



May 2006

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

## **HKICPA DISCUSSION PAPER EXPOSURE DRAFT** **“REQUESTS FOR SPECIAL PURPOSE REPORTS”**

*Comments to be received by 31 October 2006*

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

[www.hkicpa.org.hk/professionaltechnical/assurance/exposedraft/](http://www.hkicpa.org.hk/professionaltechnical/assurance/exposedraft/).

As part of the HKICPA's programme of converging with pronouncements issued by the International Federation of Accountants ("IFAC") in recent years, the HKICPA has issued and revised a number of professional standards. Amongst these, the HKICPA has issued a number of standards on different reporting engagements typically undertaken by professional accountants in public practice in Hong Kong, namely assurance engagements and other types of engagements such as agreed upon procedures engagements and compilation engagements. These standards set out key principles, required procedures and the appropriate form a report should take when the engagement falls within the scope of those standards. This paper has been prepared by the AASC of the HKICPA to help clarify to members and users of their reports the principal types of special purpose engagements and the form and content of the related reports. This paper also sets out some of the practical issues that may arise when undertaking such engagements and guidance on how to address them.

To allow your comments on the Exposure Draft to be considered, they are requested to be received by the HKICPA on or before **31 October 2006**. Comments may be sent by mail, fax or e-mail to:

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

May 2006  
Exposure Draft

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Response Due Date  
31 October 2006

*Draft Discussion Paper*

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# Requests For Special Purpose Reports



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

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Draft Discussion Paper "Requests For Special Purpose Reports"

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

The Exposure Draft can also be found on the HKICPA's website at:  
[www.hkicpa.org.hk/professionalttechnical/assurance/exposedraft/](http://www.hkicpa.org.hk/professionalttechnical/assurance/exposedraft/)

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**HONG KONG INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS****DISCUSSION PAPER****REQUESTS FOR SPECIAL PURPOSE REPORTS**

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

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## **EXECUTIVE SUMMARY**

1. This discussion paper is intended as a guide for members in public practice as well as for users of their reports.
2. For the purpose of this discussion paper, reference is made to "special purpose" engagements. This is intended to cover situations where a practitioner is requested to undertake an engagement other than an audit or review of a set of financial statements.
3. This discussion paper focuses on "special purpose" engagements primarily because issues relating to audits or reviews of financial statements are generally better understood compared to those that arise in other types of reporting engagements.
4. When a practitioner is requested to undertake a special purpose engagement, issues may often arise and an appropriate level of dialogue is necessary to resolve them. The principal aim of this paper is to help raise awareness of the issues and to help foster a constructive dialogue to identify appropriate solutions.
5. The level of such a dialogue will vary from engagement to engagement. The dialogue may need to address the reasons for the request, the needs of the user, the nature of the report to be delivered, and how to appropriately address the issues that have arisen.
6. Some of the issues and concerns raised in this paper have existed for some time. However, given the convergence of Hong Kong Standards on Quality Control, Auditing, Assurance and Related Services with international standards, and the need for greater consistency when addressing issues, the HKICPA has taken the initiative to issue this paper for the benefit of practitioners and users of their reports.

**A. Introduction**

7. As part of the HKICPA's programme of converging with pronouncements issued by the International Federation of Accountants ("IFAC") in recent years, the HKICPA has issued and revised a number of professional standards. Amongst these, the HKICPA has issued a number of standards on different reporting engagements typically undertaken by professional accountants in public practice in Hong Kong, namely assurance engagements and other types of engagements such as agreed upon procedures engagements and compilation engagements. These standards set out key principles, required procedures and the appropriate form a report should take when the engagement falls within the scope of those standards. This paper has been prepared by the Auditing and Assurance Standards Committee (AASC) of the HKICPA to help clarify to members and users of their reports the principal types of special purpose engagements and the form and content of the related reports. This paper also sets out some of the practical issues that may arise when undertaking such engagements and guidance on how to address them.
8. In the context of a special purpose engagement, the needs of different entities and users can vary considerably. Requests for special purpose reports may cover a wide range of subject matters, and may relate to both financial and non-financial matters. Where a particular reporting requirement is covered by a specific HKICPA pronouncement, that pronouncement should be followed. However, in other situations, depending on the circumstances, the scope of work and related report may need to be discussed and agreed. In those situations, typically the first issue to determine is whether the practitioner is to undertake an assurance engagement or an agreed-upon procedures engagement (both of which are further explained in this paper). The relevant parties (the practitioner, his client, and where appropriate, relevant users of the intended report) would generally need to discuss and agree the scope of work and nature of report that is best suited to the circumstances. These may depend on a number of factors including the reasons for the requested report, the main concerns of the intended user that prompted the request, and the client's and the user's expectations as to the work that they expect the practitioner to perform.
9. Factors to consider when determining whether an assurance or agreed-upon procedures engagement is to be undertaken may include (i) the subject matter to be reported on; (ii) the nature of evidence that may be available; (iii) if an assurance report is required, the nature of any suitable criteria to evaluate the findings; (iv) the level of procedures that may need to be undertaken; and (v) costs and benefits of the different types of engagements.
10. In some situations, issues can arise when an assurance report is requested but where the practitioner has concerns about the suitability or availability of any clear criteria against which the subject matter of the engagement is to be judged. Where the criteria are ill-defined or unclear, the practitioner may not be in a position to issue an assurance report and instead, it may be more appropriate for an agreed-upon procedures engagement to be undertaken. In general, in those situations, undertaking an agreed-upon procedures engagement may provide the advantage of having the practitioner conducting specifically requested procedures on the particular area of concern and reporting his findings. The user of the report would then use his own criteria and knowledge to evaluate the practitioner's findings.

11. In other situations, there may be a choice as to whether an assurance or agreed-upon procedures engagement should be undertaken and often it may be a question of considering the relative merits of each, including the costs and benefits of each type of engagement.
12. For example, when a user requests assurance on a single accounting balance, the practitioner may be required to undertake a significant amount of procedures to provide the requested assurance in compliance with HKICPA's assurance standards. In some situations more limited procedures (such as agreeing the balance to the accounting records) might be sufficient for the user's purposes. Section F further discusses issues in respect of requests for reports.
13. A practitioner's report from an agreed-upon procedures engagement provides the reader of the report with comfort on the matters reported upon and therefore, the user benefits from the work although such an engagement is not classified as an assurance engagement under the HKICPA's definitions. An agreed-upon procedures engagement is generally focused on specific procedures and reporting the consequent findings and may be suitable where comfort is required on selected items but where the costs and effort to undertake an assurance engagement (which may often entail significantly more work) may not be justified.
14. Similarly, for a compilation engagement (which is also not classified as an "assurance" engagement), users of the compiled financial information and the practitioner's report thereon may derive some benefit as a result of the practitioner's involvement. This is because the practitioner should have used his professional knowledge and skills when performing the compilation and issuing his report.
15. Issues can arise from a number of areas including:
  - nature of the subject matter to be reported upon;
  - requested forms of report and requested language used in the report;
  - availability of evidence or appropriate criteria against which to evaluate the subject matter;
  - inherent limitations in the nature of the work that the practitioner is requested to do;
  - different needs and expectations between preparers of the information, practitioners and users of the special purpose reports; and
  - cost/benefits of the different types of engagement that could be undertaken.
16. Some problems can arise simply due to the use of terminology and specified forms of wording. This is because, under the HKICPA's pronouncements, certain terms such as "audit", "assurance" or "review" (amongst others) are used to describe engagements falling under specific standards that require minimum procedures to be followed, whereas in everyday conversation, those terms may be used more loosely. Although some of these issues have existed for some time, in order to improve consistency and better clarity in reporting, certain terms that were generally acceptable in the past may no longer be appropriate. Problematic terminology and the differences between different types of special purpose engagements are discussed in Section G and Appendix 3 of this Paper.

17. This discussion paper:
- explains in general terms the nature of assurance, agreed-upon procedures and compilation engagements;
  - explains the two categories of assurance engagements that may be undertaken, namely:
    - (i) reasonable assurance engagements; and
    - (ii) limited assurance engagements
  - discusses the nature of
    - (i) agreed-upon procedures engagements; and
    - (ii) compilation engagements
  - discusses at a high level the differences between reasonable assurance engagements, limited assurance engagements and agreed-upon procedures engagements; and
  - discusses some of the common issues arising from requests for assurance and agreed-upon procedures reports and provides guidance as to how those issues may be appropriately addressed and resolved.
18. For ease of reference throughout this paper, we have referred to "the practitioner" and "his client" etc. Clearly, the discussion applies irrespective of the gender of the practitioner or whether in fact, "the practitioner" is a firm of accountants or a sole practitioner.
19. Once the scope of work has been agreed and, where applicable, the relevant professional standards to be applied have been identified, the practitioner should adhere to the agreed scope of work, should comply with the applicable requirements of the relevant standards, and should ensure that the form and content of his report are appropriate and compliant with the applicable standards. This helps to ensure that the quality of the practitioner's work meets the relevant standards and appropriately addresses the scope of work agreed with the client. This also helps to reduce the risk of an expectation gap between the client, user of the report and the practitioner as to the nature of the engagement being performed, and the level of assurance (if any) being provided by the practitioner.
20. When a reader is considering the practitioner's report, the reader should gain an appropriate understanding from the report of the scope of work undertaken by the practitioner, the outcome from that work, as well as any inherent limitations associated with the engagement.
21. In general terms, there is a direct link between the scope of work undertaken and the report given, and conversely the amount of work that is needed in order to give the requested report. Therefore, if a client or user specifies a scope of work to be undertaken, the practitioner will need to determine the form and content of his report with reference to the applicable HKICPA standards. Similarly, if a client or user specifies the report that is needed, the practitioner will need to determine the scope of work to be carried out in order to be able to give the requested report.



22. Issues can arise when the requested scope of work or form of report is not appropriate in light of the relevant HKICPA standards and guidelines that are to apply to the engagement. As the scope of work and the form of report are interrelated, these issues can be exacerbated when a practitioner receives a request for a special purpose report that specifies both the procedures to be undertaken and the wording of the report. In these situations, the practitioner, his client and, where appropriate, the intended user of the report, should discuss the issues and seek to appropriately resolve them.
23. In general, irrespective of the nature of the engagement undertaken by the practitioner, there are inherent limitations to the work performed by a practitioner that cannot be completely eliminated, for example, the use of judgement in gathering and evaluating evidence and forming conclusions based on that evidence. To help the reader of the report to better understand the inherent limitations of work performed, an appropriate description of these limitations should be included in the report where necessary as well as being set out, where appropriate, in the related terms of the engagement.
24. As well as discussing the general nature of assurance, agreed-upon procedures and compilation engagements (refer to Part 1 - Sections B to E), this paper also sets out a number of typical issues that can arise together with guidance on how to address them (refer to Part 2 - Sections F and G). Further details are also set out in the appendices.

## PART 1 – BACKGROUND AND OVERVIEW OF RELEVANT REPORTING STANDARDS

### B. Applying the appropriate professional standards

25. In February 2005, the HKICPA issued the Preface to Hong Kong Standards on Quality Control, Auditing, Assurance and Related Services which sets out the objectives and due process of the Council of the HKICPA in respect of setting Hong Kong Standards on Quality Control, Auditing, Assurance and Related Services and explains the scope, authority and timing of application of these standards. Appendix 1 illustrates the structure of Hong Kong Standards on Quality Control, Auditing, Assurance and Related Services.
26. The nature of Hong Kong Standards on Quality Control, Auditing, Assurance and Related Services requires practitioners to exercise professional judgement in applying them and includes the following standards:

Hong Kong Framework for Assurance Engagements	(Framework)	} Collectively, these are referred to as Hong Kong Standards on Auditing and Assurance ("HKSAAs")
Hong Kong Standards on Quality Control	(HKSQCs)	
Hong Kong Standards on Auditing	(HKSAAs)	
Hong Kong Standards on Review Engagements	(HKSREs)	
Hong Kong Standards on Assurance Engagements	(HKSAEs)	
Hong Kong Standards on Investment Circular Reporting Engagements	(HKSIRs)	
Hong Kong Standards on Related Services	(HKSRs)	

27. The Framework defines and describes the elements and objectives of an assurance engagement, and identifies engagements to which HKSAAs apply. HKSAAs in turn contain basic principles, essential procedures and related guidance, consistent with the concepts in the Framework, for the performance of assurance engagements.
28. Under the Framework, an "assurance engagement" is an engagement in which a practitioner expresses a conclusion designed to enhance the degree of confidence of the intended users other than the responsible party about the outcome of the evaluation or measurement of a subject matter against criteria.
29. As the term "assurance engagement" is used by the HKICPA in only specific circumstances, not all special purpose engagements performed by a practitioner fall under the definition of "assurance engagement". For example, engagements covered by HKSRs, such as agreed-upon procedures engagements<sup>1</sup> and compilations of financial and other information<sup>2</sup>, do not meet the definition of "assurance engagements" covered by the Framework, although they nevertheless provide comfort and may lend credibility to the matters reported upon.

<sup>1</sup> Governed by HKSRS 4400 "Engagements to Perform Agreed-Upon Procedures Regarding Financial Information".

<sup>2</sup> Governed by HKSRS 4410 "Engagements to Compile Financial Statements".

