

Effective for audits of financial statements  
for periods beginning on or after 15 December 2004\*

*Hong Kong Standard on Auditing 210*

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# Terms of Audit Engagements

- \* (a) HKSA 700, "The Independent Auditor's Report on a Complete Set of General Purpose Financial Statements" issued in October 2006 and effective for auditor's reports dated on or after 31 December 2006 gave rise to conforming amendments to HKSA 210. Implementation of these amendments in ISA 210 "Terms of Audit Engagements" (HKSA 210 equivalent) has been deferred by the IAASB (effective date yet to be determined). The conforming amendments are included in Appendix 3 of this HKSA for reference only.
- (b) [HKSRE 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued in March 2007 gave rise to a conforming amendment to HKSA 210. This amendment is effective for audits of financial statements for periods beginning on or after 15 December 2006 unless HKSRE 2410 is early adopted and has been marked-up on page 3. Early adoption of HKSRE 2410 is permissible.](#)



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

**HONG KONG STANDARD ON AUDITING 210**  
**TERMS OF AUDIT ENGAGEMENTS**

(Effective for audits of financial statements  
for periods beginning on or after 15 December 2004)\*  
(Issued June 2005, ~~and revised October 2006~~ and revised March 2007)

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Hong Kong Standard on Auditing (HKSA) 210, “Terms of Audit Engagements” should be read in the context of the “Preface to Hong Kong Standards on Quality Control, Auditing, Assurance and Related Services” which sets out the application and authority of HKSAs.

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## Introduction

1. The purpose of this Hong Kong Standard on Auditing (HKSA) is to establish standards and provide guidance on:
  - (a) Agreeing the terms of the engagement with the client; and
  - (b) The auditor's response to a request by a client to change the terms of an engagement to one that provides a lower level of assurance.
2. **The auditor and the client should agree on the terms of the engagement.** The agreed terms would need to be recorded in an audit engagement letter or other suitable form of contract.
3. This HKSA is intended to assist the auditor in the preparation of engagement letters relating to audits of financial statements. The guidance is also applicable to related services. When other services such as tax, accounting, or management advisory services are to be provided, separate letters may be appropriate.
4. In some countries, the objective and scope of an audit and the auditor's obligations are established by law. Even in those situations the auditor may still find audit engagement letters informative for their clients.

## Audit Engagement Letters

5. It is in the interest of both client and auditor that the auditor sends an engagement letter<sup>1</sup>, preferably before the commencement of the engagement, to help in avoiding misunderstandings with respect to the engagement. The engagement letter documents and confirms the auditor's acceptance of the appointment, the objective and scope of the audit, the extent of the auditor's responsibilities to the client and the form of any reports.

## Principal Contents

6. The form and content of audit engagement letters may vary for each client, but they would generally include reference to:
  - The objective of the audit of financial statements;
  - Management's responsibility for the financial statements<sup>2</sup>;
  - The scope of the audit, including reference to applicable legislation, regulations, or pronouncements of professional bodies to which the auditor adheres;
  - The form of any reports or other communication of results of the engagement;
  - The fact that because of the test nature and other inherent limitations of an audit, together with the inherent limitations of internal control, there is an unavoidable risk that even some material misstatement may remain undiscovered; ~~and~~
  - Unrestricted access to whatever records, documentation and other information requested in connection with the audit, and
  - Management's responsibility for establishing and maintaining effective internal control.\*
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<sup>1</sup> Under the Corporate Practices (Registration) Rules of the HKICPA, the engagement letter for a corporate practice shall identify the director appointed by the corporate practice to be responsible for the performance of the audit engagement contemplated by the audit report.

<sup>2</sup> Under the Companies Ordinance, directors are responsible for the preparation of financial statements showing a true and fair view.

\* [HKSRE 2410. "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued in March 2007 gave rise to a conforming amendment to HKSA 210. This amendment is effective for audits of financial statements for periods beginning on or after 15 December 2006 unless HKSRE 2410 is early adopted and has been shown here.](#)

7. The auditor may also wish to include the following in the letter:
  - Arrangements regarding the planning and performance of the audit.
  - Expectation of receiving from management written confirmation concerning representations made in connection with the audit.
  - Request for the client to confirm the terms of the engagement by acknowledging receipt of the engagement letter.
  - Description of any other letters or reports the auditor expects to issue to the client.
  - Basis on which fees are computed and any billing arrangements.
8. When relevant, the following points could also be made:
  - Arrangements concerning the involvement of other auditors and experts in some aspects of the audit.
  - Arrangements concerning the involvement of internal auditors and other client staff.
  - Arrangements to be made with the predecessor auditor, if any, in the case of an initial audit.
  - Any restriction of the auditor's liability when such possibility exists.
  - A reference to any further agreements between the auditor and the client.
  - An example of an audit engagement letter is set out in the Appendix.

#### **Audits of Components**

9. When the auditor of a parent entity is also the auditor of its subsidiary, branch or division (component), the factors that influence the decision whether to send a separate engagement letter to the component include the following:
  - Who appoints the auditor of the component.
  - Whether a separate auditor's report is to be issued on the component.
  - Legal requirements.
  - The extent of any work performed by other auditors.
  - Degree of ownership by parent.
  - Degree of independence of the component's management.

#### **Recurring Audits**

10. **On recurring audits, the auditor should consider whether circumstances require the terms of the engagement to be revised and whether there is a need to remind the client of the existing terms of the engagement.**
11. The auditor may decide not to send a new engagement letter each period. However, the following factors may make it appropriate to send a new letter:
  - Any indication that the client misunderstands the objective and scope of the audit.
  - Any revised or special terms of the engagement.
  - A recent change of senior management or those charged with governance.
  - A significant change in ownership.
  - A significant change in nature or size of the client's business.
  - Legal or regulatory requirements.

