

**PRACTICE NOTE
852
REVIEW OF LOTTERY ACCOUNTS**

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

They are persuasive rather than prescriptive. However they are indicative of good practice and have similar status to the explanatory material in SASs and SAEs, even though they may be developed without the full process of consultation and exposure used for SASs and SAEs. Auditors should be prepared to explain departures when called upon to do so.

Introduction

1. In accordance with Condition 6 (which became effective on 3 December 2003) of the Lottery Licence ("Licence") issued by the Television and Entertainment Licensing Authority of the Government of the Hong Kong Special Administrative Region ("TELA") under the Gambling Regulations, within 90 days from the date of the draw of a lottery, a lottery organizer is required to:
 - a. prepare a statement of income and expenditure setting out all the monies collected or received from the sale of lottery tickets and all the disbursements made from the monies so collected or received ("lottery accounts");
 - b. obtain a written report from the Certified Public Accountants (Practising) (CPAs (practising)) stating that:
 - i. in the opinion of the CPAs (practising), the lottery accounts are properly prepared from the books and records of the lottery organizer made available to the CPAs (practising); and
 - ii. no matter has come to the attention of the CPAs (practising) which indicates that the lottery accounts do not accurately reflect all the monies collected or received from the sale of lottery tickets and all the disbursements made from the monies so collected or received; and
 - c. forward to the TELA a copy of the documents as mentioned in (a) and (b) above, which are to be made available by the TELA for public inspection.

Scope and approach

2. The purpose of this Practice Note is to provide guidance on the review procedures and reporting requirements in connection with lottery accounts so as to achieve a greater degree of uniformity.
3. This Practice Note sets out the special considerations relating to the review of lottery accounts. It is not intended to provide step-by-step guidance on the review of lottery accounts.
4. This Practice Note has been prepared after consultation with the TELA.

Special features of lottery events

5. A common feature of lottery events is the receipt of income by way of sale of lottery tickets. Unlike the income of commercial entities, income from the sale of lottery tickets will not be supported by invoice or equivalent documentation except stubs of sold lottery tickets and unsold lottery tickets. There are also cases where people will simply make cash donations without receiving any lottery tickets in return or where people may pay more money than for the worth of lottery tickets they buy. Accordingly, obtaining assurance as to the completeness and accuracy of income of a lottery event may be difficult.

6. The level of income received for a lottery event cannot be predicted with any great accuracy as people's pattern of patronage may change. It is also difficult to establish a relationship between income and other figures in lottery accounts as expenditure levels may not have any direct relationship to such income. As a result, a lottery organizer needs to make arrangements to institute appropriate controls to ensure that all income to which it is entitled is properly accounted for, and the CPAs (practising) are likely to rely on evidence concerning those controls in order to form a view on the completeness of income shown in lottery accounts.
7. Another feature is the use of volunteers in selling lottery tickets for a lottery event. A volunteer is normally less accountable than an employee of an organization. Thus, it is important for lottery organizers to have controls not only over selling of lottery tickets, collecting monies for the sale of lottery tickets, safe keeping of records of sold and unsold lottery tickets, but also over the recruitment of collectors.

Engagement letters

8. The basic principles used in drafting engagement letters as set out in SAS 140 "Engagement letters" are applicable to the review of lottery accounts. Practical considerations arising from the particular characteristics of lottery accounts are considered below.

Addressee of engagement letter

9. It may not always be obvious to whom the engagement letter should be addressed. The CPAs (practising) will need to review the governing document of the lottery organizer to ascertain who is the appointing authority, as the engagement letter should be addressed to that authority; e.g. in most charitable organizations, it will be the trustees. If the trustees are not engaged in the day-to-day running of the lottery organizer or the management of the lottery event, the CPAs (practising) may wish to send an additional copy of the engagement letter to the chief executive or the persons responsible for its day-to-day management or the management of the lottery event, if applicable.