30. HKSAAs and HKSRs are to be adopted in the following types of engagements:

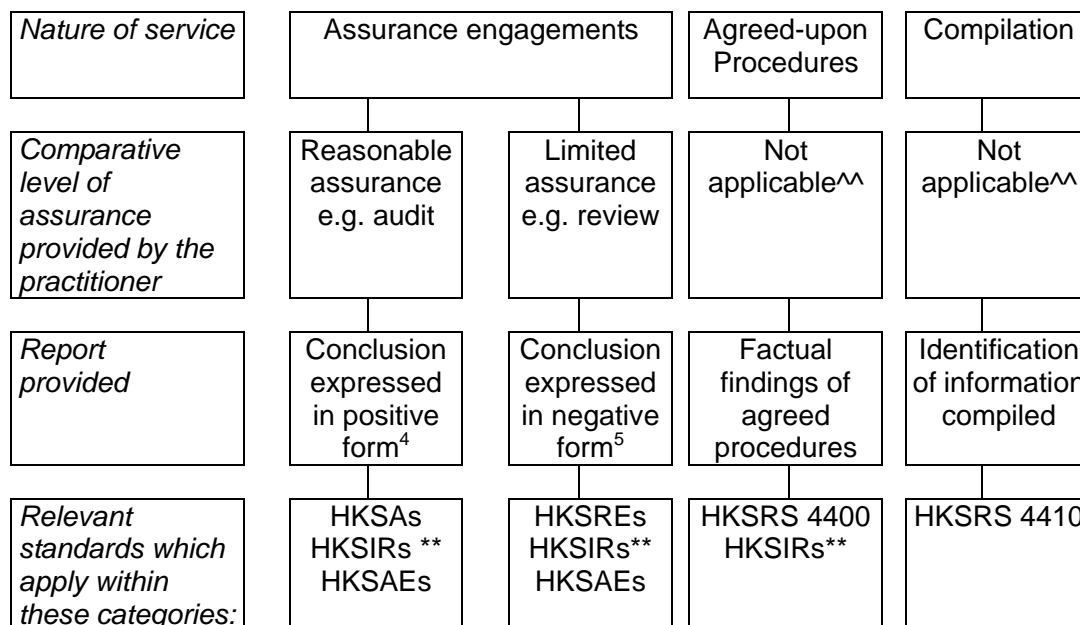
		<i>Reference</i> <sup>3</sup>
HKSAAs	audit of historical financial information	Preface paragraph 5
HKSRs	review of historical financial information	Preface paragraph 6
HKSAAs	investment circular reporting engagements	Preface paragraph 7
HKSAAs	assurance engagements dealing with subject matters other than historical financial information	Preface paragraph 8
HKSRs	compilation engagements, engagements to apply agreed-upon procedures to information and other related services engagements as specified by the HKICPA's Auditing and Assurance Standards Committee	Preface paragraph 9

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<sup>3</sup> Reference is to Preface to Hong Kong Standards on Quality Control, Auditing, Assurance and Related Services.

**C. General overview of the different types of reporting engagements**

31. The following diagram gives a brief overview of the different types of engagements typically performed by practitioners:



<sup>\*\*</sup> Engagements performed under HKSIRs may involve the practitioner expressing an opinion and in some situations, the practitioner may be performing an agreed-upon procedures engagement. For example, reporting accountants should apply the principles in HKSRS 4400 "Engagements to perform agreed-upon procedures regarding financial information" when conducting engagements under HKSIR 400 "Comfort Letters and Due Diligence Meetings on Financial and Non-financial Information".

<sup>^^</sup> These are not "assurance" engagements in so far as "assurance" is a defined term in the HKICPA's Standards and therefore the term is used only in specific circumstances. However agreed-upon procedures and compilation engagements do provide comfort on the matters reported upon and benefit to the reader of the related report.

<sup>4</sup> As the outcome of a reasonable assurance engagement is expressed in a positive form of expression, such engagements are sometimes referred to as "positive assurance" engagements.

<sup>5</sup> As the outcome of a limited assurance engagement is expressed in a negative form of expression, such engagements are sometimes referred to as "negative assurance" engagements.

32. The following table summarises some of the different scopes of work which may be undertaken by a practitioner in respect of historical financial information:

<i>Nature of engagement</i>	<i>Level of assurance</i>	<i>Example engagement</i>	<i>Example nature of report</i>
Audit	Reasonable assurance	Full scope statutory audit on a set of financial statements of a Hong Kong incorporated company	Audit report giving an opinion as to whether the financial statements give a true and fair view
Review	Limited assurance	Review of the interim financial report of a listed company in Hong Kong	Review report giving an opinion that the practitioner is not aware of any material modifications that should be made to the interim financial report
Agreed-upon procedures	Not applicable	An engagement to report on a turnover schedule, by agreeing the monthly turnover figures to the entity's underlying books and records	Report on agreed-upon procedures listing the specific procedures performed and the description of the practitioner's factual findings
Compilation	Not applicable	The practitioner compiles the balance sheet and income statement from the company's books and records	Compilation report

**D. Assurance engagements**

33. An "assurance engagement" is an engagement in which a practitioner expresses a conclusion designed to enhance the degree of confidence of the intended users other than the responsible party about the outcome of the evaluation or measurement of a subject matter against specified criteria. To give rise to such a conclusion, the practitioner would plan and perform his work so as to gather sufficient, relevant, reliable evidence to form his opinion<sup>6</sup>.

For example, in the context of an audit of a set of Hong Kong statutory financial statements:

- The company's directors constitute the responsible party.
  - The company's financial position, financial performance and cash flows constitute the subject matter.
  - The financial statements constitute the subject matter information (i.e. the outcome of the evaluation or measurement by the directors of the subject matter).
  - Hong Kong Financial Reporting Standards ("HKFRSs") constitute the specified criteria for recognition, measurement, presentation and disclosure.
  - The "true and fair view" opinion constitutes the conclusion.
  - The audit procedures undertaken in accordance with HKSAs constitute the work performed by the practitioner to obtain sufficient appropriate evidence about the subject matter information.
  - The company's shareholders constitute the intended users.
34. Under the Framework, there are two types of assurance engagement that a practitioner may perform: a reasonable assurance engagement and a limited assurance engagement. These are discussed further in the following paragraphs.
35. Assurance engagement risk is the risk that the practitioner expresses an inappropriate conclusion when the subject matter information is materially misstated. To express an assurance conclusion, the practitioner obtains sufficient appropriate evidence to reduce assurance engagement risk to an acceptable level in the circumstances of the engagement. For a reasonable assurance engagement, that level must be acceptably low.

***Reasonable assurance engagement***

36. Reasonable assurance engagements were formerly referred to as "high level assurance engagements". The term "reasonable assurance" reflects the fact that it is very rarely feasible or cost beneficial to provide absolute assurance or to eliminate risks associated with an assurance engagement.
37. In an unqualified report arising from a reasonable assurance engagement, the practitioner expresses a positive conclusion on the subject matter information. An audit of financial statements performed under HKSAs is an example of a reasonable assurance engagement.

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<sup>6</sup> In contrast to an assurance engagement, the practitioner performing a non-assurance engagement, e.g. an agreed-upon procedures engagement, does not draw any inference from the work or the results of that work. The user of the report needs to assess and draw his own conclusions based on the work by the practitioner.

38. It is important to note that a "reasonable assurance" engagement does not provide absolute assurance that there are no errors in the evaluation and measurement of the subject matter, as there are inherent limitations in the nature of the work, the use of judgement, the inherent limitations of internal controls and the persuasive rather than conclusive nature of the evidence that is obtained.

***Limited assurance engagement***

39. Limited assurance engagements were formerly referred to as "moderate assurance engagements". The term "limited assurance" reflects the fact that ordinarily the procedures undertaken are more limited than would have been the case had a reasonable assurance engagement been performed.
40. In a limited assurance engagement, the practitioner's conclusion on the subject matter information is expressed in a negative form. A review of an interim financial report performed under SAS 700 / HKSRE 2400 is an example of a limited assurance engagement<sup>7</sup>.
41. The level of assurance engagement risk is higher in a limited assurance engagement than it is in a reasonable assurance engagement. This arises because the nature, timing and extent of evidence-gathering procedures are more limited in a limited assurance engagement than those carried out in a reasonable assurance engagement. Consequently, there is a risk that errors may not be identified from a limited assurance engagement (e.g. review) that might have been identified had a reasonable assurance engagement (e.g. audit) been undertaken.

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<sup>7</sup> SAS 700 "Engagements to review interim financial reports" is to be applied for engagements where listed issuer's auditors are engaged to review the interim financial statements if an audit committee has not been formed or the audit committee has requested auditors to assist in the review process. Please refer to TechWatch Issue 34 (June 2005) for details.

**E. Agreed-upon procedures and compilation engagements**

42. In agreed-upon procedures and compilation engagements, comfort is ordinarily given on the items reported upon and the user derives benefit from the practitioner's involvement. Such engagements are not assurance engagements in so far as the term "assurance" is defined by the HKICPA.
43. Agreed-upon procedures engagements and compilation engagements are governed by HKSRSs.

***Agreed-upon procedures engagements***

44. The objective of an agreed-upon procedures engagement is for the practitioner to carry out specific procedures of an audit nature which are expressly agreed beforehand by the practitioner and the entity and any appropriate third parties, and to report on factual findings<sup>8</sup>.
45. Although the procedures undertaken are of "an audit nature", an agreed-upon procedures engagement does not constitute an audit or other type of assurance engagement. In addition, the report is restricted to those parties that have agreed to the procedures to be performed since others, unaware of the reasons for the procedures, may misinterpret the results.
46. The report on an agreed-upon procedures engagement needs to describe the purpose and the agreed-upon procedures of the engagement in sufficient detail to enable the reader to understand the nature and the extent of the work performed.
47. The practitioner states the factual findings arising from the work performed. The users of an agreed-upon procedures report will assess for themselves the procedures and findings reported by the practitioner and draw their own conclusions from the practitioner's work. In general terms, in an agreed-upon procedures engagement, the practitioner does not interpret the results or issue a professional opinion based on the work and in essence, this is one of the key distinctions between those reports and an assurance report. Nevertheless, the scope of work undertaken and the report setting out the practitioner's factual findings provides comfort, as well as some degree of credibility, to the user on the information reported upon.

***Compilation engagements***

48. The objective of a compilation engagement is for the practitioner to use his accounting knowledge and skills, as opposed to auditing knowledge and skills, to collect, classify and summarise financial information. The procedures employed are not designed to, and do not, enable the practitioner to express any assurance on the financial information. However, users of the compiled financial information derive some benefit as a result of the practitioner's involvement because the service should have been performed with professional competence and due care by the practitioner using his accounting knowledge and skills.

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<sup>8</sup> Source: Paragraph 4 of HKSRS 4400



***Distinguishing from an assurance engagement***

49. A practitioner reporting on an engagement that is not an assurance engagement within the scope of the Hong Kong Framework for Assurance Engagements should clearly distinguish the report from an assurance report. In order not to confuse users, a report that is not an assurance report should, for example:
- avoid stating or implying compliance with the Framework and HKSAAs
  - avoid inappropriately using the words "assurance", "audit" or "review";
  - avoid including a statement that could reasonably be mistaken for an assurance conclusion (an explicit statement to the contrary may therefore generally be appropriate); and
  - where the report includes phrases or words that are commonly used in the context of an assurance engagement, or where their meaning may be open to different interpretations, either avoiding such language or clarifying their meaning.

Refer to Appendix 2 for a further discussion of these issues.

## PART 2 – DISCUSSION OF ISSUES

### F. Requests for reports

50. In many cases, in addition to appointing a practitioner to audit its annual financial statements, a reporting entity may be required under legislation, regulation or under a contractual obligation with another party to request a practitioner to report on other financial information or non-financial information (for example, report on controls or adherence to specified contractual terms and conditions). Any such information may or may not have been extracted from its audited financial statements. The practitioner undertaking such an engagement is generally the entity's auditor although this may not necessarily be the case<sup>9</sup>. Where financial information to be reported upon is not included in the financial statements subject to audit, the entity may be required to engage a practitioner to issue a separate report on such information. For example:

- Regulated entities, e.g. authorised institutions, may be requested by their regulators, e.g. the Hong Kong Monetary Authority, to provide supplemental information to the Authority in addition to the audited financial statements upon which the entity's auditors are required to issue a report.
- A recipient of grants or donations may be required, as a condition of the grant or donation, to provide supplemental information to the donor (for example a government department), together with a practitioner's report on the information.
- Where a retail outlet rents its premises, its rent may be determined in part with reference to its turnover. Such a tenant may be required under the terms of its tenancy agreement to submit details of its turnover to its landlord together with a practitioner's report on the reported turnover figure.

51. In a number of situations, in particular for entities regulated by the Hong Kong Monetary Authority, the Securities and Futures Commission and the Insurance Authority, practitioners' reports on many of the supplemental reporting requirements required by those regulators are dealt with in various Practice Notes and Auditing Guidelines issued by the HKICPA. In such situations, the practitioner should refer to the relevant pronouncements issued by the HKICPA for guidance on the appropriate scope of work and report<sup>10</sup>.

52. However, in other situations the scope of work to be performed and the form of the practitioner's report may be subject to discussion and agreement between the practitioner and his client.

53. As the types of reporting requests may vary considerably, it is not practicable for the HKICPA to issue specific guidance to deal with every possible situation. Accordingly, in these situations, the practitioner, his client and, where appropriate, the intended user of the report will need to consider:

- the appropriateness of the request;
- the nature and scope of any such engagement;

<sup>9</sup> For example, the practitioner performing an engagement under section 63(3) of the Hong Kong Banking Ordinance for a local branch of overseas incorporated authorised institutions might not have performed an audit of the branch as there is no statutory requirement to perform an audit of the local branch.

<sup>10</sup> For example, the HKICPA has issued Practice Note 820 "The audit of licensed corporations and associated entities of intermediaries", Practice Note 830 "Reports by auditors under the Banking Ordinance" and Practice Note 810.1 "Insurance brokers – compliance with the minimum requirements specified by the Insurance Authority under sections 69(2) and 70(2) of the Insurance Companies Ordinance".