## Acceptance of a Change in Engagement

12. **An auditor who, before the completion of the engagement, is requested to change the engagement to one which provides a lower level of assurance, should consider the appropriateness of doing so.**
13. A request from the client for the auditor to change the engagement may result from a change in circumstances affecting the need for the service, a misunderstanding as to the nature of an audit or related service originally requested or a restriction on the scope of the engagement, whether imposed by management or caused by circumstances. The auditor would consider carefully the reason given for the request, particularly the implications of a restriction on the scope of the engagement.
14. A change in circumstances that affects the entity's requirements or a misunderstanding concerning the nature of service originally requested would ordinarily be considered a reasonable basis for requesting a change in the engagement. In contrast a change would not be considered reasonable if it appeared that the change relates to information that is incorrect, incomplete or otherwise unsatisfactory.
15. Before agreeing to change an audit engagement to a related service, an auditor who was engaged to perform an audit in accordance with HKSA's would consider, in addition to the above matters, any legal or contractual implications of the change.
16. If the auditor concludes, that there is reasonable justification to change the engagement and if the audit work performed complies with the HKSA's applicable to the changed engagement, the report issued would be that appropriate for the revised terms of engagement. In order to avoid confusing the reader, the report would not include reference to:
  - (a) The original engagement; or
  - (b) Any procedures that may have been performed in the original engagement, except where the engagement is changed to an engagement to undertake agreed-upon procedures and thus reference to the procedures performed is a normal part of the report.
17. **Where the terms of the engagement are changed, the auditor and the client should agree on the new terms.**
18. **The auditor should not agree to a change of engagement where there is no reasonable justification for doing so.** An example might be an audit engagement where the auditor is unable to obtain sufficient appropriate audit evidence regarding receivables and the client asks for the engagement to be changed to a review engagement to avoid a qualified audit opinion or a disclaimer of opinion.
19. **If the auditor is unable to agree to a change of the engagement and is not permitted to continue the original engagement, the auditor should withdraw and consider whether there is any obligation, either contractual or otherwise, to report to other parties, such as those charged with governance or shareholders, the circumstances necessitating the withdrawal.**
- 19-1. Auditor of a company incorporated under the Companies Ordinance who resigns from the office as auditor is required to comply with the requirements of section 140A of the Companies Ordinance regarding the statement to be made by him in relation to his resignation. If the auditor is removed from office, he may wish to exercise his rights under section 132(6) of the Companies Ordinance to attend and be heard at the general meeting.

## Effective Date

20. This HKSA is effective for audits of financial statements for periods beginning on or after 15 December 2004.

## **Conformity and Compliance with International Standards on Auditing**

21. As of October 2006 (date of revision), this HKSA conforms with International Standard on Auditing (ISA) 210, "Terms of Audit Engagements". Compliance with the requirements of this HKSA ensures compliance with ISA 210.
22. Additional local guidance is provided in paragraph 19-1. Additional local explanations are provided in footnotes 1 and 2. Example audit engagement letter is provided in Appendix 1 and guidance on tax engagement letter and example tax engagement letter are provided in Appendix 2.

## **Public Sector Perspective**

1. *The purpose of the engagement letter is to inform the auditee of the nature of the engagement and to clarify the responsibilities of the parties involved. The legislation and regulations governing the operations of public sector audits generally mandate the appointment of a public sector auditor and the use of audit engagement letters may not be a widespread practice. Nevertheless, a letter setting out the nature of the engagement or recognizing an engagement not indicated in the legislative mandate may be useful to both parties. Public sector auditors have to give serious consideration to issuing audit engagements letters when undertaking an audit.*
2. *Paragraphs 12 to 19-1 of this HKSA deal with the action a private sector auditor may take when there are attempts to change an audit engagement to one which provides a lower level of assurance. In the public sector specific requirements may exist within the legislation governing the audit mandate; for example, the auditor may be required to report directly to a minister, the legislature or the public if management (including the department head) attempts to limit the scope of the audit.*

## APPENDIX 1

### Example of an Audit Engagement Letter

*This form of letter has been drafted to apply to limited company clients which are incorporated in Hong Kong under the Companies Ordinance. It is not necessarily comprehensive or appropriate to be used in relation to every entity, and it must be tailored to specific circumstances - for example to the special reporting requirement of regulated entities.*

To the directors of \_\_\_\_\_:

The purpose of this letter is to set out the basis on which we (are to)\* act as auditors of the company (and its subsidiaries)\* and the respective areas of responsibility of the directors and of ourselves.

#### Responsibilities of directors and auditors

- 1.1 As directors of the above company, you are responsible for ensuring that the company maintains proper books of account and for preparing financial statements which give a true and fair view and have been prepared in accordance with the Companies Ordinance. You are also responsible for making available to us, as and when required, all the company's books of account and all other relevant records and related information, including minutes of all management and shareholders' meetings.
- 1.2 We have a statutory responsibility to report to the members whether in our opinion the financial statements give a true and fair view and whether they have been properly prepared in accordance with the Companies Ordinance. In arriving at our opinion, we are required to consider the following matters, and to report on any in respect of which we are not satisfied:
- a. whether proper books of account have been kept by the company and proper returns adequate for our audit have been received from branches not visited by us;
  - b. whether the company's balance sheet and profit and loss account are in agreement with the books of account and returns; and
  - c. whether we have obtained all the information and explanations which we consider necessary for the purposes of our audit.

In addition, there are certain other matters which, according to the circumstances, may need to be dealt with in our report. For example, where the financial statements do not give details of directors' remuneration or of loans to officers, the Companies Ordinance requires us to disclose such matters in our report.

- 1.3 We have a professional responsibility to report if the financial statements do not comply in any material respect with applicable accounting standards, unless in our opinion the non-compliance is justified in the circumstances. In determining whether or not the departure is justified, we consider:
- a. whether the departure is required in order for the financial statements to give a true and fair view; and
  - b. whether adequate disclosure has been made concerning the departure.

