“Areas Of Focus In Relation To The Audits Of Securities Dealers”
Prepared By The SFC

Circularisation of clients’ accounts

Circularisation of clients’ account balances is one of the recommended audit procedures set out in Industry Auditing Guideline 3.404 “The audit of the accounts of dealers in securities” issued by the Hong Kong Society of Accountants (HKSA) to be performed by auditors to obtain audit evidence on the existence, accuracy and completeness of the clients’ assets. Statement of Auditing Standards 402 “External Confirmations” issued by the HKSA in August 2001 establishes standards and provides guidance on auditors’ use of external confirmations as a means of obtaining audit evidence.

We appreciate that auditors exercise their professional judgment in relation to the performance of circularisation of clients’ account balances. In order to enhance consistency of audit procedures for all auditors, we set out below a list of guidelines which we consider worth highlighting for auditors’ consideration regarding circularisation of clients’ account balances:-

- Auditors should exercise their judgment in determining sufficient coverage of samples over the total population of clients’ accounts both in terms of the number of clients and money value of clients’ assets;

- Confirmation should be prepared in language that the clients of the securities dealer are familiar with;

- Confirmation should be directly sent to and received from clients. Clients should be provided with convenient means of responding to the auditors;

- Be aware of any client enquiries regarding any discrepancies in their account balances;

- Auditors should independently select samples for circularisation;

- Auditors to determine appropriate procedures in assessing the reliability of the confirmation letters received such as verifying client signatures on the confirmation against client agreements; and/or directly calling the clients to verify the agreed balances on sample basis; and

- Adequate and timely follow-up procedures for the non-reply confirmations should be carried out such as considering sending reminders or directly calling the non-reply clients etc. and/or reviewing a sample of trade orders and withdrawals of funds and stocks recorded in their accounts.

Statutory reporting requirements for auditor of securities dealer

Section 89 of the Securities Ordinance (“SO”) requires the auditor to report to the Commission in writing as soon as practicable when he identifies any contravention of section 81, 81A, 83 or 84 of the SO and the Financial Resources Rules (“FRR”).

Similar requirements for securities margin financiers and futures dealers are set out in section 121AU of the SO and section 51 of the Commodity Trading Ordinance.

Although we understand that auditors have reported any contravention to the Commission, we would like to emphasise that timeliness of reporting is essential for us to take any necessary regulatory actions.

Other financial issues

Under the current economic and market environment, we would suggest that the following issues may be also taken into account during the course of audit, where applicable:-

- Adequacy of provision for amounts receivable by securities dealer;
- Securities dealer may improve the appearance of its liquid capital position by effecting transactions just before and reversing them after month end and year end dates;
- Going concern assessment; and
- Identification and disclosure of contingent liabilities and commitments.