- the nature of consequent reporting requirements; and
  - the overall requirements as set out the relevant standards, as applicable.
54. The scope of work to be performed and the types of report given by the practitioner are interrelated. If a client or user seeks to specify both the scope of the work and the form and content of the report, the requested form and content of the report may not be fully compatible with the requested scope. For example,
- If a reasonable assurance report is requested, the practitioner should determine the appropriate level of work to be undertaken and the relevant professional standards (e.g. HKSAAs or HKSAEs) to be applied in order to give such a report.
  - If the scope of work to be undertaken by the practitioner has been pre-determined, the practitioner should determine the appropriate report to be issued, with due regard to the relevant professional standards.
55. Additionally, issues can arise when the practitioner is requested to perform an assurance engagement but there may be an absence of suitable criteria (in other words, a suitable benchmark) against which he needs to evaluate the information being reported upon as well as limitations that may exist in the level of evidence that may be available.
56. Depending on the situation and cost/benefit considerations, it may not always be necessary for the practitioner to undertake an assurance engagement on a subject matter. An agreed-upon procedures engagement, for example, may be better suited to the client's and user's needs, and may involve fewer procedures than an assurance engagement. In such circumstances, it would generally be advisable for the practitioner, his client and, where appropriate, the intended users to discuss and consider the relative merits of each of these alternatives.
57. Having agreed on the nature of engagement to be undertaken (whether it be an assurance engagement or an agreed-upon procedures engagement, for example), issues may also arise as to the form and contents of the practitioner's report.
58. For example, information to be supplied by a client to a counterparty (e.g. government authority, trustee, insurers, lender or any other organisation) may sometimes include a prescribed form of the practitioner's report. Such reports may call for a certification of fact when an expression of opinion would be more appropriate for the scope of work; may call for an opinion on matters outside the scope of the practitioner's competence; may omit essential wording; or may be inappropriate in some other way<sup>11</sup>.
59. The practitioner's report must comply with the requirements of the relevant professional standards. If the requested report is set out in a prescribed format which does not appear suitable or appropriate, where necessary, the practitioner should explain his concerns. Ultimately, the practitioner is responsible for his report and must be satisfied that the form and content of his report are appropriate before

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<sup>11</sup> A typical example of an inappropriate request would be a request for the practitioner to issue an assurance opinion in his report issued in connection with an agreed-upon procedures engagement under HKSRS 4400. In such situations, the practitioner should turn down such a request as the report issued in connection with an agreed-upon procedures engagement is a report of factual findings. No assurance should be expressed and the reader of the report draws his own conclusions. Alternatively, additional work should be performed by the practitioner in accordance with the relevant assurance standards in order to issue an assurance opinion.

issuing it.

60. In situations where the requested scope of work or requested contents of a report does not appear appropriate in light of the standards and guidance issued by the HKICPA, those issues should be resolved before the proposed engagement commences. If the practitioner is uncomfortable with the requested scope of work or report, he should explain the reasons and would need to either propose an alternative scope of work/report or, if the issues cannot be satisfactorily resolved, decline the engagement.
61. Appendix 2 sets out some common issues arising from requests to undertake various types of reporting engagements and some suggested approaches in dealing with these issues. The issues are divided amongst the following 3 categories:
  - Engagement acceptance and scoping issues
  - Reporting issues
  - Problematic words

**G. Problematic terminology and distinguishing between assurance and agreed-upon procedures engagements**

62. Certain terms are used by practitioners in reports to convey a particular intended meaning. Some terms (such as audit, review) may be suitable in the context of an assurance engagement but may not be appropriate for an agreed-upon procedures report. However a non-accountant reading or requesting a report may not appreciate the particular meaning that a practitioner may attribute to certain terminology. This may not always be obvious and can give rise to an expectation gap between what the reader understands the report to mean and what the practitioner intended to convey. Similarly a requestor of a special purpose report may specify certain language to be used in the report but the practitioner may have difficulty in following the requested form and content of the requested report because some of the requested language may not be suitable for the nature of the engagement. These issues are further discussed in Appendix 2.

***Reasonable assurance vs agreed-upon procedures engagements***

63. Confusion may arise about the difference between positive statements which are regarded as giving the reader "reasonable assurance" and those that are simply "reports of factual findings" which arise from agreed-upon procedures engagements and are therefore regarded as giving no assurance. For example, there may appear to be little difference in meaning between the following phrases:
- "the financial information has been properly prepared from the books and records";
  - "the financial information has been properly extracted from the books and records";
  - "the financial information has been correctly compiled from the books and records";
  - and
  - "we found the financial information to be in agreement with the books and records".
64. While a non-accountant may not see much difference between the foregoing phrases, the practitioner may intend each to convey a different meaning and different level of comfort/assurance. Consequently, the practitioner should be careful when using such language to avoid misunderstandings and make clear the scope of work in the report.
65. Section B2 of Appendix 2 sets out a detailed analysis regarding the differences between these phrases and the extent to which they may constitute assurance opinions or agreed-upon procedures findings.

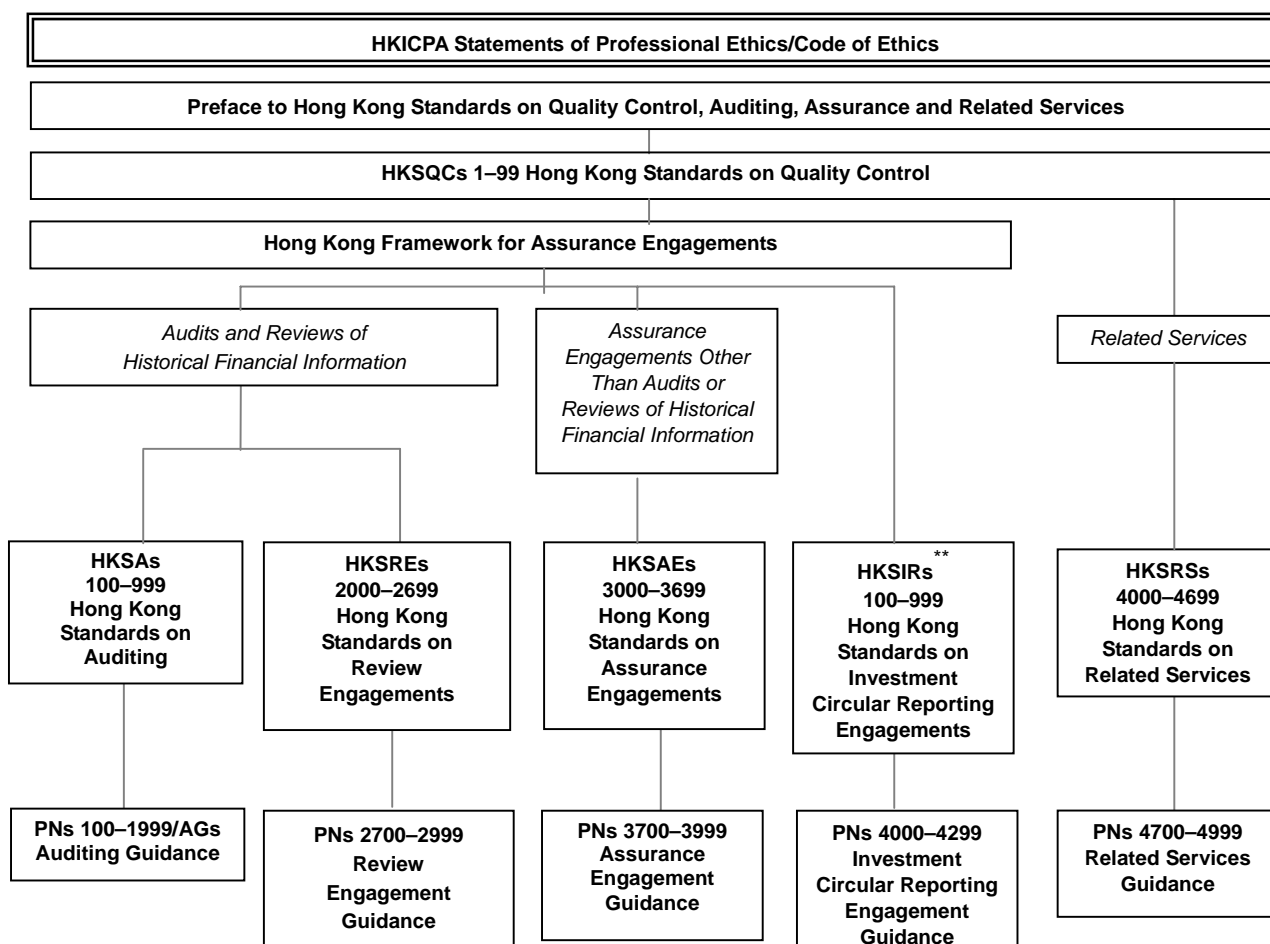
***Limited assurance vs agreed-upon procedures engagements***

66. Confusion may sometimes arise about the differences between limited assurance engagements (i.e. those that result in reports which contain a "negative assurance" opinion) and agreed-upon procedures engagements. For example, statements such as "we are not aware of any material unrecognised liabilities" may be found in limited assurance reports, while statements such as "we did not find any material unrecognised liabilities", may be found in reports of factual findings. A non-accountant may find it hard to see any significant difference between these statements.

67. Negative statements, such as "we are not aware of any material modifications that need to be made", should not generally be made in an agreed-upon procedures report (even if factually true) because such essentially requires the practitioner to exercise his judgement in interpreting his findings in order to evaluate what modifications, if any, in his opinion would need to be made.
68. In an agreed-upon procedures engagement, it is up to the users to assess for themselves the findings and draw their own conclusions. Whilst it is preferable to report using positive factual statement, e.g. "we did not find any increase in the net current assets...", where the agreed-upon procedures engagement is solely in connection with factual matters and no professional judgement would be required from the practitioner to report the findings, it may also be acceptable to use negative statements. In these situations, the practitioner should make the scope of work clear in both the engagement letter as well as in the report and the report would typically include phrases such as "based on the above limited procedures, we are not aware of any increase in the net current asset [or other factual matter]..." and an explicit statement that an assurance engagement has not been carried out.
69. Section B4 of Appendix 2 set out further analysis on "negative" reporting.

**APPENDIX 1**

**Structure of Hong Kong Standards on Quality Control, Auditing, Assurance and Related Services, Practice Notes and Auditing Guidelines**



\*\* It should be noted that only HKSIR 300 “Accountants’ Reports on Pro Forma Financial Information in Investment Circulars” and HKSIR 400 have been issued to date. Reporting Accountant’s carrying out an engagement under HKSIR 400 apply the principles in HKSRS 4400 and accordingly, reporting accountants report the procedures carried out and the findings obtained, but do not provide either positive or negative assurance

Source: Appendix 1 to Preface to Hong Kong Standards on Quality Control, Auditing, Assurance and Related Services

## **APPENDIX 2**

### **Common issues arising from requests to undertake various types of special purpose engagements and some suggested approaches**

Set out below are some common issues arising from requests to undertake various types of assurance and agreed-upon procedures engagements, and some suggested approaches to address the issues. As explained in this paper, these issues are primarily related to engagements other than audits or reviews of financial statements. The guidance should generally be followed, although it is not intended to be prescriptive. The practitioner should exercise judgement in applying any of the guidance to any particular situation.

The guidance below seeks to reduce the risk of expectation gap arising between the expectations of the users/requestors and the nature of work done and scope of report given by the practitioner.

In general, the matters giving rise to concerns may be divided into 3 main categories:

- A. Engagement acceptance and scoping issues (Appendix 2 – 3 to 2 – 13)
- B. Reporting issues (Appendix 2 – 14 to 2 – 32)
- C. Problematic words (Appendix 2 – 33 to 2 – 38)

However, these 3 categories are not exclusive to one another and issues set out under each of the 3 headings may also be relevant to the others.

Index:

#### *A. Engagement acceptance and scoping issues*

- 1 Assurance vs other agreed-upon procedures / compilation engagements
- 2 Independence
- 3 Matters within the reasonable competence of the practitioner
- 4 Materiality
- 5 Reporting on components of financial statements
- 6 Reporting on divisions and branches
- 7 Compliance reports
- 8 Use of proceeds / grants
- 9 Completeness of evidence obtained

#### *B. Reporting issues*

- 1 "True and fair view" opinion when the basis of preparation is not in compliance with HKFRS
- 2 Reasonable assurance opinion vs agreed-upon procedures findings
  - (a) "Properly prepared in accordance with"
  - (b) "In agreement with"
  - (c) "Properly extracted / compiled from" vs "correctly extracted/compiled from"
- 3 Fair and reasonable opinion
- 4 "Negative" reporting
- 5 Reporting in a prescribed format
- 6 References to appropriate professional standards
- 7 Inherent limitations
- 8 Addressees



- 9 Third party reliance on the practitioner's report
- 10 References to audit
- 11 Extracts of or references to reports
- 12 Qualifications / limitations set out in a covering letter only
- 13 Unclear references to instructions and other guidance

*C. Problematic words*

- 1 Certify or certificate
- 2 Confirm
- 3 Verify
- 4 Check
- 5 Correct / accurate
- 6 Examine / examination
- 7 Review
- 8 References to "audit in full"

**APPENDIX 2 (continued)****Common issues arising from requests to undertake various types of special purpose engagements and some suggested approaches****A. Engagement acceptance and scoping issues**

	Matters giving rise to concerns	Examples of issues / concerns	Some suggested approaches
1	<b>Assurance vs agreed-upon procedures / compilation engagements</b>	<p>In simple terms, when requesting a practitioner to undertake an engagement to report on financial or non-financial information, the first issue is to determine whether the reporting engagement should be an assurance or other form of special purpose engagement. That in turn will help to determine the nature, timing and extent of procedures to be undertaken, the associated costs to complete the engagement as well as the nature of the report to be issued.</p> <p>It is common for a requestor to request the practitioner to undertake an assurance engagement when an agreed-upon procedures engagement may better suit their needs.</p> <p>For example, a requestor may request a practitioner to perform an audit engagement on a schedule of the client's turnover when actually, what may be more suitable is for the practitioner to simply report the figures in the schedule have been extracted from the financial statements. In such case, an agreed-upon procedures engagement to agree the figures in the turnover schedule to the entity's financial statements/books and records may be more</p>	<p>It is important that the practitioner and his client discuss and agree the appropriate scope of work and the nature of the report to be issued.</p> <p>In determining the scope of the work, the practitioner and the client should give consideration to the level of comfort required from the practitioner and the cost/benefits of requesting an assurance report compared to an agreed-upon procedures report. Although an agreed-upon procedures engagement does not constitute an "assurance engagement", it provides comfort to the user as well as some degree of credibility on the items reported upon. In some situations, where there is a choice as to whether an assurance or agreed-upon procedures engagement should be undertaken,</p>

	Matters giving rise to concerns	Examples of issues / concerns	Some suggested approaches
		appropriate and would generally involve less time and costs to complete.	an agreed-upon procedures engagement might suit the client's needs and may be more efficient and less costly to undertake.
2	<b>Independence</b>	Independence is always required when a practitioner performs an assurance engagement. Section 290 "Independence – Assurance Engagements" of Code of Ethics for Professional Accountants ("The Code of Ethics") / Professional Ethics Statement 1.203A "Independence for Assurance Engagements" <sup>12</sup> issued by the HKICPA sets out the ethical requirements in relation to independence for assurance engagements conducted by professional accountants in public practice. As explained in paragraphs 13 and 19 of Section 290 of the Code of Ethics and paragraph 16 of Statement 1.203A, the nature of threats to independence and the applicable safeguards depend on the characteristics of the individual assurance engagement and whether or not the assurance report is restricted for use by identified users and different independence criteria may apply for different types of assurance engagements. Section 290 of the Code of Ethics / Professional Ethics Guidance 1.308 "Independence for Assurance Engagements" further provide examples describing specific circumstances and relationships that may create threats to independence and safeguards that may be appropriate to eliminate the threats or reduce them to an acceptable level depending on the circumstances.	The practitioner should carefully consider ethical and independence requirements before accepting an engagement.  In situations where the practitioner carries out an agreed-upon procedures engagement or compilation engagement and where he is not independent, a statement to that effect should be included in his report.