**Scope of audit**

- 2.1 Our audit will be conducted in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants, and will include such tests of transactions and of the existence, ownership and valuation of assets and liabilities as we consider necessary. We shall obtain an understanding of the accounting and internal control systems in order to assess their adequacy as a basis for the preparation of the financial statements and to establish whether proper books of account have been maintained by the company. We shall expect to obtain such appropriate evidence as we consider sufficient to enable us to draw reasonable conclusions therefrom.
- 2.2 The nature and extent of our procedures will vary according to our assessment of the company's accounting system and, where we wish to place reliance on it, the internal control system, and may cover any aspect of the business's operations that we consider appropriate. Our audit is not designed to identify all significant weaknesses in the company's systems but, if such weaknesses come to our notice during the course of our audit which we think should be brought to your attention, we shall report them to you. Any such report may not be provided to third parties without our prior written consent. Such consent will be granted only on the basis that such reports are not prepared with the interests of anyone other than the company in mind and that we accept no duty or responsibility to any other party as concerns the reports.
- 2.3 As part of our normal audit procedures, we may request you to provide written confirmation of certain oral representations which we have received from you during the course of the audit on matters having a material effect on the financial statements. In connection with representations and the supply of information to us generally, we draw your attention to section 134 of the Companies Ordinance under which it is an offence for an officer of the company to mislead the auditors.
- 2.4 In order to assist us with the examination of your financial statements, we shall request sight of all documents or statements, including the chairman's statement, operating and financial review and the directors' report, which are due to be issued with the financial statements. We are also entitled to attend all general meetings of the company and to receive notice of all such meetings.
- 2.5 The responsibility for safeguarding the assets of the company and for the prevention and detection of fraud, error and non-compliance with law or regulations rests with yourselves. However, we shall endeavour to plan our audit so that we have a reasonable expectation of detecting material misstatements in the financial statements or books of account (including those resulting from fraud, error or non-compliance with law or regulations), but our examination should not be relied upon to disclose all such material misstatements or frauds, errors or instances of non-compliance as may exist.
- 2.6 *(Where appropriate - Note)* We shall not be treated as having notice, for the purposes of our audit responsibilities, of information provided to members of our firm other than those engaged on the audit (for example information provided in connection with accounting, taxation and other services).
- 2.7 Once we have issued our report we have no further direct responsibility in relation to the financial statements for that period. However, we expect that you will inform us of any material event occurring between the date of our report and that of the Annual General Meeting which may affect the financial statements.



**(Group accounts**

3. As auditors of the holding company we are required to report, in similar terms to those outlined in paragraph 1.2 above, on the group accounts, which comprise the financial statements of the holding company and its subsidiaries. In order to express an opinion on group accounts which include the financial information of subsidiaries, joint ventures or associated companies of which we are not the auditors, it will be necessary for us to communicate directly with the other auditors concerned to satisfy ourselves that:
- a. so far as is practicable, there is uniformity within the group in the application of accounting policies;
  - b. the group accounts give the information required by the Companies Ordinance, applicable accounting standards and any other legislation or non-statutory requirements affecting the presentation of financial statements; and
  - c. all material aspects of the group accounts have been subjected to an audit examination, the nature and extent of which is adequate and reasonable, in our view, for the purpose of forming an opinion on the group accounts.)\*

**(Other services**

4. You have requested that we provide other services in respect of ..... The terms under which we provide these other services are dealt with in a separate letter.)\*

**Fees**

5. 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. Unless otherwise agreed, our fees will be billed at appropriate intervals during the course of the audit and will be due on presentation.

**Agreement of terms**

- 6.1 Once it has been agreed, this letter will remain effective, from one audit appointment to another, until it is replaced. We shall be grateful if you could 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.
- (6.2 Since the terms of our engagement as auditors of the subsidiaries listed in the attached appendix are the same, we will not send separate letters to the board of directors of each subsidiary. We would therefore be grateful if you would forward copies of this letter to the boards of directors of each such subsidiary and confirm that these boards have also agreed and confirmed their acceptance of this letter.)\*

Yours faithfully,

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

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TERMS OF AUDIT ENGAGEMENTS

We agree to the terms of this letter.

(Signed)

.....

Director, for and on behalf of the board of \_\_\_\_\_

Date

\_\_\_\_\_

\* Delete where not applicable.

**Note**

When accounting, taxation or other services are undertaken on behalf of an audit client, information may be provided to members of the audit firm other than those engaged on the audit. In such cases, it may be appropriate for the audit engagement letter to include this or a similar paragraph to indicate that the auditors are not to be treated as having notice, for the purposes of their audit responsibilities, of such information, to make it clear that a company would not be absolved from informing the auditors directly of a material matter.

## 附件一

### 核數應聘書樣本

此應聘書格式適合在公司條例下在香港註冊成立之客戶公司之用。惟此應聘書並非全面或適合應用於所有公司，必須配合特有情況所需而作出修改，例如受管轄機構的特別報告要求。

致\_\_\_\_\_各董事：

此應聘書旨在闡釋本所出任(將出任)\*為 貴公司 (及附屬公司)\*核數師之基準、與及 貴董事和本所之各自職責範圍。

#### 董事和核數師之職責

- 1.1 閣下作為上述公司董事，應負責確保公司記錄及妥善保存帳簿、編製財務報表。該等財務報表須作出真實與公平之反映，並已遵照公司條例編製。閣下亦應按照需要，負責為本所提供 貴公司之所有帳簿、記錄及有關資料，包括所有行政人員會議及股東會議記錄。
- 1.2 本所有法定責任向股東報告，根據本所之意見，該等財務報表是否已作出真實與公平之反映，及是否已遵照公司條例妥善編製。本所作出審核意見時，將考慮以下事項，並報告其中未感滿意之處：
  - i. 貴公司是否已妥善記錄及保存帳簿；與及自本所未能親身視察之 貴公司分處接獲足以使本所進行審核之適當報表；
  - ii. 貴公司之資產負債表及損益表所載，是否與帳簿及報表相符；及
  - iii. 本所是否已取得全部認為對進行核數所需之資料及解釋。

此外，本所之核數報告內可能按照實際情況所需，論及若干其他事項。例如，財務報表內未有提供董事酬金或高級職員借貸詳情，根據公司條例規定，本所須於核數報告內透露該等事項。