Agreed upon procedures to be performed

10. The CPAs (practising) are sometimes unable to ensure that all monies received from the sale of lottery tickets of a lottery event were indeed recorded by the lottery organizer due to the special features of lottery events as mentioned above.
11. Given the nature of this revenue, the CPAs (practising) may sometimes find it impracticable or impossible to perform tests of controls and substantive procedures that are needed to reduce audit risk to the required level, and are then faced with a limitation in the scope of the examination of monies received from the sale of lottery tickets of a lottery event. In such a case, a reservation would have to be included in the standard "true and fair view" auditors' report explaining the limitation in the scope of the examination that revenues could only be verified from the time they were deposited and entered into the lottery organizers' records.
12. A reader may question the usefulness of such auditors' reports with reservation since the CPAs (practising) are unable to determine and quantify the impact resulting from the scope limitation.
13. Furthermore, there would be considerable cost implications in performing a full scope audit. As some lottery organizers may not be able to afford a high fee and many CPAs (practising) currently perform such engagements free of charge in view of the charitable nature of the lottery organizers, the cost implication is a crucial point for consideration. While it is important to ensure an acceptable level of quality of review work performed on lottery accounts, stringent reporting requirements which bring about disincentives for the lottery organizers to organize such events should be avoided. Balancing these issues, it would be more useful for the appointing authority to agree upon certain procedures to be performed by the CPAs (practising). In such cases, the extent of work is more definite and the level of assurance given by the report is more certain.
14. This Practice Note sets out certain minimum recommended agreed upon procedures to be considered by the appointing authority and the CPAs (practising) in relation to the review of lottery accounts.

Example of engagement letter

15. Appendix I gives an example engagement letter for the review of lottery accounts. This example engagement letter is consistent with the recommended agreed upon procedures and example review report as set out in this Practice Note.

Control procedures on the completeness of income

16. The following sets out some common control procedures on the completeness of income which are applicable to lottery events. Certain particular difficulties for lottery organizers in establishing control procedures can stem from the use of volunteers (often on a part-time basis) who are not formally accountable to them, unlike employees, and the use of collecting boxes and tins. Nevertheless, it is important for lottery organizers raising income through sale of lottery tickets by volunteers to ensure that collectors are adequately supervised and controlled and the monies collected are complete and recorded. The procedures below are not intended to be comprehensive: there may be other control procedures which are of general application (such as segregation of duties) which are not included in the examples given below. The nature and extent of the procedures will clearly depend on the size of the lottery organizers.
- a. Recruitment and use of volunteers/collectors
 - i. Separate records of personal details (e.g. name and identity card number) should be kept for each collector.
 - ii. All conditions set out in the Licence should be adhered to.
 - iii. Collectors should be briefed on the policies and procedures for the sale of lottery tickets and how donations should be handled.
 - iv. Collectors should be properly supervised.
 - v. In addition, for those lottery organizers that use collectors from outside their own organizations, additional controls would need to be considered to ensure that:
 - the recruitment is properly approved by management, and
 - the recruited individual is a fit and proper person to conduct such collection.
 - b. Collecting boxes and tins
 - i. Name of the lottery organizer should be printed prominently on collecting boxes and tins and lottery tickets.
 - ii. The lottery organizer should implement a numerical control over collecting boxes and tins and lottery tickets.
 - iii. There should be satisfactory sealing of collecting boxes and tins so that any opening prior to recording cash is apparent.
 - iv. Collectors (each has his own collecting box or tin) should work in teams of more than one person. Identity of collectors should be checked and recorded before assigning collecting boxes and tins and lottery tickets to them (e.g. by checking their identity cards).
 - v. Collectors should be required to sign to acknowledge both the initial receipt of collecting boxes or tins and the return of the collecting boxes or tins after the event and the serial numbers of the lottery tickets before and after the event.
 - vi. Collecting boxes and tins should be opened in the presence of at least two persons approved by the management to be fit and proper. The counting and recording of receipts and lottery tickets should be carried out by one staff of the lottery organizer and checked by a senior officer. The certificate of cash counts should be signed by the counter upon completion of counting and counter-signed by the other senior officer as evidence of checking. Where the opening of collecting boxes and tins, and counting and recording of lottery tickets are delegated to a third party, the trustees/governing committee should ensure that the third party will have adequate controls in place to ensure that the functions will be carried out satisfactorily.