<sup>12</sup> Code of Ethics for Professional Accountants is effective on 30 June 2006 and replaces Professional Ethics Statement 1.203A "Independence for Assurance Engagements" and Professional Ethics Guidance 1.308 "Independence for Assurance Engagements".

	Matters giving rise to concerns	Examples of issues / concerns	Some suggested approaches
		<p>The practitioner performing an agreed-upon procedures engagement or compilation engagement should comply with the Code of Ethics for Professional Accountants. However, independence is not a requirement for engagements under HKSRS 4400 and HKSRS 4410, although the terms or objectives of an agreed-upon procedures engagement may require the practitioner to comply with the independence requirements of the Code of Ethics. However, where the practitioner is not independent, a statement to that effect should be made in the report of factual findings as required by paragraph 7 and 5 of HKSRS 4400 and HKSRS 4410 respectively.</p>	
3	<p><b>Matters within the reasonable competence of the practitioner</b></p>	<p>Practitioners may be requested to perform engagements on a wide range of subject matters. Some subject matters may require specialised skills and knowledge beyond those ordinarily possessed by an individual practitioner. A practitioner should not accept an engagement if preliminary knowledge of the engagement circumstances indicates that ethical requirements regarding professional competence will not be satisfied.</p> <p>Any procedure a practitioner agrees to perform on non-financial information would be such as to add a measure of credibility to the information being commented on<sup>13</sup>. Hence it is important that the procedures to be undertaken relate only to matters to which their professional competence is relevant.</p> <p>Furthermore, the practitioner should not comment on matters merely because they happen to be present and</p>	<p>Practitioners should comment / report only on matters to which their professional competence is relevant. Where the practitioner has been asked to report on matters that are not within his professional competence, e.g. an opinion of an actuarial nature or a property valuation where the practitioner is not appropriately qualified or experienced to give such a report, the practitioner should decline such a request.</p>

<sup>13</sup> Source: HKSIR 400 paragraph 35.

	Matters giving rise to concerns	Examples of issues / concerns	Some suggested approaches
		<p>are capable of reading, counting, or measuring, particularly where other parties could provide the same or higher degree of comfort with respect to the information by performing the procedures themselves.</p> <p>Practitioners should only sign/issue reports if they have performed sufficient work and obtained sufficient evidence to support the statement they make in the report. Where a party asks a practitioner to sign statements concerning matters which cannot be supported by any amount of work performed by the practitioner (for example, statements on the future solvency or performance of the client), a practitioner should not accept such an engagement and should decline to sign such reports. However, practitioners may propose alternative forms of report which are capable of being supported by work performed by them.</p>	
4	<b>Materiality</b>	<p>Materiality is defined under the HKSA's in the following terms:</p> <p>"Information is material if its omission or misstatement could influence the economic decisions of users taken on the basis of the financial statements. Materiality depends on the size of the item or error judged in the particular circumstances of its omission or misstatement. Thus, materiality provides a threshold or cut-off point rather than being a primary qualitative characteristic which information must have if it is to be useful."</p> <p>As noted above, whilst there is a definition for "materiality" under auditing standards, the assessment of what is "material" is still a matter of professional judgement and</p>	<p>For engagements other than audits or reviews, the practitioner should generally seek to avoid using the word "material" unless it is referenced to a clear definition.</p>

	Matters giving rise to concerns	Examples of issues / concerns	Some suggested approaches
		<p>may be affected by a number of factors, such as the nature of the engagement, the risks underlying the engagement, any specific requirements imposed by the intended users.</p> <p>For other reporting engagements where "materiality" may not have been clearly defined, use of terms such as "material" or "materiality" may be subject to interpretation by the user and the practitioner and may result in different expectations between the users and the practitioner. It is therefore preferable to clearly define the terms "material"/"materiality" if the word "material"/"materiality" is to be used in a special purpose report which is not an assurance report.</p>	
5	<b>Reporting on components of financial statements</b>	<p>Sometimes a practitioner may be requested to report on specific elements, individual account balances or items of a financial statement. For example, in addition to reporting on the financial statements as a whole, a practitioner may be separately requested to report on individual account items such as turnover or a schedule of accounts receivable.</p> <p>When undertaking an audit or review of a set of financial statements, the practitioner considers materiality at both the overall financial statements level and in relation to classes of transactions, account balances, and disclosures. However, if requested to separately report on one or more individual account balances, the</p>	<p>If requested to report on components of financial statements, the practitioner should consider the materiality level applicable to the component and perform additional work where necessary in order to support the opinion given.<sup>14</sup></p> <p>Alternatively, the practitioner and his client may consider performing an agreed-upon procedures engagement on the component which would generally require less additional work to be performed in</p>

<sup>14</sup> Exposure Draft ISA 701 "The Independent auditor's report on other historical financial information" deals with the issuance of a report as a result of an audit of historical financial information other than a complete set of general purpose financial statements prepared in accordance with a financial reporting framework designed to achieve fair presentation. Upon finalisation of the Exposure Draft, the practitioner may refer to this standard when performing an audit engagement on component. The Institute has made a submission to the IAASB on this exposure draft and believes that further debate among a wide range of stakeholders is needed as to whether it is possible or, indeed, right to give a "true and fair/fairly presents" opinion on anything other than a full set of financial statements.

Matters giving rise to concerns	Examples of issues / concerns	Some suggested approaches
	<p>practitioner should consider the concept of materiality in relation to the component of financial statements being reported upon. In general, a particular account balance provides a smaller base against which to measure materiality compared with the financial statements taken as a whole. Consequently, the materiality threshold when separately reporting on a component will be lower than the level of materiality for the financial statements as a whole and therefore the practitioner's work on the component will ordinarily be more extensive than the level of work done in connection with a report on the entire financial statements.</p> <p>In providing these reports on components, the practitioner should consider the following issues:</p> <ul style="list-style-type: none"> <li>• Materiality – the materiality level for a component of financial statements is generally lower than the materiality level for the financial statements taken as a whole. Accordingly, in providing reports on components of financial statements, the practitioner should refer to the applicable materiality level for the component when conducting his work.</li> <li>• Sufficiency of work performed - the practitioner should also be aware that work performed to report on the entity's financial statements taken as a whole may not be sufficient for the practitioner to separately report on an individual component and additional procedures may need to be undertaken before being in a position to issue a separate report on the component.</li> </ul> <p>For example, where the auditor has given an audit opinion on the financial statements as a whole and, if a separate reasonable assurance opinion is required on a component of the financial statements (e.g. turnover figure, accounts</p>	<p>order to issue a separate report on the component.</p>

	Matters giving rise to concerns	Examples of issues / concerns	Some suggested approaches
		<p>receivable balance), additional work on the relevant items would generally need to be performed as the audit opinion previously given is on the financial statements taken as a whole instead of individual balances or items in the financial statements.</p>	
6	<p><b>Reporting on divisions and branches</b></p>	<p>Typically, when undertaking an audit of the financial statements of a company that comprises a number of divisions or branches, the company's auditor will adopt materiality considerations based on the company as a whole rather than based on the company's separate divisions or branches, given that the objective is to report on the company as a whole and not separately on each division or branch.</p> <p>In some situations, in addition to reporting on the company's financial statements, a practitioner may be requested to report on the separate financial statements of a part of the business – for example, on a division or branch of the entity.</p> <p>Where the work was planned and carried out for the purpose of reporting on the entity as a whole, the procedures undertaken (for example, selection of samples and levels of materiality applied), would generally be determined in the context of the entity as a whole.</p> <p>Consequently, if the practitioner is requested to report on the separate financial statements or other figures of a division or branch, additional procedures may need to be undertaken to address the following items:</p> <ul style="list-style-type: none"> <li>• <b>Materiality</b> – Typically, the level of materiality considered for the entity as a whole would be larger</li> </ul>	<p>Where the practitioner has reported on the company as a whole and is then requested to separately report on individual division or branch, the practitioner should explain to the requestor that the audit opinion is provided on the financial statements of the entity as a whole and does not necessarily enable him to separately report on the individual division or branch unless additional work is undertaken. Additional work at the branch/division level is ordinarily expected in view of the different materiality level that applies and other adjustments, e.g. head office adjustments that may not have been booked at the branch/division level may need to be made by the branch/division.</p> <p>If a separate report is required on a division or branch, in addition to a report on the entity as a whole, the entity and the practitioner should discuss this at the planning stage so that appropriate consideration may</p>



Matters giving rise to concerns	Examples of issues / concerns	Some suggested approaches
	<p>than that applicable if separate reporting is required on a division or branch. Therefore, items that may not have been material for the entity as a whole may be material if a separate opinion is required on the division/branch. As a result, adjustments that may not have been identified when auditing the entity as a whole and/or that would not have been booked for the purpose of reporting on the entity as a whole, may need to be considered and booked if a separate report is required on the division or branch. Furthermore, if a practitioner is requested to report on a division or branch based on the entity's materiality level (which is generally a higher figure), this would constitute a scope limitation and an appropriate modification of the practitioner's report in this respect would ordinarily be required.</p> <ul style="list-style-type: none"> <li>• <b>Scope of work</b> – In general, selection of controls, transactions and amounts for testing by the practitioner would have been based on the entity as a whole. If separate reporting is required on a division or branch, additional samples for testing may need to be selected and tested.</li> <li>• <b>Head office adjustments</b> – In some cases, an entity that consists of many divisions or branches may book certain items centrally rather than recharging the amounts to each division or branch. For example, for simplicity in reporting arrangements, in some cases amounts in respect of pensions or share based payments might be booked centrally rather than being split by division / branch. However, if separate reporting on the division / branch is required, some items that may have been recorded centrally, may need to be reflected in the separate financial statements of</li> </ul>	<p>be given to the procedures and level of materiality to be applied at the division/ branch level.</p> <p>Where a request for a separate report on a division or branch is made after the practitioner has planned his work for reporting on the entity as a whole, the client and practitioner should discuss the implications and in particular, the level of additional procedures required to enable the practitioner to report separately on the division/branch.</p>

	Matters giving rise to concerns	Examples of issues / concerns	Some suggested approaches
		<p>the division / branch if the separate financial statements of the division / branch are to comply with the applicable financial reporting framework.</p>	
7	<b>Compliance reports</b>	<p>A practitioner may be requested to conduct certain compliance reporting engagements, e.g. in respect of an entity's internal control systems or the entity's compliance with specific terms of an agreement. The practitioner should consider whether he is in a position to report on such matters, for example, whether there are adequate criteria against which he may assess compliance or whether the subject matter is related to the practitioner's professional competence.</p> <p>For example, assurance reports on internal controls are only possible in well defined and well established circumstances, where the reporting arrangements have been agreed in a clear manner. In particular, reports on systems and controls should be avoided where inadequate criteria are specified. Paragraph 8 of the Framework provides examples of criteria, such as COSO<sup>15</sup> or CoCo<sup>16</sup>, as the framework for evaluating the effectiveness of internal control. Reports should also include an indication for the limitations of the system, if any, and should be related to a point in time or period. It would also be useful to clarify in writing the responsibilities of management and in particular, to indicate that they are responsible for identifying, evaluating and managing new and changing risks on an ongoing basis.</p>	<p>In order to perform an assurance engagement on internal controls, it is important to specify clear criteria for measurement. Where possible, the practitioner should apply the relevant professional standard in carrying out the engagement, e.g. Practice Note 860.2 "Reports on internal controls of investment custodian made available to third parties". It should be noted that an assurance engagement on internal controls often requires extensive work. As an alternative, the requestor may consider requesting an assurance or agreed-upon procedures engagement on specific items of interest to them instead of an assurance engagement on the entire internal control system.</p>

<sup>15</sup> COSO refers to "Internal Control – Integrated Framework" of The Committee of Sponsoring Organisations of the Treadway Commission.

<sup>16</sup> CoCo refers to "Guidance on Assessing Control – The CoCo Principles" Criteria of Control Board, The Canadian Institute of Chartered Accountants.