- 1.3 倘財務報表於任何重要事項上未有遵守適用會計準則之規定，本所有專業責任就此作出報告，除非本所認為在實際情況下有適當理由不遵守該等會計準則。在作出決定該等不遵守會計準則是否有適當理由時，本所會考慮：
  - i. 該等不遵守會計準則是否需要從而令到財務報表作出真實與公平之反映；和
  - ii. 該等不遵守會計準則是否已作出足夠之披露。

#### 核數之範圍

- 2.1 本所將按照香港會計師公會發出之核數準則進行核數工作。倘本所認為有需要，核數工作將包括查核各項交易，和檢定資產與債務之存在、其所有權及估值等情形。本所須對會計與內部管制系統取得瞭解，目的是為評估其是否足以作為編製財務報表之根據，並為證實帳簿有否妥為記錄與保存。本所預期取得足夠有關和可靠之證據，以便從中作出合理之結論。

## TERMS OF AUDIT ENGAGEMENTS

- 2.2 本所進行核數之性質與範圍，會根據本所對 貴公司會計系統與內部管制系統之評估(倘本所擬信賴內部管制系統)而作適當調整，並可能包括本所認為適合之業務經營之各方面。本所之核數工作不是為發覺 貴公司各系統之重大缺點而編排，惟本所在核數工作過程中發覺這些缺點，而認為閣下應獲得知會，本所會向 閣下報告。在未得到本所書面許可前， 閣下不可向第三者提供這些報告。只會是基於這些報告並非為 貴公司以外的任何人等之利益所編製和本所不會就這些報告而對其他人士負上任何職責或責任的原則下，本所才會給予上述的許可。
- 2.3 本所或會就對財務報表有重大影響之事項，要求 閣下為某些在核數過程中提供給本所之口頭陳詞作出書面確認，此舉乃本所進行核數之正常步驟。就 閣下之陳詞和提供之資料，本所謹此提醒 閣下注意公司條例第 134 條的條文。該條文列明若公司之高級人員誤導核數師，會構成罪行。
- 2.4 為協助本所審核 貴公司之財務報表起見，本所須要求查閱與財務報表一併發表之所有文件或報告書，其中包括主席報告書、經營和財務檢討與董事局報告書。本所亦有權出席 貴公司的股東大會，並有權收到所有該等會議之開會通告。
- 2.5 保護 貴公司之資產與防範和查明詐騙行為、錯誤和違規行為乃 閣下之責任；惟本所將盡力策劃核數工作，冀能合理地期望可察覺到財務報表或帳簿之重要錯誤陳述(包括被詐騙行為、錯誤或違規行為所引致的重要錯誤陳述)。但是此類審核工作不應被依賴用以揭發所有可能存在之詐騙行為、錯誤和違規行為。
- 2.6 (如適用一見附註)就本所之核數責任而言，對本所非負責核數工作人員提供之資料(例如：有關會計、稅務與其他服務之資料)，不得作為已對本所提供核數資料論。
- 2.7 當本所已提供核數報告後，本所對該年度之財務報表已沒有任何直接責任。惟本所仍然期望 貴公司會通知本所任何在核數報告簽發日期和股東週年大會日期之期間發生而有可能會影響財務報表之重大事件。

### (集團帳目)

3. 按照上文 1.2 段列出之類似條款，本所作為控股公司之核數師須負責就 貴集團帳目作出報告，而 貴集團帳目乃由控股公司與其附屬公司各自之財務資料組成。倘本所並非 貴集團的附屬公司、合營企業或聯營公司之核數師，則本所為表達對 貴集團帳目之意見，將須直接與其他有關之核數師聯絡，令本所確信：
- i. 貴集團應用的會計政策在可能的情況下是一致的；
  - ii. 貴集團帳目提供的資料符合公司條例、適用之會計準則與其他對財務報告書陳述方面有影響之法例或非法定要求；和
  - iii. 貴集團帳目內之所有重要帳目審核，均已按本所認為足夠和合理之性質及範圍進行，以便本所能歸納對 貴集團帳目之意見。)\*

### (其他服務)

4. 貴公司要求本所提供其他服務，包括...。提供以上服務之條款已另函載述。)\*

### 收費

5. 本所之收費計算標準，乃根據本所合夥人及職員在處理 貴公司事務上所花費之時間、與涉及之技巧及責任程度而定。除非另有協議，本所之收費將按照上述各主要工作種類分別徵收及包括有關之費用；帳單將於工作期間按時寄上， 貴公司於接獲帳單後應即時繳付。

條款協議

- 6.1 此應聘書一經 貴公司及本所同意，會對以後各次核數任命維持有效，直至此應聘書被取代為止。本所謹請 閣下簽署附上之文本及交回本所，以作為 閣下贊同此應聘書之條款。倘此應聘書條款與 閣下理解之委任條件不符，則請告知本所。
- (6.2 由於本所應聘為附錄內所列的附屬公司之核數師之應聘條款與此應聘書所載相同，因此本所將不再另行向各附屬公司董事局呈遞應聘書。本所謹請 閣下向 貴公司屬下各附屬公司董事局轉達此應聘書複本，並請 閣下確認各董事局均已贊同及確認接受此應聘書條款。)\*

謹此

\_\_\_\_\_ 謹上

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承\_\_\_\_\_董事局命，由以下董事簽署以示贊同及接受此應聘書條款。

\_\_\_\_\_ (簽署)

\_\_\_\_\_ (日期)

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\*若不適用，可刪除。

附註

如核數師同時提供會計、稅務或其他服務時，資料可能提供給予核數師非負責核數工作的職員。在這情況下，核數應聘書應包括這段或類似的文字以顯示核數師就核數責任而言，該等資料不得作為已對核數師提供核數資料論，以清楚地表示公司不可以避免知會核數師重大事項。

## APPENDIX 2

### Tax Engagement Letter

#### The need for a tax engagement letter

1. A tax engagement letter provides written confirmation of a member's acceptance and scope of his appointment as a client's tax representative to provide taxation services (tax practitioner). If a tax engagement letter is not sent to clients, both new and existing, there is scope for uncertainty about the precise extent of the respective obligations of the client and the tax practitioner in relation to the client's tax affairs.

