

Signing arrangements of an auditor's report

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

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

The above signing arrangements give rise to the following issues:

- What is the role of a signing partner or director?
- What should be the extent of involvement of the signing partner or director in the audit engagement?

The Institute's Practice Review Committee (a statutory committee responsible for exercising the powers and duties given to the Institute as the regulator of auditors in Hong Kong under the Professional Accountants Ordinance) has recently considered these issues. The relevant analyses are highlighted as follows:

- HKSQC 1 *Quality Control for Firms that Perform Audits and Review of Financial Statements, and other Assurance and Related Services Engagements* states that the engagement partner is the partner or other person in the firm who is responsible for the engagement and its performance, and for the report that is issued on behalf of the firm, and who, where required, has the appropriate authority from a professional, legal and regulatory body.
- HKSA 220 *Quality Control for an Audit of Financial Statements* specifies that the engagement partner should, through a review of the audit documentation, in particular documentation on critical areas of judgment and significant risks, and discussion with the engagement team, be satisfied that sufficient appropriate audit evidence has been obtained to support the conclusions reached and for the auditor's report to be issued. In addition, he or she should document the extent and timing of reviews.
- Section 29 of the Professional Accountants Ordinance provides that except for a practising certificate holder or a corporate practice, no other person shall hold any appointment or render any services as an auditor in respect of a set of Hong Kong statutory financial

statements. The Hong Kong Listing Rules also recognize that Hong Kong primary listed audit engagements must normally be performed by CPAs qualified under the Professional Accountants Ordinance for appointment as auditors.

Accordingly, it is considered that only a practising certificate holder can normally be the engagement partner or director for a Hong Kong statutory or a Hong Kong primary listed engagement and sufficient documentation is required to evidence his or her extent and timing of involvement in the engagement.

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

Therefore, while signing arrangements allow a practice to use its resources more efficiently and effectively, the signing partner or director should properly discharge his or her duty as the practising certificate holder recognized by the Professional Accountants Ordinance or the listing rules to be responsible for the engagement in the event that the engagement leader is not a practising certificate holder.

Accordingly, a practice with signing arrangements (a) and (b) is expected to have



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

For signing arrangement (c), as a minimum, the practice is expected to have

evidence on file that the engagement leader has confirmed with the signing partner or director that he has undertaken procedures expected of him or her as the engagement partner for the engagement, including a file review to ensure sufficient appropriate evidence has been obtained to support the audit opinion, and shall take full responsibility for the engagement before the signing partner or director signs the audit report.

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

Furthermore, practices are advised to avoid having signing arrangements that create independence issues. For example, it would be inappropriate to have arrangements for the engagement

quality control reviewer to act as the signing partner or director as it would give a perception that the engagement quality control review is not independent from the engagement team.

To conclude, practices are expected to take appropriate actions to address the above matters if they have signing arrangements in place. The Institute’s Quality Assurance Department will give more attention to signing arrangements in future practice reviews and communicate with members when further issues are identified.



This article is contributed by the Institute