	Matters giving rise to concerns	Examples of issues / concerns	Some suggested approaches
8	<b>Use of proceeds / grants</b>	<p>Practitioners may sometimes receive a request to provide an opinion on the intended use of proceeds / grants, e.g. use of proceeds in fund raising activities or in reporting that, for example, a grant or donation received has been expended in a particular manner or that it has not been used for purposes other than those specified by the donor.</p> <p>The practitioner should carefully consider whether it is appropriate for him to issue such a report. Issues for consideration include (but are not limited to):</p> <ul style="list-style-type: none"> <li>• whether there is any inherent limitation in assessing the use of proceeds/grants;</li> <li>• the type of report to be given, for example whether an assurance engagement or agreed-upon procedures engagement is to undertaken.</li> </ul> <p>For example, a donor may request a practitioner to report whether a donation has been used by the recipient for its intended purpose and /or confirm that the donation has not been used for any purpose other than the use determined by the donor.</p> <p>The practitioner may encounter a number of difficulties with such a request. These may include, for example, whether he has sufficient evidence and knowledge/experience to judge the actual use of a donation, particularly if it is to be used in a specialised field. For example, if the use is for a particular type of medical research, the practitioner, who is not a scientist nor a doctor, would generally not be in a position to assess whether the donation has been used in the relevant research project as he may have very little evidence or knowledge to determine whether the particular use could</p>	<p>Where an assurance report is to be issued and there are inherent limitations, these should be appropriately addressed and, where necessary, referred to in the report.</p> <p>Even where inherent limitations are clearly set out in his report, the practitioner should still consider whether it is appropriate for him to report on the use of proceeds / grants.</p> <p>Alternatively, the practitioner may discuss with the client to consider whether alternative forms of report may be more appropriate.</p>

	Matters giving rise to concerns	Examples of issues / concerns	Some suggested approaches
		have been for an unrelated type of research.	
9	<b>Completeness of evidence obtained</b>	<p>There are certain transactions where the practitioner is often unable to satisfy himself that all relevant transactions have been identified and recorded by the entity. For example, issues may arise when the practitioner is requested to provide assurance on:</p> <ul style="list-style-type: none"> <li>• completeness of charitable cash donations received</li> <li>• completeness of identification of related party and connected party transactions</li> </ul> <p>Given the nature of these transactions, the practitioner may find it impracticable or impossible to perform tests of controls and substantive procedures that are needed to reduce assurance engagement risk to the required level in order to obtain sufficient evidence as to the completeness of the above transactions. In part this may be attributed to the fact that capturing these transactions often depends on the honesty, integrity and vigilance of management to identify them and the client's systems cannot necessarily be relied upon to identify all omissions (whether deliberate or accidental) given the nature of such transactions.</p>	In such situations, the practitioner should consider performing an agreed-upon procedures engagement on these items or, where the effect is material, consider the need to modify his assurance report.

**B. Reporting issues**

	Matters giving rise to concerns	Examples of issues / concerns	Some suggested approaches
1	<b>“True and fair view” opinion when the basis of preparation is not in compliance with HKFRS<sup>17</sup></b>	<p>The auditor’s judgement as to whether the financial statements give a “true and fair view” is made in the context of the applicable financial reporting framework. The acceptability of the financial reporting framework adopted by management in preparing the financial statements will depend on the nature of the entity and on the objective of the financial statements.</p> <p>Where the financial statements are prepared in accordance with a set of accounting instructions but where those instructions are not in full compliance with a recognised financial reporting framework, it is generally not appropriate for the auditors to provide a “true &amp; fair view” type of opinion even though the financial statements may fully comply with the relevant accounting instructions.</p> <p>This may arise in the context of group reporting situations where subsidiaries prepare financial information for reporting to head office in accordance with group accounting instructions instead of an applicable financial reporting framework. Very often, group reporting is made in the form of a package of schedules instead of a full set of financial statements in order to enable the parent company to prepare its consolidated financial statements. The presentation and disclosures included in such schedules may not comply with presentation and disclosure requirements set out in the financial reporting framework.</p>	In such situations, auditors may consider giving an opinion such as “properly prepared in accordance with the accounting instructions” (see also B2a below) instead of opining as to whether they show a “true and fair view”.

<sup>17</sup> Or another acceptable financial reporting framework.

	Matters giving rise to concerns	Examples of issues / concerns	Some suggested approaches
		Accordingly, it is generally inappropriate for the practitioner to issue a "true and fair view" opinion on such financial information even though a full scope audit has been performed by the practitioner.	
2	<b>Reasonable assurance opinion vs agreed-upon procedures findings</b>	<p>Confusion may often arise about the difference between reasonable assurance engagements and agreed-upon procedures engagements, which result in reports of factual findings. There may appear to be little difference in meaning between the following:</p> <ul style="list-style-type: none"> <li>• properly prepared in accordance with</li> <li>• in agreement with</li> <li>• properly compiled from</li> <li>• correctly compiled from</li> <li>• properly extracted from</li> <li>• correctly extracted from</li> </ul> <p>Confusion can arise because the above might be used interchangeably in everyday conversation, although in a special purpose engagement, depending on the nature and scope of work, the practitioner may use each phrase to convey different degrees of assurance/comfort. These are further discussed below.</p>	<p>As the meaning of these terms may depend on the nature of engagement and may be open to interpretation, the practitioner should make clear in his report the scope of the work to avoid any possible misinterpretation.</p> <p>A general guide to these terms is set out below.</p>
2a	<b>Properly prepared in accordance with</b>	In general, the opinion "properly prepared" is used in reasonable assurance reports, e.g. "the financial information has been properly prepared in accordance with basis of preparation as set out in....." This opinion may be used, for example, when the financial statements have been prepared for a special purpose and the accounting policies followed and/or	<p>The opinion "properly prepared in accordance with" is used in reasonable assurance reports and should not be used in agreed-upon procedures reports.</p> <p>Where the financial information</p>

Matters giving rise to concerns	Examples of issues / concerns	Some suggested approaches
	<p>disclosures do not fully comply with an applicable financial reporting framework and therefore a "true and fair" opinion may not be appropriate.</p> <p>It should be noted that a conglomeration of accounting conventions devised to suit individual preference would not generally constitute a recognised financial reporting framework for giving a true and fair view.</p> <p>The practitioner should be satisfied that the relevant financial reporting framework adopted is appropriate in the particular circumstances for the particular purpose for which the financial information has been prepared, before agreeing to such an engagement.</p> <p>Where the practitioner agrees to undertake the engagement, the "properly prepared" opinion on historical financial information constitutes an audit opinion and therefore, the practitioner follows auditing standards and carries out sufficient audit procedures necessary to obtain sufficient evidence that the financial information had been properly prepared in accordance with the stated basis of preparation. This would involve using his professional judgement to assess whether the preparation of the historical financial information is in accordance with the stated basis of preparation.</p>	<p>has been prepared on a basis other than a recognised financial reporting framework for general purpose financial statements (e.g. HKFRSs), the practitioner should consider whether the information upon which he is being asked to report is appropriate in the particular circumstances for which it is intended. Where this is not the case, the practitioner should consider whether it is appropriate to accept such an engagement.</p> <p>In such situations, rather than issuing a "true and fair opinion", the opinion "properly prepared in accordance with [stated basis of preparation]" should be used. The auditor's report should include a statement that indicates the basis of accounting used in the preparation of the financial information or should refer to the note to the financial statements giving that information.</p>

	Matters giving rise to concerns	Examples of issues / concerns	Some suggested approaches
<b>2b</b>	<b>In agreement with</b>	<p>The words "in agreement with" are generally used to report factual findings arising from an agreed-upon procedure of comparing amounts set out in one document (for example, a schedule) with the amounts contained in another location (for example, the entity's books and records). An example finding is as follows: "we found the financial information in Schedule A to be in agreement with the company's books and records". The responsibility of the practitioner is the performance of the agreed procedures and the factual reporting of the findings or results of the work. This is not an assurance opinion on the financial information itself and the practitioner does not draw any inference from the work or the results of that work.</p>	<p>The words "in agreement with" are factual findings and may be used in an agreed-upon procedures report.</p>
<b>2c</b>	<b>Properly extracted / compiled from vs correctly extracted / compiled from</b>	<p>Both "properly extracted / properly compiled from" and "correctly extracted / correctly compiled from" refer to the extraction / compilation of information from the source document. The difference between the two depends on whether or not the reported information is taken directly from its source in its entirety.</p> <ul style="list-style-type: none"> <li>• Where the information has been taken directly from its source in its entirety (e.g. turnover as reported in the company's statutory financial statements), it is acceptable to refer to it as having been "correctly extracted / compiled".</li> <li>• Where the extraction/compilation of the financial information requires the base information to be manipulated (e.g. to report turnover from one premises only), the practitioner's opinion should be "properly extracted / compiled". In order to explain the relevance of the reference to "properly", the</li> </ul>	<p>To avoid confusion, the practitioner should make it clear in the report as to the scope of the work performed and whether an assurance engagement has been performed on the subject matter information.</p>



	Matters giving rise to concerns	Examples of issues / concerns	Some suggested approaches
		<p>practitioner's report needs to be expanded to "properly extracted/compiled in accordance with ...". The reader may interpret this opinion as an assurance engagement in terms of the extraction/compilation process of the information. However, no assurance is generally provided in terms of the accuracy or completeness of the underlying figures as the work performed relates simply to the process done to extract the information from the relevant books and records.</p> <p>In order to avoid confusion as to the scope of work, the practitioner should be as specific as possible as to the accounting records from which the information has been extracted and the scope of work performed.</p> <p>Use of the term "correct" is also problematic as further discussed below in section C5 of Appendix 2-36.</p>	
3	<p><b>Fair and reasonable opinion</b></p>	<p>Practitioners may sometimes be requested to provide a "fair and reasonable" opinion, e.g. to opine on whether a certain transaction is fair and reasonable or whether the adjustments made to a contract are fair and reasonable.</p> <p>In providing these types of opinion, the practitioner should consider the following issues:</p> <ul style="list-style-type: none"> <li>• whether the practitioner has the appropriate experience and competence to report on such matters;</li> <li>• whether there are appropriate criteria against which the practitioner could judge in order to consider the</li> </ul>	<p>In considering whether to accept an engagement to provide a "fair and reasonable" opinion, the practitioner should:</p> <ul style="list-style-type: none"> <li>• carefully consider whether he has the appropriate experience and competence;</li> <li>• consider whether appropriate benchmark(s) or other suitable criteria exist in order to appropriately evaluate the fairness or reasonableness of the subject matter;</li> </ul>

	Matters giving rise to concerns	Examples of issues / concerns	Some suggested approaches
		<p>extent to which such a transaction or adjustment is "fair" and / or "reasonable". This may be of particular importance in the case, for example, of a transaction between a seller and a purchaser as the different parties may have different expectations as to what might be considered "fair" or "reasonable". This contrasts with reporting on historical financial information in the context of an audit, where the practitioner uses a recognised financial reporting framework (such as HKFRSs) as the criteria against which to judge whether the financial information is "true and fair" / "presented fairly";</p> <ul style="list-style-type: none"> <li>• there is a risk that such work might be construed, depending on the facts and circumstances, as valuations or acting as advocate of the client which may, in turn, give rise to independence issues for practitioner who also acts as the auditor of one or more parties to the transaction.</li> </ul>	<ul style="list-style-type: none"> <li>• carefully consider auditor independence aspects, where applicable.</li> </ul> <p>As an alternative, the practitioner may discuss with the requestor and propose alternative forms of work, e.g. an agreed-upon procedures engagement comparing for example, amounts calculated by reference to agreed formulas to benchmarks determined by the respective parties and reporting whether such calculations or adjustments are in agreement with the formulas.</p> <p>Where an assurance engagement is undertaken, the practitioner should make it clear as to the criteria used to judge whether the transaction/adjustment is fair/reasonable.</p>
4	<b>"Negative" reporting</b>	<p>Typically, when undertaking a review or other limited assurance engagement, the practitioner reports using a negative form of expression for the practitioner's conclusion.</p> <p>However, whilst limited assurance conclusions use a negative form of expression for the conclusion, that is not to say that all negative forms of expression are, of</p>	<p>The practitioner should agree with the requestor as to the nature and scope of work required.</p> <p>When reporting using negative phraseology, the practitioner should be mindful that readers may interpret such a negative form</p>

Matters giving rise to concerns	Examples of issues / concerns	Some suggested approaches
	<p>themselves, indicative of the practitioner having performed a limited assurance engagement.</p> <p>For example, a reader may find it difficult to distinguish the level of work undertaken in a report containing the words "we are not aware of any material modifications required to be made" (which would typically feature in a limited assurance report) and a report containing the words "we did not find any material differences" (which might arguably be merely a statement of fact/factual findings without the practitioner having undertaken any assurance engagement).</p> <p>One key distinguishing feature between the first and the second type of report wording above is that in issuing the first type of report wording, the practitioner is using his professional judgement to evaluate whether modifications are required to be made. Thus it does not constitute an agreed-upon procedures engagement and in the circumstances is used in the context of an assurance engagement.</p> <p>The second phrase essentially represents a factual finding where the practitioner compares two sets of data and reports whether, as a matter of fact rather than as a matter of opinion involving judgement, there are any differences between the two sets of data.</p> <p>Nevertheless, where a report contains a negative form of wording, the practitioner should be mindful of the potential for the reader of his report to gain the impression that a limited assurance engagement has been undertaken when this is not the case.</p>	<p>of expression as indicating that a limited form of assurance has been undertaken.</p> <p>Consequently, the term "we are not aware of ...." should generally be avoided in situations where an assurance engagement has not been undertaken. This would help minimise the risk of a misunderstanding that a limited assurance engagement has been carried out when, in fact, that is not the case.</p> <p>However, in some situations it may be appropriate to use such language, for example, where the reporting is solely in relation to factual findings from the procedures performed in an agreed-upon procedures engagement. In such circumstances, it may be appropriate to use negative phraseology such as "we are not aware of ...." but the practitioner should make the scope of work clear in both the engagement letter as well as in the report. In these situations, the report would typically include phrases such as "based on the above limited</p>