#### Contents and form of a tax engagement letter

2. When a tax practitioner prepares tax returns or tax computations for a client, he is acting in an agency capacity. This has an important bearing on his responsibilities.
3. A tax practitioner ensures that every client understands that work can only be undertaken on the basis that the client will supply all relevant information. This is usually best dealt with in a tax engagement letter.
4. A member may undertake services for clients in addition to carrying out his responsibilities as auditor. Some appointments may only require the handling of client's tax affairs and/or the preparation of financial statements. It is recommended that the nature and scope of taxation services should be adequately recorded in a separate tax engagement letter rather than as an add-on to the audit engagement letter.
5. The letter should explain the respective responsibilities of the client and of the tax practitioner in connection with returns of information to the Inland Revenue Department (IRD) in relation to employees, the preparation of taxation computations and the submission of returns of the business, dealing with enquiries from the IRD and agreeing the tax liability with the IRD.

#### Procedures

6. The agreement of a tax engagement letter is in the interests of both the tax practitioner and the client. Therefore the contents of a tax engagement letter should be discussed and agreed with management (the sole trader, partners or directors as the case may be) before it is sent and preferably before or at the same time as he accepts his appointment.
7. A tax practitioner also considers sending a tax engagement letter to existing clients to whom no similar letter has previously been sent.
8. Where a tax practitioner is engaged by a client that has subsidiaries, it is preferable that a separate letter is sent to the board of directors of each company for which he is acting.
9. A tax practitioner cannot normally treat his client's failure to respond to a tax engagement letter as a binding acceptance of its terms. Accordingly, the letter should include a request to management that they confirm in writing their agreement to the terms of the tax engagement by counter-signing and returning a copy of the letter and every effort should be made to ensure that the client responds. It should be clearly understood that when agreed the tax engagement letter will give rise to contractual obligations and its precise content must therefore be carefully considered. In the case of a company, the tax practitioner requests that the letter of acknowledgement be signed on behalf of the board.

## TERMS OF AUDIT ENGAGEMENTS

10. Once it has been agreed by the client, a tax engagement letter will, if it so provides, remain effective until it is replaced. However, the tax engagement letter should be reviewed regularly to ensure that it continues to reflect the actual circumstances of the client. If a change has taken place, including a significant change in management, which materially affects the scope or understanding of the appointment, the tax practitioner discusses the matter with management and where appropriate sends a revised tax engagement letter.
11. The following is an example of a tax engagement letter.

## An example of a tax engagement letter

Below is an example of a tax engagement letter where a member has been instructed to undertake tax work in addition to his audit appointment. It is not intended to be used in relation to every client, as tax engagement letters must be tailored to specific circumstances.

To the [proprietor/partners/directors]\* of

.....

The purpose of this letter is to set out the basis on which we are to act as tax representatives of the [business/partnership/company]\* and the respective areas of responsibility of the [business/partners/company]\* and of ourselves.

### Taxation services

- 1.1 As the taxpayer, you have the primary responsibility to submit a correct and complete tax return, profits tax computation and supporting schedules. Similarly, when any additional information is provided, whether arising out of correspondence with the Inland Revenue Department or otherwise, you are ultimately responsible for ensuring that to the best of your knowledge and belief, after making appropriate enquiries, such information is correct and complete.
- 1.2 We shall be responsible for preparing on your behalf for your consideration and agreement, [your/the firm's/the company's]\* tax computation and tax returns and for the proper presentation and disclosure therein of all known relevant facts. We shall then submit the computation and signed returns to the Inland Revenue Department and deal with the agreement thereof [and the allocation of the adjusted profit/loss amongst the partners]\*\* on your behalf. In cases where additional correspondence or information is required this may result in additional fees being charged.
- 1.3 We shall base our computation on the general interpretation and application of the relevant provisions of the Inland Revenue Ordinance prevailing at the time of preparation of the returns. It must be emphasised that in some cases a position has to be taken as regards deductibility or chargeability of particular transactions. These will be fully discussed and decided with you.
- 1.4 In carrying out the above work, we must stress that we shall be dealing with your tax affairs on your behalf as your agent, and on the basis that you make full disclosure to us of all relevant information. There is no requirement for us to, and therefore we shall not, perform any audit or independent verification work on any information provided by you to us for the purposes of preparing the tax return and forwarding it to the Inland Revenue Department [except to the extent required for the statutory audit. Our responsibilities as your auditors are already clearly set out in the audit engagement letter. Our roles as your auditors and your tax representatives are different. Therefore, the appointments should be treated as separate engagements]\*\*\*. You are responsible for ensuring that the accounting records faithfully reflect the nature of transactions.  
  
[Other assignment eg. tax planning, employer's returns, etc.]\*\*
- 1.5 We shall be pleased to advise on any other taxation matters if requested. These will be regarded as separate assignments.



TERMS OF AUDIT ENGAGEMENTS

- 1.6 The Inland Revenue Department has special procedures for the examination of business accounts. Cases which exhibit certain characteristics may trigger a field audit examination or a full investigation by the Inland Revenue Department. These examinations may not be restricted to the books and records of the business.
- 1.7 You will appreciate therefore the necessity of maintaining accurate and complete records of all your business transactions. Once a taxpayer is selected for this in-depth examination a considerable amount of information will be requested by the Inland Revenue Department which may involve us, and you, in substantial additional time and cost, unless the information is readily available.
- 1.8 We should also emphasise that the due date for the submission for your Profits Tax Returns is [1 May/31 July/31 October]\*\*. If the returns are not submitted by this due date, penalties up to three times the tax unpaid may be charged. Therefore, we urge that [the books and records of the business, duly completed to include all transactions of the accounting year/draft financial statements/audited financial statements]\*, be made available to us at least months [period to be agreed with the client]\*\* before this due date.

**Fees**

2. 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. Unless otherwise agreed, our fees will be charged separately for the basic taxation services described above and any other assignments [each of the main classes of work described above]\*\*, will be billed at appropriate intervals during the course of the year and will be due on presentation.

