

Clarification on the Scope of Financial Projection to be Reviewed in the Compliance Assessment of a Certification Authority

Introduction

This paper briefs members on our response to a comment from the Hong Kong Society of Accountants (HKSA) in respect of the scope of the financial projection that should be reviewed as part of the compliance assessment of a certification authority (CA) under the Electronic Transactions Ordinance (Cap. 553) (the Ordinance).

Background

2. Section 21(4) of the Ordinance sets out the matters that the Director of Information Technology Services (the Director) shall take into account in determining whether an applicant is suitable for recognition by the Government under the Ordinance. In accordance with section 21(4)(a), the Director shall consider whether the applicant has the appropriate financial status for operating as a recognized CA in accordance with the Ordinance and the Code of Practice for Recognized Certification Authorities (the Code of Practice).

3. Section 20(3)(b) of the Ordinance specifies that an applicant seeking recognition must furnish to the Director a report that provides an assessment as to whether the applicant is capable of complying with relevant provisions of the Ordinance and with the Code of Practice. The assessment shall cover the financial status of the applicant referred to in section 21(4)(a) of the Ordinance.

4. The Director has issued the Guidance Note on Compliance Assessment of Certification Authorities (the Guidance Note) that provides guidance on the scope and conduct of the assessment required under section 20(3)(b) of the Ordinance. The Guidance Note is also applicable to an assessment under section 43(1) of the Ordinance which specifies that a recognized CA must furnish to the Director an assessment report at least once in every 12 months.

5. In accordance with the Guidance Note, the assessor should review, among other things, the CA's financial projection prepared by the CA for the next 12 months in respect of the CA's operation relevant under the Ordinance. In reviewing the financial projection, the assessor should consider relevant aspects including without limitation the nature and background of the CA's business, such as its recent history, and other relevant information which could impact its operation.

6. The assessor should state in the assessment report whether the financial projection has been properly compiled in all material aspects in accordance with the assumptions made by the CA. If any of the assumptions made, or omitted to be made, by the CA appears to the assessor to be unrealistic or inappropriate based on the assessor's experience and professional judgement, the assessor should include an appropriate comment in the assessment report.

Financial projection for the entire business of a CA

7. A CA applying for recognition under the Ordinance may also run non-CA businesses in addition to CA service. Where the applicant also runs non-CA businesses, the financial status of such non-CA businesses will likely have impact upon its CA service. There will be the possibility that the applicant might be unable to sustain its CA operations due to failure of its non-CA businesses rather than the failure of its CA service. Therefore, it would not be sufficient to focus on the financial viability of the CA service alone. The financial projection prepared by the applicant for review by its assessor should cover the entire business of the applicant including its CA service as well as its non-CA businesses.

8. The requirement of reviewing the financial projection for the entire business of a CA shall also apply when an assessor prepares an assessment report on a recognized CA under section 43(1) of the Ordinance.

A comment received and our response

9. We have received a comment from the HKSA that the requirement of reviewing the financial projection for the entire business of a CA is not clearly stated in the Guidance Note. We have replied to the HKSA clarifying our position as set out in paragraphs 7 and 8 above. Furthermore,

we will require that the financial projection prepared by the CA shall form part of the assessment report to be prepared by the assessor. We will publicise the above clarification by issuing an amendment to the Guidance Note.

10. We invite members' comments in respect of the above clarification and proposed action.

Information Technology Services Department
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