

Guidelines for Independent Practitioners

Assurance Engagement on Traffic Volume of External Telecommunications Services Reported to the Office of the Telecommunications Authority

23 March 2005

Background

Since 1 January 1999, the Telecommunications Authority (“TA”) has implemented an arrangement¹ in order to collect statistics on traffic for external telecommunications services (“ETS”) for calculation of Universal Service Contribution. One of the requirements is that licensee who provides ETS (“Relevant Licensee”) shall submit to the Office of the Telecommunications Authority (“OFTA”) each year an assurance report (the “Report”) (previously referred to as auditor certificate), addressing the correctness of the total external traffic to and from end-customers (“ETS Traffic”). The purpose of these guidelines (“Guidelines”) is to provide practical guidance to concerned independent practitioners² in preparation of the Report.

Responsibilities of Independent Practitioners

2. It is the responsibilities of independent practitioners to carry out a limited assurance engagement and give a negative form of expression of conclusion on certain aspects of the correctness of the ETS Traffic for the reporting period in order to enhance the degree of confidence that OFTA places on the Report. The requirement of negative assurance opinion is consistent with the previous arrangement set out by OFTA since 1999¹.

¹ For background of the traffic statistics reporting requirement for ETS, please refer to the series of circular letters on OFTA’s website at: <http://www.ofa.gov.hk/howto/ets-old.html> which are now superseded by circular letter dated 23 March 2005 posted on OFTA’s website at: <http://www.ofa.gov.hk/howto/ets.html>

² According to the Hong Kong Framework for Assurance Engagements, “practitioner” is defined as professional accountants in public practice. The term “practitioner” is broader than the term “auditor” which relates only to reporting engagement with respect to historical financial information. A practitioner may be requested to perform assurance engagement on a wide range of subject matters.

Criteria and Scope of Work

3. The Hong Kong Institute of Certified Public Accountants issued the Hong Kong Standard on Assurance Engagements 3000 (“HKSAE 3000”) entitled “Assurance Engagements Other Than Audits or Reviews of Historical Financial Information” in October 2004 to establish basic principles and essential procedures for, and provide guidance to, practitioners for the performance of such engagements where the assurance report is dated on or after 1 January 2005. HKSAE 3000 uses the terms “reasonable assurance engagement” for a positive form of expression of conclusion and “limited assurance engagement” for a negative form of expression of conclusion that a practitioner is permitted to perform. Considering the requirement of a negative assurance opinion as specified in paragraph 2 of the Guidelines, the independent practitioners should plan and conduct the engagement to provide a limited level of assurance in accordance with HKSAE 3000 and comply with the Guidelines. Since a level of assurance is required, the Hong Kong Standard on Related Services (“HKSRS”) 4400 entitled “Engagements to Perform Agreed - Upon Procedures Regarding Financial Information”, the objective of which is to report on factual findings without expressing an assurance, is NOT applicable.

Non-Zero ETS Traffic

4. The scope of work for the engagement should be set by independent practitioners and included in the Report. The overall objectives of the scope of work for non-zero ETS Traffic (in incoming and / or outgoing direction, where applicable)³ are:

- (i) to assess the accuracy of extraction of data from the underlying system; and**
- (ii) to review the overall reasonableness of the overall level of traffic volume for the reporting period.**

Here is a non-exhaustive list of acceptable procedures and unacceptable procedures for illustrative purpose:

³ For situations where the Relevant Licensee has non-zero incoming traffic but zero outgoing traffic, or vice versa, the independent practitioner is required to quote in the Report the objectives set out in paragraph 4(i) and (ii) for the direction of traffic with non-zero traffic, and the objective set out in paragraph 6(i) for the direction of traffic with zero traffic.

Acceptable Procedures

- (i) To assess the accuracy of extraction of data from the underlying system by:-
 - reviewing the extraction routines undertaken on a sample basis;
 - obtaining third party's confirmation on the traffic for the reporting period where the operation of the underlying system is outsourced to third party and access to the underlying system is for this reason restricted;

- (ii) To review the reasonableness of the overall level of traffic volume for the reporting period by:-
 - reviewing the billing and receipt records of Relevant Licensee for outgoing traffic to overseas (where there is non-zero outgoing traffic);
 - reviewing the billing and settlement record from the overseas counterpart of the Relevant Licensee for incoming traffic from overseas (where there is non-zero incoming traffic).