**Agreement of terms**

3. Once it has been agreed, this letter will remain effective, from one tax year to another, until it is replaced. We shall be grateful if you could confirm in writing your agreement to the terms of this letter by signing and returning the attached copy, or let us know if they are not in accordance with your understanding of our terms of appointment.

Yours faithfully,

\_\_\_\_\_ (signed)

Agreed and accepted by

\_\_\_\_\_ (signed)  
\_\_\_\_\_ (Date)

**Footnotes:**

- \* Delete as appropriate.
- \*\* Insert as appropriate.
- \*\*\* Only applicable where the member acts as both auditor and tax representative.

## 稅務應聘書樣本

以下為一間會計師事務所受客戶委託核數任命外，並負責處理稅務工作時的稅務應聘書樣本。由於稅務應聘書必須配合特有情況所需，因此並不擬用於所有客戶。

致\_\_\_\_\_ (公司東主／合夥人／董事)\*：

此應聘書旨在闡釋本會計師事務所(以下簡稱“本所”)出任為 貴(商行／合夥公司／公司)\*稅務代表的基準，與及 貴(商行／合夥公司／公司)\*和本所各自的職責範圍。

### 稅務服務

- 1.1 作為納稅人， 貴公司的基本責任是向稅務局呈報一份正確及完整的報稅表、利得稅的計算表及有關附表。同時，倘呈報後因稅務局要求或其他原因，還需提交補充資料， 貴公司有絕對責任根據所知所信及查證，確保此等資料是正確和完整的。
- 1.2 本所將以 貴公司的稅務代表身份，負責編製(閣下／貴商號／貴公司)\*的應課稅計算表及報稅表，並將一切所知的有關事實在該等計算表及報稅表內適當地列報及披露，以供 貴公司參詳和確定。然後本所將代表 貴公司把該計算表和已簽署的報稅表呈交稅務局，並代表 貴公司處理有關往後與稅務局商討應課稅溢利或虧損(及按經調整後的溢利／虧損分配給各合夥人)\*\*的計算事宜。倘在此過程中需提供額外資料，或導致本所需提供額外服務，本所可能需要收取額外的費用。
- 1.3 在編製報稅表和計算稅項時，本所將依據當時稅務條例的一般解釋及應用準則來辦理。本所必須強調，在某些情況下， 貴公司需就某些交易是否可獲稅務減免或需要課稅採取立場，本所會就這些事項與 貴公司詳細討論及決定。
- 1.4 本所必須指出，在進行上述工作時，本所是以 貴公司的代理人身份處理 貴公司的稅務事宜，以及在 貴公司向本所提供一切有關的資料的基礎上進行。對於任何由 貴公司提供而用作報稅的資料，本所無須進行任何核數或獨立的審查工作(屬於法定核數範圍者除外，本所作為核數師的責任已詳列於核數應聘書內。核數師和稅務代表各有職責，故此聘任的程序需分別進行)\*\*\*。貴公司是有責任確保 貴公司的會計記錄能如實反映各項交易的狀況。  
(其他聘任工作，如稅務策劃、僱主填報的報稅表等。)\*\*
- 1.5 如有需要，本所樂意為 貴公司提供其他有關稅務的服務，但這服務需視為另外聘任的工作。
- 1.6 稅務局有特別的程序去審查企業的帳目。過去的事例顯示，某些特別的徵象是會導致稅務局向企業進行實地審查或全面的稅務調查。這些審查的範圍可能並不局限於調查企業的帳簿及記錄。
- 1.7 由此可見，為 貴公司的所有商業交易編製正確和完整的記錄是必須的。納稅人一旦被稅務局選中作深入審查時，該公司便要提供相當詳盡的資料。除非資料已準備妥當，否則可能會耗用 貴公司及本所頗多時間和費用。
- 1.8 本所必須同時指出， 貴公司最後呈交利得稅報稅表的日期為(五月一日／七月三十一日／十月三十一日)\*。如到期仍未呈報，稅務局便可以徵收高達應繳稅款三倍的罰款。因此，本所敦促 貴公司及早完成編製(企業的帳簿及紀錄，包括本會計年度的全部交易／財務報表草稿／已審核的財務報表)\*，並需於呈交限期前的\_\_\_\_個月(與客戶議定)\*\*交給本所辦理。

## 收費

2. 本所的收費是根據本所的合夥人及職員在處理 貴公司稅務上所花費的時間、與涉及的技巧及責任程度來釐定。除非另有協議，本所的收費將按照上述基本稅務服務和其他聘任的工作(其他聘任服務的類別如上所述)\*\* 分別徵收及包括有關之費用，帳單於年內寄上， 貴公司於接獲帳單後應即時繳付。

## 條款協議

3. 此應聘書一經 貴公司及本所同意，即為聘任本所為每課稅年度的稅務代表，直至此聘任書被取代為止。本所謹請 閣下簽署附上的文本及交回本所，以作為 貴公司贊同此應聘書的條款。倘此應聘書條款與 貴公司理解的聘任條件不符，則請告知本所。

謹此

\_\_\_\_\_ 謹上

贊同及接受此應聘書條款：

\_\_\_\_\_ (簽署)

\_\_\_\_\_ (日期)

備註：

\* 請將不適用的部份刪去。

\*\* 祇於適當時載入此應聘書內。

\*\*\* 祇適用於兼任核數師的稅務代表。

## Appendix 3

### HKSA 210 Amended as a Result of HKSA 700—Effective Date to be Determined

HKSA 700, “The Independent Auditor’s Report on a Complete Set of General Purpose Financial Statements” issued in October 2006 and effective for auditor’s reports dated on or after 31 December 2006 gave rise to conforming amendments to HKSA 210. Implementation of these amendments in ISA 210 “Terms of Audit Engagements (HKSA 210 equivalent) has been deferred by the IAASB (effective date yet to be determined) pending the revision of ISA 800 “The Independent Auditor’s Report on Special Purpose Audit Engagements”. It is shown below for reference and will be issued as a revised standard with illustrative Hong Kong examples when effective.