	Matters giving rise to concerns	Examples of issues / concerns	Some suggested approaches
			<p>procedures, we are not aware of ..." and an explicit statement that an assurance engagement has not been carried out (which would be consistent with the requirements of HKSRS 4400 Para 18(j)).</p>
5	<p><b>Reporting in a prescribed format</b></p>	<p>In some situations, reporting entities may be required to submit information to a requestor using a standard reporting form (for example, the related requirements may specify the use of a standard schedule or package).</p> <p>The standard reporting form may also include a specimen report or may contain a page on which the practitioner is required to sign and date.</p> <p>A standard report in a prescribed format may give rise to issues for the practitioner for a number of reasons including the following:</p> <ul style="list-style-type: none"> <li>• The format of the report may not be consistent with the requirements of the applicable professional standards under with the practitioner is reporting.</li> <li>• The practitioner may be constrained from including in his report, for example, <ul style="list-style-type: none"> <li>- addressees</li> <li>- respective responsibilities of the preparer and the practitioner;</li> <li>- appropriate description of the scope of work done and inherent limitations (where applicable);</li> <li>- appropriate description of the practitioner's</li> </ul> </li> </ul>	<p>To enable the practitioner to express his findings and any other relevant aspects of his work, requests for standardised reporting formats should include scope for variations and the format must be compatible with the professional standards that apply to the engagement.</p> <p>Therefore, the related instructions/engagement letter etc., should make it clear that the reporting format is an example of what may be expected rather than being prescriptive.</p> <p>Where the requestor is inflexible as to the wording of the report, where appropriate the practitioner should seek to discuss his concerns with the relevant parties and explain the difficulties that arise.</p>

	Matters giving rise to concerns	Examples of issues / concerns	Some suggested approaches
		<p>conclusion;</p> <ul style="list-style-type: none"> <li>- any restrictions on use of the practitioner's report; and</li> <li>- modifications to the report where required.</li> </ul> <p>The practitioner needs to exercise his judgement as to the appropriate wording of his report, both to comply with applicable professional standards as well as to take account of the particular characteristics of the engagement.</p> <p>Where the reporting format is apparently inflexible, this may pose problems for the practitioner who may be inappropriately constrained from adequately articulating his findings/opinion/conclusions as well as being constrained in including any other matters that the practitioner may believe it appropriate to bring to the attention of the reader.</p>	<p>Where the requested reporting format and type of opinion are inappropriate, the practitioner should discuss this with the client and the intended users of the report where relevant and appropriate, explaining his concerns and seek to satisfactorily resolve the issues. This may result in making any necessary changes to the language to be included in the report. As the practitioner is ultimately responsible for the form and content of his report, if the issues are not resolved satisfactorily, he may need to decline the work.</p>
6	<b>References to appropriate professional standards</b>	<p>Appropriate references in the engagement letter/report to the applicable professional standards that apply to the engagement help the engaging parties and users to better understand, in general terms, the nature of engagement, the work performed by the practitioner, the inherent limitations of the work performed and the level of assurance, if any, provided by the practitioner. This also assists the practitioner in planning his work.</p> <p>In order to assist in clarifying the nature of work performed, it is preferable that the engagement letter / any report given by the practitioner should clearly explain the professional standards followed in the conduct of the engagement. In addition, the</p>	<p>The practitioner should make reference to the appropriate professional standards followed when conducting the engagement in the engagement letters/reports.</p>

	Matters giving rise to concerns	Examples of issues / concerns	Some suggested approaches
		standards followed themselves may require an explicit statement in the report as to the standard that has been followed.	
7	<b>Inherent limitations</b>	<p>In general, irrespective of the type of work undertaken, there are inherent limitations in the nature of work that a practitioner performs. The nature of the type of engagement will often dictate to a large extent, the inherent limitations associated with the engagement.</p> <p>For assurance engagements, to reduce assurance engagement risk to zero is very rarely attainable or cost beneficial for a number of reasons. These reasons include:</p> <ul style="list-style-type: none"> <li>• the use of selective testing rather than testing every item in the population</li> <li>• inherent limitations in any entity's system of internal control, which may fail to prevent or detect a material error even if operating as designed, or which may be susceptible to being overridden by management or by being circumvented through collusion</li> <li>• the fact that evidence is generally persuasive rather than conclusive</li> <li>• the use of judgement when gathering and evaluating evidence</li> <li>• in some cases, the characteristics of the matter being reported on.</li> </ul> <p>Furthermore, an agreed-upon procedures engagement under HKSRS 4400 is not an assurance engagement and therefore, does not provide any assurance (within</p>	<p>To help mitigate these risks, the following should be considered:</p> <ul style="list-style-type: none"> <li>• The practitioner should appropriately describe any inherent limitations in clear terms in both the engagement letter and the report.</li> </ul> <p><i>Agreed-upon procedures engagements:</i></p> <ul style="list-style-type: none"> <li>• The language typically used to describe the inherent limitations of that work is set out in HKSRS 4400 Para 18 and should be followed.</li> </ul> <p><i>Assurance engagements</i></p> <ul style="list-style-type: none"> <li>• For assurance engagements undertaken pursuant to HKSAE 3000, the practitioner will need to determine the appropriate description of the inherent limitations of the work. This would depend on a number of factors which in turn may depend on the nature of the work undertaken, the</li> </ul>

	Matters giving rise to concerns	Examples of issues / concerns	Some suggested approaches
		<p>the meaning of 'assurance' in the context of Hong Kong professional standards) on the items reported upon.</p> <p>In the absence of an appropriate description of any inherent limitations in the work performed in the engagement letter and report, there is a risk that the reader of the report may not be aware of those limitations.</p> <p>As a result, there is a risk that an expectation gap may arise between the user's expectations of what the engagement could hope to achieve – for example, in so far as the likelihood of errors or fraud being uncovered by the practitioner, – compared to the limitations in the work that the practitioner is aware of and that are explained in the relevant professional standards.</p>	<p>nature of evidence available and the characteristics of the matter being reported upon.</p> <ul style="list-style-type: none"> <li>• In some cases, the limitations of an assurance engagement may be expected to be well understood, whereas in other cases, it may be appropriate to make explicit reference to them.</li> <li>• HKSAE 3000 does not set out prescribed language as each situation needs to be determined on its own merits. Related guidance is set out in HKSAE 3000 Para 49(e), 49 (i)(i), 49(j) which requires, where appropriate:             <ul style="list-style-type: none"> <li>- a description of any significant, inherent limitation associated with the evaluation or measurement of the subject matter against the criteria;</li> <li>- in a limited assurance engagement, identification of the limitations on the nature, timing and extent of evidence-gathering procedures. It may also be appropriate to indicate procedures that were not</li> </ul> </li> </ul>

	Matters giving rise to concerns	Examples of issues / concerns	Some suggested approaches
			<p>performed;</p> <ul style="list-style-type: none"> <li>- the practitioner’s conclusion to inform the intended users of the context in which the practitioner’s conclusion is to be read, e.g. include wording such as “This conclusion has been formed on the basis of, and is subject to, the inherent limitations outlined elsewhere in this report”.</li> <li>• The practitioner would be mindful to seek to ensure that any reference to inherent limitations in the report is not misconstrued as a limitation in the scope of work, that is, where circumstances prevent, or the responsible party or the engaging party imposes a restriction that prevents, the practitioner from obtaining evidence required to reduce assurance engagement risk to the appropriate level. Limitation in scope of work would result in the practitioner expressing a qualified conclusion or a disclaimer conclusion.</li> </ul>



	Matters giving rise to concerns	Examples of issues / concerns	Some suggested approaches
8	<b>Addressees</b>	The report should identify the party or parties to whom the report is directed. In general, the addressee is the client who engaged the practitioner to perform the engagement, although the report may also be addressed to other users, e.g. in the case of the audit report prepared under the Hong Kong Companies Ordinance which would be addressed to the members of the company.	Generally, apart from statutory audit reports (where the engagement letter has been signed by the directors, but under the Hong Kong Companies Ordinance, the audit report is addressed to the members), a practitioner should not provide reports where it is unclear to whom the report is being provided.  Consequently, the practitioner would include an addressee (or addressees) in his report, rather than leaving it unclear for whom the report is intended. This in turn should help ensure that others, who may not be aware of the purpose or nature of the work, would not assume that the report is appropriate for their use.
9	<b>Third party reliance on the practitioner's report</b>	Situations arise where a reporting entity is required to report information to another party and as part of those reporting requirements, the entity in turn is required to submit a report by its auditor or another practitioner on some or all of the information presented.  In general, the practitioner should only be responsible to those parties who have agreed to the scope of the work and the terms of the engagement letter. As other parties who are not a party to the engagement letter may not be aware of the objectives and purposes	Where possible, the practitioner would agree the scope of work with the intended users of his report to help ensure that the scope of work has been discussed and agreed with those parties who are intended to use the report. Where this is not done or where parties other than the intended users may gain access to his report, in most cases it will be

Matters giving rise to concerns	Examples of issues / concerns	Some suggested approaches
	<p>of the engagement, there is a risk that they may rely on the report where such reliance or use may not be appropriate or suitable for their particular needs. Accordingly, wherever practicable, it is preferable to involve all intended recipients of the report to agree to the terms of the engagement.</p> <p>Although the practitioner may have disclaimed liability to third parties, any third party that gains access to the report may nevertheless find it useful for their purpose and may chose to rely on it. The disclaimer does not in itself prevent such use or reliance by a third party but rather is intended to limit the practitioner's liability to them for any reliance so placed.</p>	<p>appropriate for the practitioner to seek to exclude the liability to third parties by inserting a clause in any written advice or report as follows:</p> <p>"This report/statement is for the sole use of X for the purpose of / in connection with Y. It should not be used or relied upon by any other person or for any other purpose."</p> <p>In situations where the practitioner provides information or advice directly to a third party or which he knows will be communicated to a third party, the practitioner should consider whether in doing so, it may also be appropriate to provide a written disclaimer to the third party along the following lines:</p> <ul style="list-style-type: none"> <li>• "The information / explanations provided to you at the request of [the client] should not be relied on by you or any other parties. We accept no responsibility and expressly disclaim any liability to you. Should you choose to rely on information/explanations provided by us, you do so entirely at your own risk."</li> </ul>

	Matters giving rise to concerns	Examples of issues / concerns	Some suggested approaches
			<p>Alternatively, where the practitioner considers that he is prepared to accept the responsibility to third parties, he should consider taking one or both of the following steps:</p> <ul style="list-style-type: none"> <li>• Obtaining an indemnity from his client against claims by the third party;</li> <li>• Entering into a separate engagement with the third party and negotiating a separate limitation of liability.</li> </ul>
10	<b>References to audit</b>	<p>In some reporting engagements, the practitioner may be requested to make reference to the audit opinion previously provided by him in another report.</p> <p>For example, a reporting entity may be required to request its auditor to provide reports on specified financial information (in addition to requesting the practitioner to undertake the audit of the entity's financial statements) – for example in connection with submitting data to its lenders in respect of adherence to bank loan covenants.</p> <p>In some situations, in the separate report on such specified financial information, if the practitioner refers to his separate audit report or states that he is also the entity's auditor, the practitioner should carefully consider the extent to which there may be a risk that:</p>	<p>Where the practitioner makes reference in his report to other reports issued by him or to his separate role, for example, as the entity's auditor, even though not directly related to this separate report, the practitioner should consider the appropriateness of making such references. If made, he should carefully describe the scope of work performed in the current engagement in the report so as to avoid any misunderstanding and to mitigate risks of reliance being inappropriately placed by the reader on the other reports</p>

	Matters giving rise to concerns	Examples of issues / concerns	Some suggested approaches referred to by the practitioner.
		<ul style="list-style-type: none"> <li>• although this is generally a statement of fact, whether reference to the audit opinion previously provided may give an impression to the reader that certain audit work has been performed on the subject matter being reported upon, which may not be the case;</li> <li>• the reader of the report may inappropriately gain an impression that the practitioner’s duty of care in relation to the separately undertaken audit may in some way be extended to the reader of the separate report, when this would generally not be the case.</li> </ul>	
11	<p><b>Extracts of or references to reports</b></p>	<p>In some cases, the entity may wish to include an extract of the practitioner’s report in documents to indicate that the practitioner has performed certain work on the subject matter.</p> <p>In other cases, the entity may make reference to the work performed by the practitioner. For example, the entity may state in the annual report that “the auditor confirmed that .....”.</p> <p>The practitioner should carefully consider whether this is appropriate as the extract or the references made by the entity may not contain all the elements of the practitioner’s report which would generally be necessary to appreciate the nature of the engagement and work actually undertaken, including any inherent limitations. In addition, such an extract/reference</p>	<p>In general, the practitioner should avoid giving consent to an entity to include an extract of his report or make reference to the practitioner’s work in other documents as third parties gaining access to those documents may not gain an appropriate understanding of the scope of the work performed by the practitioner or the outcome of the engagement.</p> <p>Where it is considered appropriate for the entity to make reference to the practitioner’s work, it is preferable to reproduce the whole</p>

Matters giving rise to concerns	Examples of issues / concerns	Some suggested approaches
	<p>may also be relied upon by other third parties to whom the practitioner did not address his report and towards whom he did not intend to be responsible.</p>	<p>report so as to avoid any misunderstanding.</p> <p>Alternatively, the practitioner should, wherever possible, be entitled to comment on the extract of the report and ensure that it clearly spells out the scope of the work performed and the opinion given before giving consent to the inclusion of the extract of his report in the other documents. Practice Note 720 "Acting as Scrutineer at a General Meeting of a Listed Issuer" gives an example of language that may be suitable when reference is made to the work performed by the practitioner but where the practitioner's report is not included in the document.</p> <p>Wherever possible, any report issued by the practitioner should include a clause on restriction on distribution of the report. This would help prevent situations arising where the report is referred to or reproduced without obtaining the practitioner's consent or enabling the practitioner to appropriately communicate with those that gain access to the extract.</p>