Unacceptable procedures

- understanding the extraction routines solely by interviewing related staff, without further steps to perform sample checking; and / or
- relying solely on management representation on the correctness of the traffic volume for the reporting period, without taking further steps to verify the traffic volume reported.

5. The independent practitioners should plan and perform an engagement with an attitude of professional scepticism recognising that circumstances may exist that cause the subject matter information to be materially mis-stated. Where material misstatement is noted, limitation on the scope of the independent practitioners' work exists, or where there are other circumstances where the independent practitioners are unable to express an unqualified conclusion, written elaborations in a clear manner should be included in the Report.

Zero ETS Traffic

6. In circumstances where the Relevant Licensee has no ETS Traffic with respect to either or both of the incoming traffic and/or outgoing traffic, the overall objective of the scope of work³ is:

- (i) to ensure the Relevant Licensee does not conduct ETS business in respect of either or both of the incoming traffic and/or outgoing traffic.**

The independent practitioners should state the work done in addition to management representation, if any, to arrive at the conclusion of zero ETS Traffic for the reporting period. The assurance procedures would be considered as incomplete if the conclusion is based solely on management representation.

7. To substantiate the zero ETS Traffic (incoming and/or outgoing direction, where appropriate) for the reporting period, the independent practitioners should obtain corroborative evidence from sources inside or outside the Relevant Licensee and evaluate whether the management representation appears reasonable and consistent with other evidence obtained. Examples of corroborative evidence include reviewing the books and records of the Relevant Licensee for the reporting period to ensure that the overall objective of the scope of work is met.

8. The independent practitioners should pay attention to the formality requirement in preparing Table 1 for Yearly Assurance Report. Where the overall ETS Traffic for the reporting period is zero, a “nil” or “0” should be inputted accordingly. Blank submission would NOT be accepted.

9. Independent practitioners are required to depict the reason and findings for any difference between the traffic submitted previously by the Relevant Licensee and the traffic certified in the Report.

Format of the Report

10. The Report should contain:

- (i) a title that clearly indicates that the Report is an independent assurance report;
- (ii) the addressee;
- (iii) an introductory paragraph that identifies and describes the objective of the engagement and the period covered by the Report;
- (iv) the respective responsibilities of the Relevant Licensee and the independent practitioners;
- (v) a statement on basis of conclusion that specifies the application of HKSAE3000 and these Guidelines;
- (vi) the scope and summary of work performed;
- (vii) for unqualified report, an unqualified conclusion applicable for a limited assurance engagement, i.e. a negative form of conclusion; for qualified report, a qualified conclusion, adverse conclusion or disclaimer of conclusion and findings;
- (viii) a summary table on ETS Traffic;
- (ix) a statement that the Report is intended solely for use by Relevant Licensee and submission to OFTA;
- (x) the independent practitioner's signature;
- (xi) the place and date of insurance of the Report; and
- (xii) Table 1 for Yearly Assurance Report (which forms ANNEX I to the Report).

11. An example of the Report is set out in Appendix 1.

Submission Procedures

12. The Report together with a printed copy of Table 1 for Yearly Assurance Report should be submitted to this Office by mail. Deadline for submission of the Report is on or before 30 June every year. The Relevant Licensee should strictly observe and adhere to the deadline.

13. Please note that the Report that is not prepared, certified and submitted according to the above guidelines will be considered as incomplete. The submission of an incomplete Report will not be accepted by the OFTA as fulfillment of the reporting requirement under the Licence.

Enquiry

14. Enquiries concerning the traffic statistics requirements should be addressed to:

Office of the Telecommunications Authority
29/F, Wu Chung House, 213 Queen's Road East
Wanchai, Hong Kong
[Attn: Regulatory Affairs Managers, Regulatory Section 22
Tel No. 2961 6678 or 2961 6654
Fax No. 2834 1501]

15. These guidelines supersede any circular letters, guidelines or requirements issued or given by this Office previously in relation to the submission of auditor certificates on a yearly basis for ETS traffic.

Office of the Telecommunications Authority
23 March 2005