#### Introduction

1. *The purpose of this Hong Kong Standard on Auditing (HKSA) is to establish standards and provide guidance on:*
  - (a) *Agreeing the terms of the engagement with the client; and*
  - (b) *The auditor’s response to a request by a client to change the terms of an engagement to one that provides a lower level of assurance.*
2. **The auditor and the client should agree on the terms of the engagement.** *The agreed terms would need to be recorded in an audit engagement letter or other suitable form of contract.*
3. *This HKSA is intended to assist the auditor in the preparation of engagement letters relating to audits of financial statements.*
4. *In some countries, the objective and scope of an audit and the auditor’s obligations are established by law. Even in those situations the auditor may still find audit engagement letters informative for their clients.*

#### Audit Engagement Letters

5. *It is in the interest of both client and auditor that the auditor sends an engagement letter, preferably before the commencement of the engagement, to help in avoiding misunderstandings with respect to the engagement. The engagement letter documents and confirms the auditor’s acceptance of the appointment, the objective and scope of the audit, the extent of the auditor’s responsibilities to the client and the form of any reports.*

#### Principal Contents

6. *The form and content of audit engagement letters may vary for each client, but they would generally include reference to:*
  - *The objective of the audit of financial statements.*
  - *Management’s responsibility for the financial statements as described in HKSA 200 (Revised), “Objective and General Principles Governing an Audit of Financial Statements.”*
  - *The financial reporting framework adopted by management in preparing the financial statements, i.e., the applicable financial reporting framework.*
  - *The scope of the audit, including reference to applicable legislation, regulations, or pronouncements of professional bodies to which the auditor adheres.*
  - *The form of any reports or other communication of results of the engagement.*
  - *The fact that because of the test nature and other inherent limitations of an audit, together with the inherent limitations of any accounting and internal control system, there is an unavoidable risk that even some material misstatement may remain undiscovered.*
  - *Unrestricted access to whatever records, documentation and other information requested in connection with the audit.*

7. *The auditor may also wish to include in the letter:*
- *Arrangements regarding the planning of the audit.*
  - *Expectation of receiving from management written confirmation concerning representations made in connection with the audit.*
  - *Request for the client to confirm the terms of the engagement by acknowledging receipt of the engagement letter.*
  - *Description of any other letters or reports the auditor expects to issue to the client.*
  - *Basis on which fees are computed and any billing arrangements.*
8. *When relevant, the following points could also be made:*
- *Arrangements concerning the involvement of other auditors and experts in some aspects of the audit.*
  - *Arrangements concerning the involvement of internal auditors and other client staff.*
  - *Arrangements to be made with the predecessor auditor, if any, in the case of an initial audit.*
  - *Any restriction of the auditor's liability when such possibility exists.*
  - *A reference to any further agreements between the auditor and the client.*
- An example of an audit engagement letter is set out in the Appendix.*

#### **Audits of Components**

9. *When the auditor of a parent entity is also the auditor of its subsidiary, branch or division (component), the factors that influence the decision whether to send a separate engagement letter to the component include the following:*
- *Who appoints the auditor of the component.*
  - *Whether a separate auditor's report is to be issued on the component.*
  - *Legal requirements.*
  - *The extent of any work performed by other auditors.*
  - *Degree of ownership by parent.*
  - *Degree of independence of the component's management.*

#### **Agreement on the Applicable Financial Reporting Framework**

10. ***The terms of the engagement should identify the applicable financial reporting framework.***
11. *As stated in HKSA 200 (Revised) 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. In some cases, the objective of the financial statements will be to meet the common information needs of a wide range of users; in others, to meet the needs of specific users.*
12. *HKSA 200 (Revised) describes the financial reporting frameworks that are presumed to be acceptable for general purpose financial statements. Legislative and regulatory requirements often identify the applicable financial reporting framework for general purpose financial statements. In most cases, the applicable financial reporting framework will be established by a standards setting organization that is authorized or recognized to promulgate standards in the jurisdiction in which the entity is registered or operates.*
13. ***The auditor should accept an engagement for an audit of financial statements only when the auditor concludes that the financial reporting framework adopted by management is acceptable or when it is required by law or regulation. When law or regulation requires use of a financial reporting framework for general purpose financial statements that the***

**auditor considers to be unacceptable, the auditor should accept the engagement only if the deficiencies in the framework can be adequately explained to avoid misleading users.**

14. Without an acceptable financial reporting framework management does not have an appropriate basis for preparing the financial statements and the auditor does not have suitable criteria for evaluating the entity's financial statements. In these circumstances, unless use of the financial reporting framework is required by law or regulation, the auditor encourages management to address the deficiencies in the financial reporting framework or to adopt another financial reporting framework that is acceptable. When the financial reporting framework is required by law or regulation and management has no choice but to adopt this framework, the auditor accepts the engagement only if the deficiencies can be adequately explained to avoid misleading users, see HKSA 701, "Modifications to the Independent Auditor's Report," paragraph 5 and, unless required by law or regulation to do so, does not express the opinion on the financial statements using the terms "give a true and fair view" or "are presented fairly, in all material respects," in accordance with the applicable financial reporting framework.
15. When the auditor accepts an engagement involving an applicable financial reporting framework that is not established by an organization that is authorized or recognized to promulgate standards for general purpose financial statements of certain types of entities, the auditor may encounter deficiencies in that framework that were not anticipated when the engagement was initially accepted and that indicate that the framework is not acceptable for general purpose financial statements. In these circumstances, the auditor discusses the deficiencies with management and the ways in which such deficiencies may be addressed. If the deficiencies result in financial statements that are misleading and there is agreement that management will adopt another financial reporting framework that is acceptable, the auditor refers to the change in the financial reporting framework in a new engagement letter. If management refuses to adopt another financial reporting framework, the auditor considers the impact of the deficiencies on the auditor's report, see HKSA 701.