	Matters giving rise to concerns	Examples of issues / concerns	Some suggested approaches
12	<b>Qualifications / limitations set out in a covering letter only</b>	<p>Where there has been a limitation in the scope of the work such that a modified opinion is required or exceptions to his findings need to be noted in the report, these should be appropriately described and set out in the report.</p> <p>If the practitioner does not refer to such scope limitations or exceptions in his report and instead reports them in a separate document (for example in a covering letter that encloses his report), there is a risk that the reader of the report may not understand or appreciate that the practitioner has encountered such scope limitations or exceptions. Accordingly, such an approach is not considered appropriate.</p>	<p>Where the qualifications need to be included in the report itself, practitioners should not set out qualifications or exceptions in their covering letter without also including them in the report.</p> <p>Such report qualifications or details of exceptions should be included in the main body of the report, so that they cannot be detached and so that the reader does not get misled as to the practitioner's findings / opinions / conclusions.</p>
13	<b>Unclear references to instructions and other guidance</b>	<p>Sometimes the practitioner is requested to provide a report which includes, amongst other things, confirmation of compliance by the reporting entity with the requestor's instructions.</p> <p>Where the practitioner has been requested to issue such a confirmation, he should consider the following issues:</p> <ul style="list-style-type: none"> <li>• The practitioner needs to consider whether he is satisfied as to what specific instructions he is to report on. This may be difficult where there is no complete list of instructions or where they may have been issued on an ad hoc basis.</li> <li>• Sometimes, the accounting requirements included</li> </ul>	<p>Before accepting such an engagement, the practitioner should understand the relevant requirements and consider if he is in a position to report on such matters. Also, he needs to ensure he has the complete list of the instructions.</p> <p>Where it is considered inappropriate to report on such matters or where the relevant instructions contain non-financial reporting matters outside of the practitioner's competence to report</p>

Matters giving rise to concerns	Examples of issues / concerns	Some suggested approaches
	<p>in these instructions may not comply with a relevant accounting framework pursuant to which the reporting entity's financial statements are required to be prepared. In such circumstances, the practitioner may not be in a position to report on compliance by the reporting entity with both the relevant accounting framework and the accounting requirements of the instructions where they conflict with each other and the impact is material.</p> <ul style="list-style-type: none"> <li>• Where the instructions contain requirements which are outside the competence or the scope of work of the practitioner (for example if they also contain non-financial reporting requirements), the practitioner may not be in a position to report on compliance with such non-financial aspects of the instructions.</li> </ul>	<p>upon, the practitioner should discuss his concerns with the client and where appropriate, the intended users of the report. Consideration could be given to undertaking alternative forms of report which are capable of being supported by work performed. Alternatively, the practitioner should clearly exclude the non-financial aspects of the instructions if these are not covered by his scope of work and state clearly what was and what was not covered in the report.</p>

**C. Problematic words**

	Matters giving rise to concerns	Examples of issues / concerns	Some suggested approaches
1	<b>Certify or certificate</b>	<p>The word "certify" implies complete accuracy. Similarly, issuing a "certificate" generally gives an impression to the readers that the subject matter of the certificate is absolutely accurate.</p> <p>However in general, the practitioner is normally not in a position to provide absolute certainty or give an opinion on a matter as a statement of fact when that matter is inherently uncertain or is a matter of judgement.</p>	<p>Practitioners should avoid using words or phrases such as "we certify" or "we have ensured" for assertions that can never be made with absolute certainty. An alternative approach might be to state "we report.....".</p> <p>Occasionally, where for some reason the issue of a certificate is unavoidable, practitioner may satisfy the requirement by using a form of wording which states "we certify that, in our opinion .....".</p> <p>The certification here is confirming that the practitioner has the stated opinion. As such a statement is one of fact, the practitioner would be able to use the term in this context.</p>
2	<b>Confirm</b>	<p>Similar to "certify", the word "confirm" suggests complete accuracy and gives an impression to the readers that the subject matter confirmed by the practitioner is absolutely accurate. This may not be appropriate in many instances, where the practitioner involves judgement in forming his opinion.</p> <p>Depending on the subject matter to be "confirmed" by the practitioner, it may be appropriate for the practitioner to</p>	<p>See also the suggested approach for the term "certify or certificate" above.</p>



	Matters giving rise to concerns	Examples of issues / concerns	Some suggested approaches
		<p>confirm certain issues. For example, the practitioner may confirm that he is independent of the entity in accordance with the HKICPA's ethical requirements.</p> <p>However, in most other cases, the practitioner may not be in a position to provide absolute certainty or give an opinion on a matter as a statement of fact when that matter is inherently uncertain or is a matter of judgement.</p>	
3	<b>Verify</b>	<p>The word 'verify' may mean different things to different readers and therefore, the exact scope of what is intended to be covered by any such 'verification' should be made clear in both the request for the report as well as by the practitioner in his report in order to help reduce any misunderstanding as to the scope of work done.</p> <p>For example, an entity might request its auditor or another practitioner to "verify the amount of fixed assets as at a particular date".</p> <p>The following issues may arise:</p> <ul style="list-style-type: none"> <li>• The potential for lack of clarity as to the scope of what it is that is being 'verified' – for example, is the practitioner being requested to confirm existence only, or is he also required to confirm completeness, ownership and valuation (amongst other things)?</li> <li>• Furthermore, there may be a lack of clarity as to the level of work involved in order to verify the item – for example, whether an assurance (e.g. audit or review) opinion on the figures is required (each of which would entail different levels of work and also, different level of assurance provided). Alternatively, the practitioner</li> </ul>	<p>In order to address these concerns, the practitioner should seek to avoid the use of the word 'verify' and instead, use a more precise description of the scope of work done with reference to relevant standards (for example, assurance or agreed-upon procedures engagement standards, depending on the scope of work).</p> <p>The scope of work should also be made as clear as possible.</p> <p>Examples of how to address this would include:</p> <ul style="list-style-type: none"> <li>• Making it clear as to whether or not an assurance engagement is being performed.</li> <li>• Making reference to appropriate framework and/or professional standards followed.</li> <li>• Clearly setting out any inherent</li> </ul>

	Matters giving rise to concerns	Examples of issues / concerns	Some suggested approaches
		<p>may merely be required to agree the relevant figures to the reporting entity's financial statements (which in turn may or may not have been audited).</p> <p>The lack of clarity as to the scope of work required may result in an expectation gap between the work that the practitioner carries out and reports on, compared to the expectation of the client requesting the work and also any other intended users of the practitioner's report.</p>	<p>limitations in the work done.</p>
4	<b>Check</b>	<p>As with 'verify' the scope of work involved in checking a figure should be as clear as possible to avoid misunderstanding of the scope of work done.</p> <p>In some cases, the scope of work involved may be reasonably clear.</p> <ul style="list-style-type: none"> <li>• For example, when requesting a practitioner to "check the mathematical accuracy of the calculations", it would be reasonably clear that the scope of work involved would be limited to re-performing the mathematical calculations and comparing the outcome with the reporting entity's figures.</li> <li>• However, the practitioner may also need to clarify that he is not responsible for selecting or reporting on the appropriateness of the mathematical formulas used.</li> </ul> <p>In other cases, as with the term "verify", the scope of work may be unclear or at the very least, open to different interpretations and thereby giving rise to a potential expectation gap. For example, when requesting a practitioner to "check the fixed assets", a requestor may expect the practitioner to audit the balance of fixed assets</p>	<p>See suggested approach noted for the term "verify" above.</p>

	Matters giving rise to concerns	Examples of issues / concerns	Some suggested approaches
		<p>whereas in other situations, the requestor may simply be expecting the practitioner to inspect the fixed assets to confirm their existence.</p>	
<b>5</b>	<b>Correct / accurate</b>	<p>The word 'correct' / 'accurate' generally suggests a level of precision and accuracy that would often not be appropriate in the context of reporting on financial information.</p> <p>This is because typically, in the preparation of financial information, judgement needs to be exercised by the preparer. This includes judgement as to the selection and application of appropriate accounting policies as well as judgement in making estimates. Generally, a number of alternative outcomes may fall within an acceptable range and thus, there may be no single correct answer. The practitioner would also be required to exercise his judgement in testing and evaluating the subject matter in such situations.</p>	<p>A practitioner should generally seek to avoid reporting that figures are 'correct' / 'accurate' in such situations, given that it suggests a level of precision and accuracy which may not be appropriate where judgement is applied.</p>
<b>6</b>	<b>Examine / examination</b>	<p>There is currently no clear definition in Hong Kong professional standards as to the scope of meaning of the words 'examine' and 'examination' and as a result, different readers may interpret differently the expected scope of work performed and the level of comfort provided by the practitioner in this respect.</p> <p>For example, when requesting a practitioner to "examine the attached schedule", a requestor may have an audit engagement in mind expecting the practitioner to audit the underlying figures of the schedule; whereas in other situations, the requestor may simply be expecting the practitioner to read the information and to report whether</p>	<p>The scope of work should be made as clear as possible. In part this may be addressed by clearly setting out in the engagement letter and, as appropriate in the practitioner's report, the scope of work and relevant professional pronouncements followed by the practitioner in the course of the 'examination'.</p> <p>In addition, the practitioner may consider avoiding the use of the</p>

	Matters giving rise to concerns	Examples of issues / concerns	Some suggested approaches
		<p>the figures in the schedule are in agreement with the books and records.</p> <p>As with 'verify' and 'check', the term 'examine' should be avoided or if used, the scope of work involved in 'examining' financial information should be made clear in the engagement letter and report so as to avoid misunderstanding of the scope of work done.</p>	<p>words 'examine' and 'examination' and replacing them with other descriptions of the work done that may be more suitable depending on the circumstances.</p>
7	<b>Review</b>	<p>Certain words or phrases might be open to interpretation and others may be typically used in specific contexts where the meaning is well established and understood in the context of the work performed.</p> <p>For example, the word 'review' is generally best avoided unless HKSRE 2400 or HKSAS 700 is adopted as it may be unclear as to the scope of work covered by the 'review'.</p> <p>Where the work has not been carried out under HKSRE 2400 or HKSAS 700 but the term 'review' is used, the scope of work undertaken in the context of such a 'review' may be open to misinterpretation, and consequently, the practitioner should take steps to :</p> <ul style="list-style-type: none"> <li>• Make the scope of work is clear and unambiguous</li> <li>• Consider using other descriptions of the work done to help reduce the risk of an expectation gap arising.</li> </ul>	<p>Alternative wording should be considered where work does not involve a review under HKSRE 2400/ HKSAS 700.</p> <p>For example, in the context of a due diligence engagement which may simply involve reading and inspecting documents, financial statements and limited access to a target's management, rather than referring, for example, to "a review of available information", the practitioner might consider referring instead to "reading and analysing available information".</p> <p>In addition, whether or not the word 'review' is used, the practitioner should make clear the scope of work and if it does not constitute an assurance engagement, the practitioner should make that clear in both the engagement letter and in</p>

	Matters giving rise to concerns	Examples of issues / concerns	Some suggested approaches
8	<b>References to "audit in full"</b>	As well as involving materiality considerations, an audit typically uses sample testing and ordinarily not all transactions or controls are tested or evaluated. Consequently, where a user requests the practitioner to perform an "audit in full" on the subject matter, there is a risk that this may be mistaken for a request to undertake procedures on the entire population and all transactions when in fact, sample testing would typically be done in the course of an audit. Therefore use of such a term is generally problematic. References to "full scope audit" however are acceptable as it is clear that this refers to undertaking an audit that is not subject to any limitation in scope.	The practitioner should avoid using the term "audit in full" given the nature of sample testing typically carried out in an audit.

### **APPENDIX 3**

#### **Practical examples**

Set out below are examples of reporting engagements which set out some of the common issues encountered by practitioners and the suggested approaches to deal with such issues.

##### **Example 1 – Auditor's certificates on turnover figures**

A landlord requires its tenant to submit an auditors' certificate in respect of the gross receipts generated from the business at the premises leased from the landlord. The auditors are required to apply Hong Kong Standards on Auditing and report on whether the monthly gross receipts attached gives a "true and correct view" of the income generated from the operation of the business.

##### *Issues noted:*

- Title of the report – The word "certificate" may give an impression to the readers that the subject matter of the certificate is absolutely accurate. However the auditor is normally not in a position to provide absolute certainty in an audit engagement due to inherent limitations and the use of judgement during the course of an audit.
- Adequacy of work performed – in general, the auditor will perform the audit on the entity's financial statements as a whole instead of opining on the individual balances and accounts. Accordingly, if the auditor is to provide an assurance opinion (whether audit or review) on an individual account balance (i.e. gross receipts), additional work may be required to be performed on both the individual balance and possibly the related internal control systems. In addition, if the shop involved is only a branch, the work performed to express an audit opinion on the financial statements of the entity as a whole might not be adequate for the practitioner to report at the branch level.
- Appropriateness of the opinion – currently "true and correct view" is used solely in respect of reporting under section 141D of the Hong Kong Companies Ordinance. As noted in above, an audit constitutes a "reasonable assurance" engagement and does not provide an absolute assurance that there are no errors. The opinion "correct" may imply absolute assurance which is generally inappropriate.

##### *Suggested approach:*

In view of the above, an agreed-upon procedures engagement conducted under HKSRS 4400, e.g. to agree the turnover figures to the books and records, may be more appropriate. The report should follow the standard format as prescribed in HKSRS 4400 and avoid using the word "certificate".

Alternatively, if the practitioner is to perform an assurance engagement on the turnover figures, additional work over and above that required for the audit of the entity's financial statements may be necessary.

### Example 2 – Specific audit requirements

Recipients of grants are sometimes requested to submit an auditors' report on the recipient's accounts to the donors. The practitioner may be requested to report on the following:

- (i) the recipient has complied with the accounting requirements specified in the relevant grant letters and guidelines issued by the donor from time to time;
- (ii) the recipient has used the subventions in accordance with the rules and terms of the grants as promulgated in the relevant grant letters and guidelines issued by donor from time to time;
- (iii) the balances of the individual grant accounts are correct.