- vii. Comparison between the lottery tickets sold by individual volunteer/collector, or group of volunteers/collectors, and the cash count results of the relevant collecting boxes/tins should be performed. If the amounts of the respective cash count results are less than the total face value of lottery tickets sold, follow up actions should be taken by the lottery organizer.

Recommended agreed upon procedures

17. The agreed upon procedures set out below constitute the minimum procedures which would need to be undertaken by the CPAs (practising) for the review of lottery accounts. The extent of procedures to be carried out is determined by the CPAs (practising)' professional judgement in each individual case. In general, the performance of the following procedures would be sufficient to enable the CPAs (practising) to draw reasonable conclusions on lottery accounts. However, if the CPAs (practising) are of the opinion that the procedures set out below are insufficient to enable them to draw reasonable conclusions in particular circumstances, they would consider extending the procedures or performing alternative review procedures in order to obtain sufficient evidence thereon.
 - a. Completeness of monies collected or received
 - i. Review the policies and control procedures set up by the lottery organizer over the recruitment and use of volunteers/collectors and over the collecting boxes and tins to assess whether these policies and procedures would be adequate to ensure the completeness of monies received, if they were adhered to in practice.
 - ii. Perform tests on controls implemented by the lottery organizer, in particular, the CPAs (practising) consider whether those suggested control procedures over the recruitment and use of volunteers/collectors and over the collecting boxes and tins as stated in this Practice Note have been properly implemented by the lottery organizer.
 - iii. Observe the cash and lottery ticket counting procedures and controls, in particular, perform tests of controls:
 - to establish whether all collecting boxes and tins and stubs of sold lottery tickets and unsold lottery tickets have been returned, and
 - to establish whether all cash received was properly recorded.
 - b. Existence of cash donations
 - i. Check evidence of cash and lottery ticket counts and double checking (e.g. the certificate of cash and lottery ticket counts duly signed by the counters and counter-signed by another senior officer of the lottery organizer).
 - ii. Check that cash receipts are deposited in the lottery organizer's own bank accounts within a reasonable time and included in its bank statements.
 - iii. Test check receipts from the bank statements to the cash book and to the copies of the bank paying-in slips.
 - c. Completeness and existence of disbursements
 - i. Test check payments from the bank statements to the cash book.
 - ii. Test check payments to supporting documentation.
 - iii. Perform a search for unrecorded liabilities by reviewing the payments made subsequent to the lottery event and the unpaid purchase invoices.
 - iv. Test check the analysis of payments in the cash book.
 - d. Disclosure
 - i. Agree balances as stated in lottery accounts to the underlying records.
 - ii. Check the classification and disclosure of items in lottery accounts.

Management representations

18. Guidance on management representations is set out in SAS 440 "Representations by management".
19. Representation letters as such are not mandatory; however, the CPAs (practising) are encouraged to obtain written confirmation of appropriate representations on matters material to the lottery accounts when those representations are considered necessary to obtaining sufficient appropriate evidence to enable them to draw reasonable conclusion on the lottery accounts. For example, it will generally be necessary for the CPAs (practising) to obtain management representations that the controls to ensure completeness of monies collected or received were implemented during the course of the lottery event as it would usually be impracticable for the CPAs (practising) to observe the operations of those controls given that the sale of lottery tickets frequently takes place at various different locations over a period of 8 weeks and involves a large number of teams of collectors.
20. The trustees or the governing committee of the lottery organizer are/is responsible for the contents and presentation of lottery accounts. Consequently, approval of the content of any written representations by the trustees/governing committee is necessary. Where the trustees or the governing committee are/is not involved in the day-to-day running of the lottery organizer or the management of the lottery event, representations would be given by the persons responsible for the running of the lottery organizer or the management of the lottery event, if applicable. In such circumstances, the CPAs (practising) may wish to obtain evidence that such representations have been considered and approved by the trustees or the governing committee.

