

Revised Guidelines for Independent Practitioners

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

20 March 2006

Part A - 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 independent 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 the “Revised Guidelines for Independent Practitioners – Assurance Engagement on Traffic Volume of External Telecommunications Services Reported to the Office of the Telecommunications Authority”² issued on 20 March 2006 (“Revised Guidelines”) is to provide practical guidance to concerned independent practitioners³ in preparation of the Report. The Revised Guidelines supersede the “Guidelines for Independent Practitioners – Assurance Engagement on Traffic Volume of External Telecommunications Services Reported to the Office of the Telecommunications Authority” issued on 23 March 2005.

Part B - Responsibilities of Independent Practitioners

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.ofta.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 which are now superseded by circular letter dated 23 March 2005 posted on OFTA’s website at: 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.ofta.gov.hk/howto/ets.html>.

² This Revised Guidelines dated 20 March 2006 and Format of Acceptable Independent Assurance Report (previously referred as “Sample of Acceptable Independent Assurance Report”) serves to clarify issues and enhance the previous guidelines. There has been no material change made to the reporting requirements in the Revised Guidelines.

³ 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. The Report should be prepared and signed off by a Certified Public Accountant (CPA) who is a professional accountant registered as such by virtue of section 24 of the Professional Accountants Ordinance (Chapter 50) and holding a valid and current practising certificate under section 29A of the Professional Accountants Ordinance.

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.

Part C - 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.

4. 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. Any statements which in the opinion of OFTA reduce the required level of assurance or the credibility of the Report will NOT be accepted by OFTA and should not be included in the Report. Examples of unacceptable statements that should not be included in the Report include “the procedures performed do not constitute an assurance engagement and, as such, no assurance is expressed.” and “had the auditor performed additional procedures or an assurance engagement, other matters might have come to light that would have been reported”.

Objective(s) of the Scope of Work

5 Independent Practitioners should state the overall objectives and procedures conducted to achieve the respective objectives for Non-Zero and Zero ETS Traffic. The overall objectives of the Scope of Work for **Non Zero ETS Traffic** (in incoming

and/or outgoing direction, where applicable)⁴ 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.**

6. The overall objective of the Scope of Work for **Zero ETS Traffic** (in incoming and/or outgoing direction, where applicable)⁴ 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 reportable under Table 1.**

7. Exact standard wordings for the objectives and/or objective for either incoming or outgoing traffic or both incoming and outgoing traffic for Non-Zero and/or Zero ETS Traffic must be followed and used in the Report. Objectives other than the overall objectives stated above will NOT be accepted.

Acceptable and Unacceptable Procedures to Achieve the Respective Objective(s)

Non-Zero ETS Traffic

8. 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.

9. For illustrative purpose below is a non-exhaustive list of acceptable procedures and unacceptable procedures for Non-Zero ETS Traffic. The independent practitioners should exercise their professional discretion to decide the appropriate procedures by taking into account the mode of business operation of the licensee.

⁴ 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 5(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 for Non-Zero ETS Traffic

- (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 for Non-Zero ETS Traffic

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

Zero ETS Traffic

10. The independent practitioners should state the work done to arrive at the conclusion of Zero ETS Traffic for the reporting period.

Acceptable Procedures for Zero ETS Traffic

- (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 reportable under Table 1 by:-
 - obtaining 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.

Unacceptable Procedures for Zero ETS Traffic

- relying on management / staff representation that the licensee has no ETS Traffic reportable under Table 1 for the reporting period without taking further steps to verify the conclusion of Zero ETS Traffic.

Part D - Reasons for Difference between Traffic Submitted and Traffic Certified

11. Independent practitioners are required to depict the reason and findings for any difference between the traffic submitted previously by the Relevant Licensee to OFTA (through monthly Table 1 reports) and the traffic certified below the summary Table 1 in the Conclusion of the Report.

Part E - Table 1 for Yearly Assurance Report

12. The independent practitioners should pay attention to the formality requirement in preparing Table 1 for the 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.

Part F - Format of the Report

13. The Report should be in the format as set out in Appendix 1 and should contain the following information:

- (i) a title that clearly indicates that the Report is an independent assurance report;
- (ii) the particulars of the client (licensee), such as the name and address of the client (licensee), and licence type and number;
- (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 of Work listing the respective Objective(s) AND the Procedures done to achieve the Objective(s);
- (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 is required (even if Table 1 shows zero traffic for all the routes);
 - (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 issue of the Report; and
 - (xii) Table 1 for Yearly Independent Assurance Report (which forms ANNEX I to the Report).

Part G - Submission Procedures

14. The Report together with a printed copy of Table 1 for Yearly Independent 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.

15. Please note that any Report that is not prepared, certified and submitted according to this Revised Guidelines will be considered to be incomplete and will not be accepted by OFTA. The submission of an incomplete and/or unacceptable Report will be treated as non-fulfillment of the reporting requirement under the Licence and in breach of the related licence condition. OFTA reserves the right to ask the licensee concerned to make the necessary rectification and resubmit a revised Report and/or to provide clarification on the issues raised by OFTA. Appropriate regulatory actions may also be instituted against the licensee for breach of the licence condition.

Part H - Enquiry

16. 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 6735
Fax No. 2834 1501]

Office of the Telecommunications Authority
20 March 2006