#### *Issues note and suggested approach:*

- Consistency of the accounting requirements - the auditors may not be able to report on the compliance listed in (i) above if there are inconsistencies between the specified accounting requirements and HKFRSs<sup>18</sup>.

Where there are inconsistencies between the instructions and HKFRSs and the difference is material, the auditor should consider the impact on his report arising from such inconsistencies.

- Completeness of the relevant letters and guidelines issued by the donor – it may be difficult for the auditors to ensure the completeness of the relevant guidelines if they have not been clearly specified.
- Adherence to the relevant rules and terms – it may be difficult for the practitioner to ascertain whether the recipient has complied with the rules and terms of the grants. The practitioner may need to restrict his opinion on adherence to such terms to accounting related matters which are within his competence.
- The audit performed by the auditors is generally on the recipient's financial statements as a whole instead of on the individual grant accounts. In addition, the audit opinion can only provide reasonable assurance on the subject matter and not absolute assurance due to the inherent limitations of an audit. Hence, the auditor may not be in a position to report on the "correctness" of the individual grant accounts based on his audit work. He may however be in a position to confirm that figures agree to the books and records.

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<sup>18</sup> Or other applicable accounting standards, e.g. IFRSs adopted by the recipient in preparing its financial statements.

Example 3 – Prescribed report format

A landlord requires the tenant to submit an auditor's certificate on the calculation of gross revenue and the shortfall/excess of the revenue fee in a prescribed format as follows:

"We hereby certify that the gross revenue for that period of \$[xx] and a shortfall/excess of \$[xx] of the revenue fee as set out in the attached annex has been:

- (i) calculated in accordance with Schedule x of the Agreement dated [date]; and
- (ii) properly extracted from the books and records of the Licensee."

*Issues noted:*

- As in example 1 above, the word "certify" and "certificate" implies absolute certainty and should generally be avoided.
- The first opinion "calculated in accordance with" indicates a reasonable level of assurance while the second opinion "properly extracted from" appears to be an agreed-upon procedures type of opinion.
- The prescribed form of certificate makes no reference to any professional standard nor does it follow any of the report format for assurance/agreed-upon procedures engagements.

*Suggested approach:*

It appears that an agreed-upon procedures type of report may be appropriate for the above circumstance. In such a case, the report should follow the standard format as set out in HKSRS 4400 and clearly describe the work performed and the findings. For example, the practitioner may agree to perform the following procedures:

- To check the addition of the gross revenue figures noted in the attached schedule and compare the total balance to the trial balance.
- To compare the formula on the calculation of the gross revenue noted in the attached schedule with the formula stated in Schedule x of the Agreement dated [date].



#### Example 4: Prescribed report format

A contractor is requested to submit cost data and to provide an auditor's report which includes a prescribed auditors' opinion as follows:

As an independent auditor, we have audited the information in Form [abc] in full for the year ended [date]. In our opinion, the information given in Form [abc] is reasonable and acceptable for completeness and correctness.

#### *Issues noted:*

- The following basic elements of an assurance report are missing:
  - addressee
  - restriction on distribution clause
  - reference to a professional standard
- "Audited in full" implies an absolute assurance opinion which may not be appropriate as an audit can only provide reasonable assurance on the information as a whole due to inherent limitations in an audit and typically uses sampling rather than 100% testing.
- Similarly, the auditor may not be in a position to confirm the "correctness" of the subject information. As it is not uncommon that the preparer of the information would exercise judgement in preparing the subject information and a number of alternative outcomes may fall within an acceptable range, there may not be a single correct answer.
- It is unclear as to how the auditor is to judge "reasonable and acceptable".

#### *Suggested approach:*

It is considered that a separate report issued by the practitioner is more appropriate in this circumstance. The following alternatives are available:

- Perform an agreed-upon procedures on the figures included in the submission; or
- Perform an assurance engagement on the figures included in the submission.

Depending on the level of comfort required, the practitioner should discuss and agree with the client as to the scope of work to be performed and the types of opinion to be provided. The report should follow the format specified in the relevant standard and describe clearly the scope of work performed.

Example 5: Reporting requirements with no clear scope of work

An entity is required under certain requirements to issue a certificate signed by a certified public accountant containing particulars of the gross fee income. However, neither the scope of work nor the opinion required has been specified in the relevant requirements.

*Issues noted:*

- As noted above, the word "certificate" gives an impression to the readers that the subject matter of the certificate is absolutely accurate. However the auditor is normally not in a position to provide absolute certainty in an audit engagement due to the inherent limitation and the involvement of judgement during the course of the work. Accordingly, the word "certificate" should be avoided and the report should clearly describe the scope of work performed and any limitations in existence.

*Suggested approach:*

As the scope of work has not been clearly stated, the practitioner should discuss and agree with his client as to the work to be performed and the types of opinion to be given. The following alternatives could be considered by the practitioner and the user of the report:

- An agreed-upon procedures engagement performed under HKSRS 4400. Under such an engagement, no assurance will be provided by the practitioner. Instead the practitioner reports on the work performed and the findings noted, e.g. agreeing the gross fee income to the books and records. The users should assess the procedures and findings reported by the practitioner and draw their own conclusions.
- If the user requires additional comfort from the practitioner, the practitioner may consider performing an assurance engagement on the compilation process of the gross fee income and report as to whether the gross fee income has been properly extracted in accordance with the relevant guidelines. However, no assurance is provided in terms of the accuracy or completeness of the underlying figures in such circumstance as the work performed relates simply to the extraction of the information from the relevant books and records. The report should describe clearly the scope of work performed and any inherent limitations so as to avoid any misunderstanding by the users.
- If the user requires an assurance opinion on the gross fee income itself, an audit performed under HKSA's or a review performed under HKSRE 2400 would need to be performed by the practitioner.

Example 6: Reporting on a component of financial statements that has been prepared using a specific basis of preparation other than a recognised financial reporting framework

In accordance with the terms of a sale and purchase agreement (the "Agreement") of a proposed sale of a Target entity, the entity is required to prepare a balance sheet as at the closing date of the transaction in accordance with specific accounting policies set out in the Agreement. Amongst other things, the Agreement requires that certain assets (e.g. property, plant and equipment and investment securities) are to be included at an agreed valuation as of an earlier reference date (as agreed separately between the purchaser and vendor) rather than being valued as at the balance sheet date. The balance sheet prepared pursuant to the Agreement is to help determine the final purchase price rather than for general financial reporting purposes.

The Agreement requires the Target entity to appoint auditors to perform an audit of the balance sheet and to issue a "true and fair" opinion.

*Issues noted:*

As the accounting policies followed in the preparation of the balance sheet do not fully comply with HKFRSs or another recognised financial reporting framework and a component (i.e. balance sheet in this example) rather than a full set of financial statements is being presented, a "true and fair view" opinion would generally not be appropriate.

*Suggested approach:*

Where a practitioner has been requested to audit a component of a full set of financial statements (e.g. a balance sheet) which has not been prepared in accordance with a recognised financial reporting framework, he needs to consider whether the financial information upon which he is being asked to report is acceptable in the circumstances.

In this example, the practitioner might consider that the financial information is acceptable in the particular circumstances given that the balance sheet is prepared pursuant to the Agreement and is being used as part of the matters to help determine the purchase price rather than for general financial reporting purposes and where the distribution of the financial information is restricted to the relevant parties to the Agreement. If the practitioner is not satisfied in this respect, he would need to consider whether to accept the engagement.

Where the practitioner is satisfied that the financial reporting framework is acceptable in the particular circumstances, it is generally appropriate to use the "properly prepared" opinion where the financial statements have been prepared in accordance with a specific basis but where the basis is not in compliance with a recognised financial reporting framework.

The basis of preparation should be clearly identified within the financial information in order that the practitioner may base his opinion on that stated basis of preparation. In addition, in such situations, the practitioner's report should ordinarily draw the reader's attention to the basis of preparation.

Where the requestor requests a "true and fair view" opinion in such circumstances, the practitioner should explain to the requestor why such an opinion is not considered to be appropriate.

Furthermore, even though the practitioner is requested to report on the balance sheet, he may sometimes be unable to consider the subject of the audit in isolation and may need to examine certain other financial information. For example, the practitioner would generally need to consider the opening balances as of the most recent previously audited period as well as income and expenses and transactions during the intervening period up to the balance sheet date being reported upon, even though the practitioner is not required to issue an opinion on the income statement for that period.

Furthermore, even where the financial information being reported upon is solely a balance sheet (together with notes thereto), the practitioner would also need to consider whether other disclosures should be included – for example, whether contingent liabilities should be disclosed in order to assist the reader in understanding the financial position as at the balance sheet date.

The audit report should include all necessary elements as set out in SAS 600 "Auditors' reports on financial statements", with appropriate introductory and opinion paragraphs tailored for the specific circumstances.

An example of the introductory paragraph identifying the financial statements audited and the accounting principles adopted is as follows:

*"We have audited the balance sheet on pages ... to ... which has been prepared for the reasons and on the basis set out in note [ ] to the balance sheet. As further explained in note [...] to the balance sheet, the balance sheet has been prepared solely for the purposes of the sale and purchase agreement between [...] and [...] dated [ ] and the accounting policies adopted do not comply, in all material respects, with Hong Kong Financial Reporting Standards."*

An example of an unmodified auditor's opinion is as follows:

*"In our opinion the balance sheet of the company as at [ ] has been properly prepared in accordance with the basis of preparation set out in note [ ] to the financial statements."*

As the report on the balance sheet is a special purpose report intended for a very specific purpose, appropriate restrictions on the use of the report should be considered for inclusion in the report. An example is as follows:

*"This report has been prepared for [ ] for the purposes of [ ]. It should not be used or relied upon by any other party or for any other purpose and we expressly disclaim any liability to any such party in this respect."*

## **APPENDIX 4**

### **Basic elements to be included in assurance, agreed-upon procedures and compilation reports**

Set out below are the basic elements to be included in reports arising from assurance, agreed-upon procedures and compilation engagements.

#### **Hong Kong Standards on Auditing – SAS 600 “Auditor’s reports on financial statements”**

- A title identifying the person or persons to whom the report is addressed
- Where applicable, the country or place of incorporation of the reporting entity
- An introductory paragraph identifying the financial statements audited and the accounting principles adopted
- Separate sections, appropriately headed, dealing with:
  - respective responsibilities of directors (or equivalent persons) and auditors
  - the basis of the auditors' opinion
  - the auditors' opinion on the financial statements
- The signature of the auditors
- The date of the auditors' report

#### **Hong Kong Standards on Review Engagements – HKSRE 2400 “Engagements to Review Financial Statements”**

- Title
- Addressee
- Opening or introductory paragraph including
  - identification of the financial statements on which the review has been performed
  - a statement of the responsibility of the entity's management and the responsibility of the auditor
- Scope paragraph, describing the nature of a review, including
  - a reference to this HKSRE
  - a statement that a review is limited primarily to inquiries and analytical procedures
  - a statement that an audit has not been performed, that the procedures undertake provide less assurance than an audit and that an audit opinion is not expressed
- Statement of negative assurance
- Date of the report
- Auditor's address
- Auditor's signature

### **Hong Kong Standards on Assurance Engagements - HKSAE 3000 "Assurance engagements other than audits or reviews of historical financial information"**

- A title that clearly indicates the report is an independent assurance report
- An addressee
- An identification and description of the subject matter information and, when appropriate, the subject matter
- Identification of the criteria
- Where appropriate, a description of any significant, inherent limitation associated with the evaluation or measurement of the subject matter against the criteria
- When the criteria used to evaluate or measure the subject matter are available only to specific intended users, or are relevant only to a specific purpose, a statement restricting the use of the assurance report to those intended users or that purpose
- A statement to identify the responsible party and to describe the responsible party's and the practitioner's responsibilities
- A statement that the engagement was performed in accordance with HKSAEs
- A summary of the work performed
- The practitioner's conclusion
- The assurance report date
- The name of the firm or the practitioner, and a specific location, which ordinarily is the city where the practitioner maintains the office that has responsibility for the engagement

### **Hong Kong Standard on Related Services - HKSRS 4400 "Engagements to perform agreed-upon procedures regarding financial information"**

- Title
- Addressee
- Identification of specific financial or non-financial information to which the agreed-upon procedures have been applied
- A statement that the procedures performed were those agreed upon with the recipient
- A statement that the engagement was performed in accordance with the Hong Kong Standard on Related Services applicable to agreed-upon procedures engagements
- When relevant a statement that the practitioner is not independent of the entity
- Identification of the purpose for which the agreed-upon procedures were performed
- A listing of the specific procedures performed
- A description of the practitioner's factual findings including sufficient details of errors and exceptions found
- A statement that the procedures performed do not constitute an assurance engagement and, as such, no assurance is expressed
- A statement that had the practitioner performed additional procedures or an assurance engagement, other matters might have come to light that would have been reported
- A statement that the report is restricted to those parties that have agreed to the procedures to be performed
- A statement (when applicable) that the report relates only to the elements, accounts, items or financial and non-financial information specified and that it does not extend to the entity's financial statements taken as a whole
- Date of the report
- Practitioner's address
- Practitioner's signature

**Hong Kong Standard on Related Services – HKSRS 4410 “Engagements to compile financial statements”**

- Title
- Addressee
- A statement that the engagement was performed in accordance with the Hong Kong Standard on Related Services applicable to compilation engagements
- When relevant, a statement that the practitioner is not independent of the entity
- Identification of the financial information noting that it is based on information provided by management
- A statement that management is responsible for the financial information compiled by the accountant
- A statement that no assurance engagement has been carried out and that accordingly no assurance is expressed on the financial information
- A paragraph, when considered necessary, drawing attention to the disclosure of material departures from the identified financial reporting framework
- Date of the report
- Practitioner’s address
- Practitioner’s signature