Reporting**Addressee of review report**

21. The review report by the CPAs (practising) on lottery accounts would be addressed to the same appointing authority as the engagement letter.

Example of review report

22. An example review report on lottery accounts is set out in Appendix II.

APPENDIX I

EXAMPLE ENGAGEMENT LETTER FOR REVIEW OF LOTTERY ACCOUNTS

The [Trustees/Governing Committee]
XYZ [Charity/Organization] (["Charity"/"Organization"])

[Date]

Dear Sirs

We have been requested by you to perform a review of the income and expenditure account ("IEA") of the [Charity's/Organization's] lottery event, the draw of which was held on [] ("lottery event"). We understand that our report is prepared solely for the purpose of satisfying Condition 6 of the Lottery Licence ("Licence") issued by the Television and Entertainment Licensing Authority of the Government of the Hong Kong Special Administrative Region ("TELA").

In this regard, we herein set out below the respective responsibilities of the [Trustees/Governing Committee] and of ourselves and our understanding of the scope of work you require us to perform and to highlight our key procedures.

Respective responsibilities of the [Trustees/Governing Committee] and of ourselves

In applying for the Licence for conducting sale of lottery tickets, you are responsible, as management of the licence holder, for closely monitoring the lottery event and accounting for the monies collected or received which the public have contributed and complying with conditions stated in the Licence. You are obliged to prepare the IEA of the lottery event showing all the monies collected or received from the sale of lottery tickets and all the disbursements made from the monies so collected or received.

As the [Trustees/Governing Committee], you are responsible for ensuring that the [Charity/Organization] maintains appropriate accounting records. You are also responsible for making available to us, as and when required, all of the [Charity's/Organization's] accounting records on the lottery event and all other relevant records and related information.

We have the responsibility to report to you whether, in our opinion, the IEA of the lottery event has been properly prepared from the books and records made available to us. We are also required to state whether any matter has come to our attention which indicates that the IEA of the lottery event does not accurately reflect all the monies collected or received from the sale of lottery tickets by the [Charity/Organization] during the lottery event and all the disbursements made from the monies so collected or received.

Scope of work

Our review will be conducted in accordance with Practice Note 852 "Review of lottery accounts" issued by the Hong Kong Institute of Certified Public Accountants. We shall expect to obtain appropriate evidence as we consider sufficient to enable us to draw reasonable conclusion on the IEA of the lottery event.

The procedures that we will perform are solely to assist you in satisfying Condition 6 of the Licence. We will not perform an audit of the IEA of the lottery event and, accordingly, will not express an audit opinion on the IEA of the lottery event.

Use of our report

Our report is intended solely for the purpose of satisfying Condition 6 of the Licence, and is not intended to be, and should not be, used for any other purpose.

Representations by management

As part of our review procedures, we may request from the [Trustees/ Governing Committee] written confirmation of oral representations which we have received during the course of the review on matters having a material effect on the IEA of the lottery event.

Access to information and documents

In order to carry out our review effectively and efficiently, we will require access to all relevant records and documents of the [Charity/Organization].

Fees

[In view of the charitable nature of the organization, the review work is carried out on an honorary basis.] OR [Our fees are computed on the basis of the time spent on your affairs by the partners and our staff, and on the levels of skill and responsibility involved plus out-of-pocket expenses. Fees will be due and payable on presentation.]

