagement involves our performing the procedures that have been agreed with the Practice, and reporting the findings, which are the factual results of the agreed-upon procedures performed. We make no representation regarding the appropriateness of the agreed-upon procedures. We expressly disclaim any liability or duty to any other party for the content in this report.

This agreed-upon procedures engagement is not an assurance engagement. Accordingly, we do not express an opinion or an assurance conclusion.

Had we performed additional procedures, other matters might have come to our attention that would have been reported.

Professional Ethics and Quality Management

We have complied with the ethical requirements of the HKICPA's *Code of Ethics for Professional Accountants* (the "Code") and the independence requirements in Part 4A, Chapter A of the Code.

Our firm applies Hong Kong Standard on Quality Management (HKSQM) 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*, which requires the firm to design, implement and operate a system of quality management including policies or procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Procedures and Findings

We have performed the procedures described below, which were agreed upon with the Practice in the terms of engagement dated [date], with respect to the gross fee income of the Practice for the year ended [date].

Procedures	Findings
<p>We obtained (1) a schedule of gross fee income of the Practice (the “Schedule”) for the year ended [date] which amounted to HK\$[X]; and (2) the Practice’s [*audited financial statements]/[*underlying books and records from which the gross fee income set out in the Schedule is extracted] for the year ended [date] and such other documents as appropriate (including profits tax return where applicable) and we compared the amount of gross fee income of HK\$[X] as stated in the Schedule to the corresponding amount stated in the [*audited financial statements]/[*underlying books and records from which the gross fee income set out in the Schedule is extracted] for the year ended [date].</p>	<p>We found the amounts to be in agreement².</p>

[Practitioner’s Signature]³

[*Certified Public Accountants (Practising)/Certified Public Accountants]

[Practitioner’s] Full Name: [Name]

Practising Certificate No.: [Number]

Hong Kong

[Date]

* Delete where appropriate.

² In the event that practitioners encounter any exceptions, details of the exceptions should be listed in the report.

³ The report is normally signed in the name of the firm because the firm as a whole assumes responsibility for the report. For a corporate practice, the report is signed by a director of the practice, who must be a professional accountant holding a current practising certificate. The report should state the practitioner’s full name as appearing in his/her practising certificate and the practising certificate number.