### **Recurring Audits**

16. **On recurring audits, the auditor should consider whether circumstances require the terms of the engagement to be revised and whether there is a need to remind the client of the existing terms of the engagement.**
17. The auditor may decide not to send a new engagement letter each period. However, the following factors may make it appropriate to send a new letter:
  - Any indication that the client misunderstands the objective and scope of the audit.
  - Any revised or special terms of the engagement.
  - A recent change of senior management, board of directors or ownership.
  - A significant change in nature or size of the client's business.
  - Legal requirements.
  - A change in the financial reporting framework adopted by management in preparing the financial statements (as discussed in paragraph 15).

### **Acceptance of a Change in Engagement**

18. **An auditor who, before the completion of the engagement, is requested to change the engagement to one which provides a lower level of assurance, should consider the appropriateness of doing so.**

19. *A request from the client for the auditor to change the engagement may result from a change in circumstances affecting the need for the service, a misunderstanding as to the nature of an audit or related service originally requested or a restriction on the scope of the engagement, whether imposed by management or caused by circumstances. The auditor would consider carefully the reason given for the request, particularly the implications of a restriction on the scope of the engagement.*
20. *A change in circumstances that affects the entity's requirements or a misunderstanding concerning the nature of service originally requested would ordinarily be considered a reasonable basis for requesting a change in the engagement. In contrast a change would not be considered reasonable if it appeared that the change relates to information that is incorrect, incomplete or otherwise unsatisfactory.*
21. *Before agreeing to change an audit engagement to a related service, an auditor who was engaged to perform an audit in accordance with the HKSA's would consider, in addition to the above matters, any legal or contractual implications of the change.*
22. *If the auditor concludes that there is reasonable justification to change the engagement and if the audit work performed complies with the HKSA's applicable to the changed engagement, the report issued would be that appropriate for the revised terms of engagement. In order to avoid confusing the reader, the report would not include reference to:*
  - (a) *The original engagement; or*
  - (b) *Any procedures that may have been performed in the original engagement, except where the engagement is changed to an engagement to undertake agreed-upon procedures and thus reference to the procedures performed is a normal part of the report.*
23. ***Where the terms of the engagement are changed, the auditor and the client should agree on the new terms.***
24. ***The auditor should not agree to a change of engagement where there is no reasonable justification for doing so. An example might be an audit engagement where the auditor is unable to obtain sufficient appropriate audit evidence regarding receivables and the client asks for the engagement to be changed to a review engagement to avoid a qualified audit opinion or a disclaimer of opinion.***
25. ***If the auditor is unable to agree to a change of the engagement and is not permitted to continue the original engagement, the auditor should withdraw and consider whether there is any obligation, either contractual or otherwise, to report to other parties, such as the board of directors or shareholders, the circumstances necessitating the withdrawal.***

### **Effective Date**

26. *This HKSA is effective for audits of financial statements for periods beginning on or after [date].*

### **Public Sector Perspective**

1. *The purpose of the engagement letter is to inform the auditee of the nature of the engagement and to clarify the responsibilities of the parties involved. The legislation and regulations governing the operations of public sector audits generally mandate the appointment of a public sector auditor and the use of audit engagement letters may not be a widespread practice. Nevertheless, a letter setting out the nature of the engagement or recognizing an engagement not indicated in the legislative mandate may be useful to both parties. Public sector auditors have to give serious consideration to issuing audit engagement letters when undertaking an audit.*
2. *Paragraphs 18-25 of this HKSA deal with the action a private sector auditor may take when there are attempts to change an audit engagement to one which provides a lower level of assurance. In the public sector specific requirements may exist within the legislation governing the audit mandate; for example, the auditor may be required to report directly to a minister, the legislature or the public if management (including the department head) attempts to limit the scope of the audit.*

## **Appendix: Example of an Engagement Letter**

*The following is an example of an engagement letter for an audit of general purpose financial statements prepared in accordance with Hong Kong Financial Reporting Standards. This letter is to be used as a guide in conjunction with the considerations outlined in this HKSA and will need to be varied according to individual requirements and circumstances.*

### **To the Board of Directors or the appropriate representative of senior management:**

*You have requested that we audit the financial statements of ....., which comprise the balance sheet as at ....., and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes. We are pleased to confirm our acceptance and our understanding of this engagement by means of this letter. Our audit will be conducted with the objective of our expressing an opinion on the financial statements.*

*We will conduct our audit in accordance with Hong Kong Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.*

*Because of the test nature and other inherent limitations of an audit, together with the inherent limitations of any accounting and internal control system, there is an unavoidable risk that even some material misstatements may remain undiscovered.*

*In making our risk assessments, we consider internal control relevant to the entity's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. However, we expect to provide you with a separate letter concerning any material weaknesses in the design or implementation of internal control over financial reporting that come to our attention during the audit of the financial statements.\**

*We remind you that the responsibility for the preparation of financial statements that present fairly the financial position, financial performance and cash flows of the company in accordance with Hong Kong Financial Reporting Standards is that of the management of the company. Our auditors' report will explain that management is responsible for the preparation and the fair presentation of the financial statements in accordance with the applicable financial reporting framework and this responsibility includes:*

- Designing, implementing and maintaining internal control relevant to the preparation of financial statements that are free from misstatement, whether due to fraud or error;*
- Selecting and applying appropriate accounting policies; and*
- Making accounting estimates that are appropriate in the circumstances.*

*As part of our audit process, we will request from management written confirmation concerning representations made to us in connection with the audit.*

*We look forward to full cooperation from your staff and we trust that they will make available to us whatever records, documentation and other information are requested in connection with our audit.*

*[Insert additional information here regarding fee arrangements and billings, as appropriate.]*

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\* In some jurisdictions, the auditor may have responsibilities to report separately on the entity's internal control. In such circumstances, the auditor reports on that responsibility as required in that jurisdiction. The reference in the auditor's report on the financial statements to the fact that the auditor's consideration of internal control is not for the purpose of expressing an opinion on the effectiveness of the entity's internal control may not be appropriate in such circumstances.



TERMS OF AUDIT ENGAGEMENTS

*Please sign and return the attached copy of this letter to indicate that it is in accordance with your understanding of the arrangements for our audit of the financial statements.*

*XYZ & Co.*

*Acknowledged on behalf of ABC Company by*

*(signed)*

.....

*Name and Title*

*Date*