

# Alert

Updates on financial reporting, auditing and ethics



*Issue 27 (November 2018)*

Dear practising members,

## **Disciplinary actions arising from practice review complaints**

Twelve years have passed since the Institute launched its revised practice review programme in 2006. While the Institute remains committed to the educational value of practice review, the Institute also has the responsibility to uphold the quality and reputation of the accounting profession in Hong Kong. As a responsible regulator the Institute, through the Practice Review Committee (PRC), has a duty to take appropriate action against a practice unit if significant non-compliance is found in its practice review.

In 2014 the Institute issued a letter to all practising members advising them that the PRC is prepared to take strong actions against practices that fail to take proactive action to address the Top 5 findings<sup>1</sup> of the practice review programme. Since then, the PRC has begun raising complaints against practice units based on poor practice review results and practice units that were uncooperative in the practice review process. A number of complaints raised by the PRC have now completed the disciplinary process. This alert aims to draw members' attention to important features of the results of the practice review complaints.

### Practice units with unsatisfactory practice review results

For complaints based on unsatisfactory practice review results, recently completed disciplinary cases show that disciplinary committees are prepared to cancel a member's practising certificate for up to two years. The sanction is less severe if mitigating factors, such as early admission of guilt, showing remorse and full cooperation in the disciplinary process, were present. The period of cancellation of the practising certificate is generally longer and the penalty and costs are generally higher for contested cases. In many contested cases relating to smaller practices arguments were put forward that given the small size of the practice and good acquaintance with client businesses professional standards did not have to be observed. In a recently dismissed appeal against a Disciplinary Committee (DC) decision, the Court of Appeal judgment categorically stated that since a practice is accorded the privilege of practice by virtue of membership of the Institute, it has to comply with professional standards regardless of whether the practice considers those standards as too demanding for its size and client portfolio.

The sanctions imposed are determined by reference to features such as multiple and/or repeated breaches of requirements, issues raising doubt regarding the respondent's

<sup>1</sup> Top 5 findings are: (1) no or insufficient quality control policies and procedures; (2) no or insufficient monitoring; (3) inappropriate audit methodology; (4) unsatisfactory subcontracting arrangements; and (5) misuse of modified reports.

integrity and/or professional competence, the degree of public interest and detrimental effect on the profession's reputation. In one case where the practitioner concerned handled mostly listed clients, the 18-month cancellation period of his practising certificate imposed as a result of the practice review of his practice runs partly concurrently and partly subsequent to the 5-year removal of membership previously imposed on him as a result of various other proven complaints about significant deficiencies in his work on listed engagements. Practice units are therefore advised to carefully assess their resources and technical competence before taking on a listed engagement as the consequence of related audit failure can be very serious.

#### Uncooperative practice units

There have been a few cases where the PRC decided to raise a complaint due to the practice unit not having been cooperative in or having taken actions that deliberately hindered the practice review process, even after the PRC issued an instruction ordering the practice unit to be cooperative. In a recently completed disciplinary case, the DC ordered the practising certificate of the relevant respondent be cancelled and her name be removed from the CPA register for 3 years due to the respondent's failings to respond to the Institute's request for a practice review. In the DC judgment, the DC commented that the respondent's behaviour prevented the PRC from performing its statutory function and undermined the Institute's system to uphold quality and such behaviour amounted to professional misconduct.

To avoid ending up in positions similar to those described above all practice units should make quality and compliance a prime concern. The Institute's Quality Assurance Department (QAD) issues an annual report that summarizes the common findings identified from its quality assurance programmes. [Past QAD reports](#) can be found on the Institute's website. Practice units will find it useful to go through the report every year and be aware of those common findings in order to avoid them occurring in their own audit work. Prevention is better than cure at the point of detection.

If you have any questions, please contact the QA hotline 2287-7850 or email [qualityassurance@hki CPA.org.hk](mailto:qualityassurance@hki CPA.org.hk).

Sincere regards,

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