Agreement of terms

The terms of this letter shall constitute the entire terms of the agreement between [name of addressee] and [name of CPA (practising) firm]. No variation to the terms hereof shall be effective or binding on either party unless they are agreed to in writing by both [name of addressee] and [name of CPA (practising) firm].

We should be grateful if you would confirm in writing your agreement to these terms, by signing and returning the enclosed copy of this letter, or let us know if they are not in accordance with your understanding of our terms of engagement.

Yours faithfully,

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

We agree to the terms of this letter.

.....
Signed, for and on behalf of XYZ
[Charity/Organization]

.....
Date

.....
Position

APPENDIX II

EXAMPLE REVIEW REPORT ON LOTTERY ACCOUNTS - UNQUALIFIED OPINION

REVIEW REPORT TO THE [TRUSTEES OF XYZ CHARITY/ GOVERNING COMMITTEE OF XYZ ORGANIZATION] ("Charity"/ "Organization")

In accordance with the engagement letter dated [], we have performed the agreed upon procedures in reviewing the attached income and expenditure account ("IEA") of the [Charity's/Organization's] lottery event, the draw of which was held on _____. Our engagement was conducted in accordance with Practice Note 852 "Review of lottery accounts" issued by the Hong Kong Institute of Certified Public Accountants. This report is made solely in relation to the above lottery event and does not relate to any other part of the operations of the [Charity/Organization]. The agreed upon procedures that we have carried out did not constitute an audit of the attached IEA of the [Charity's/ Organization's] lottery event, and accordingly they cannot be relied upon to provide the same level of assurance as an audit.

Use of this report

This report is intended solely for the purpose of satisfying Condition 6 of Lottery Licence No. [] issued on [date] by the Television and Entertainment Licensing Authority of the Government of the Hong Kong Special Administrative Region to the [Charity/Organization], and is not intended to be, and should not be, used for any other purpose.

Review conclusion

On the basis of the results of the agreed upon procedures performed by us:

- a. in our opinion the attached IEA of the [Charity's/Organization's] lottery event is properly prepared from the books and records of the [Charity/Organization] made available to us; and
- b. no matter has come to our attention which indicates that the attached IEA of the [Charity's/Organization's] lottery event does not accurately reflect all the monies collected or received from the sale of lottery tickets by the [Charity/Organization] during the lottery event and all the disbursements made from the monies so collected or received.

ABC & Co.
Certified Public Accountants (Practising) [or Certified Public Accountants]
Hong Kong
Date

銷售獎券活動帳目之審閱報告書樣本-無保留意見

審閱報告書

致 [XYZ 慈善機構(以下簡稱「該慈善機構」)信託人/XYZ 機構(以下簡稱「該機構」)執委會]

我們已根據於____年____月____日發出之應聘書進行雙方協定程序，審閱隨附該 [慈善] 機構於____年____月____日舉行抽獎的銷售獎券活動之收支結算表。我們的工作是根據香港會計師公會頒布的實務說明第 852 號「銷售獎券活動帳目之審閱」進行。我們僅就上述銷售獎券活動出具本報告書，其與該 [慈善] 機構其他事務無關。我們已進行的雙方協定程序，並非對隨附的銷售獎券活動收支結算表進行核數，因此不可期望確信度與核數相同。

本報告書的用途

本報告書只是用以履行香港別行政區府影視及娛樂事務管理處於[____年____月____日]簽發給予該 [慈善]機構的獎券活動牌照編號[]內所載的條件六，不可作其他用途。

審閱結論

根據已進行的雙方協定程序之結果:

- 甲. 我們認為隨附的銷售獎券活動收支結算表是按該[慈善]機構向我們提供的簿冊及紀錄妥為編製的;及
- 乙. 我們並不察覺有任何事宜顯示隨附的銷售獎券活動收支結算表並非準確地反映從該[慈善]機構之銷售獎券活動彩票所收集或收取的全部款項及從如此收集或收取的款項中支出的全部付款。

甲乙丙會計師事務所
香港執業會計師
香港
日期