



Minutes of the 243<sup>rd</sup> meeting of the Ethics Committee held on Friday, 22 April 2020 at 12:30 p.m. in Board Room of the Hong Kong Institute of Certified Public Accountants, 37/F., Wu Chung House, 213 Queen's Road East, Wanchai, Hong Kong and via video conference.

- Present: Ms. Piera Ho (Chairman) (Dial-in)  
Mr. Stephen Chan (Dial-in)  
Mr. Alex Cheng (Dial-in)  
Mr. Dennis Fullgrabe (Dial-in)  
Mr. Allan Hepburn  
Ms. Lai Wai Shan (Dial-in)  
Ms. Anna Lam  
Mr. Horace Ma (Dial-in)  
Mr. Poon Chi Li (Dial-in)  
Ms. Helen Tang (Dial-in)  
Mr. Alec Tong (Dial-in)  
Ms. Careen Wong  
Mr. Wilfred Wong (Dial-in)
- In attendance: Mr. Chris Joy, Executive Director  
Ms. Selene Ho, Deputy Director, Standard Setting  
Mr. Norman Chan, Associate Director, Standard Setting  
Ms. Phoebe To, Manager, Standard Setting (Dial-in)  
Ms. Grace Lau, Manager, Standard Setting
- Observer: Mr. Ambrose Wong, Financial Reporting Council (Dial-in)

Action

**1669. Welcome new members and Committee composition for 2020**

The Chairman welcomed Mr. Stephen Chan, Ms. Anna Lam, Ms. Helen Tang, Ms. Careen Wong and Mr. Wilfred Wong as new members of the Committee. The Committee recorded a vote of thanks to retiring members, Ms. Lily Chung, Mr. Andrew Fan, Mr. Johnson Kong, Ms. Susanna Lau and Mr. Thomas So for their contributions to the Committee during the tenure of their services.

The Chairman also welcomed Mr. Ambrose Wong from the Financial Reporting Council ("FRC") as an observer of the meeting. With effect from 1 October 2019, the FRC had assumed full responsibility for auditors performing engagements for public interest entities ("PIEs"). Under the Statement of Protocol between the HKICPA and FRC, representative from the FRC would attend the HKICPA Ethics Committee meetings as an observer.

**1670. Guidance note on the general confidentiality rules**

The Committee noted the general confidentiality rules in relation to minutes and agenda papers of the Council and Committees appointed by the Council.

**1671. Terms of Reference**

The Committee considered and agreed that the existing terms of reference are still appropriate.

**1672. Meeting Schedule for 2020**

The Committee noted the meeting dates for 2020.

**1673. Minutes of the 242<sup>nd</sup> Meeting**

The Committee approved the minutes of the 242<sup>nd</sup> meeting.

**1674. Strategic Planning for 2020**

The Committee considered the Institute's proposed strategic direction and work plan for 2020.

One of the SSD's goals is to maintain convergence between the Institute's *Code of Ethics for Professional Accountants* (the "Code") and the IESBA's *International Code of Ethics for Professional Accountants (including Independence Standards)* (the "IESBA Code"). SSD provided the Committee an update on the IESBA's latest projects. They included the role and mindset expected of professional accountants; non-assurance services; fees; definitions of listed entities and public interest entities. SSD would monitor the development of these IESBA projects, consultations and exposure drafts and seek feedback from the Committee and stakeholders to prepare submission to the IESBA as appropriate.

SSD's goals also included monitoring and promoting the proper implementation of the Code among professional accountants in Hong Kong through e-learnings, seminars or workshops. The Committee noted that SSD had undertaken two domestic projects in 2019. They were:

- (i) A survey to understand the ethics perception among professional accountants in Hong Kong. Results of the survey were further discussed at the meeting; and
- (ii) A research project on commission/referral fee relating to section 900.13, Chapter C of the Code. Subject to further consultation with relevant stakeholders, SSD anticipated to present further findings to the Committee at the July meeting.

SSD

The Committee agreed with SSD's proposed direction for 2020. A member suggested SSD to continue the effort on local projects, such as annual ethics survey and workplace ethics index to track professional accountants' ethics perception.

SSD

**1675. Alignment of the Code to Part 4B of the International Code**

SSD had revised Part 4B, Chapter A of the Code to align with the corresponding revisions in the IESBA Code to reflect terms and concepts used in ISAE 3000 (Revised) *Assurance Engagements Other than Audits or Reviews of Historical Financial Statements*.

The Committee noted the IESBA's revisions to Part 4B of the IESBA Code and endorsed SSD's converged revisions to Part 4B, Chapter C of the Code for final issuance.

*[Post meeting note: The revision was issued on 29 May in HKICPA Members' Handbook Update No. 238 and is available at: <https://www.hkicpa.org.hk/en/Standards-and-regulation/Standards/Members-Handbook-and-Due-Process/HandBook/Updates/Update-No-238/>]*

**1676. The IESBA's exposure drafts on proposed revisions to non-assurance services and fee-related provisions of the IESBA Code**

In January 2020, the IESBA released two Exposure Drafts (EDs):

- Proposed revisions to the non-assurance services provisions in the IESBA Code; and
- Proposed revisions to the fee-related provisions in the IESBA Code.

SSD provided an overview of the EDs and the staff's preliminary analysis. The Committee had the following comments:

- A member considered the level of audit fee should reflect the audit quality expected by the business community, i.e. any premium paid to auditors was not a "subsidy" to auditors. SSD acknowledged the view, but considered both the management and auditor had a role to ensure the audit fee negotiated would be appropriate for the auditors to conduct a quality audit.
- In general, management would consider the audit fee on a holistic basis alongside other services offered by the audit firm. Due to the keen competition among auditors, audit fees had been reduced whereas other professional fees such as consultancy were on the rise. Although the IESBA was not in a position to examine the business model of audit firms, a member suggested not to disregard the sustainability of audit firms in midst of the trend of low audit fees.
- The unprecedented development in the global economy has brought significant changes to the auditing profession. As a result, audit firms had been digitalising and enhancing the auditing process which would require substantial capital investment, i.e. some elements in audit fees would go beyond the scope of a "fair" audit fee, especially when auditors were not necessarily compensated by non-audit fees.

SSD welcomed the Committee's comments and invited members to provide further comments if any. Subject to the comments received, SSD would prepare a draft response for the Committee's consideration and endorsement before submitting to the IESBA. SSD

*[Post meeting note: The submission to the IESBA as approved by the Committee was submitted on 4 June and is available at: [https://www.hkicpa.org.hk/-/media/HKICPA-Website/New-HKICPA/Standards-and-regulation/SSD/03\\_Our-views/PCD/2020/ethics/sub\\_NAShkicpa.pdf](https://www.hkicpa.org.hk/-/media/HKICPA-Website/New-HKICPA/Standards-and-regulation/SSD/03_Our-views/PCD/2020/ethics/sub_NAShkicpa.pdf)]*

**1677. The IESBA National Standard Setters meeting**

The Committee noted that representatives from the Institute would attend the National Standard Setters meeting via video-conference on 11 May 2020 to exchange views with other national standard setters and discuss the IESBA's project proposals. The Committee was requested to provide their feedback on these projects, if any.

**1678. Results on members' survey on ethics issues**

In November 2019, SSD launched an ethics survey to understand the ethics issues among professional accountants in Hong Kong and topics which would warrant further education activities. The survey closed in January 2020 and received more than 300 responses.

SSD provided a summary of the survey results:

- Most survey respondents agreed that ethics is "very important" in the accounting profession.
- More than 50% respondents agreed that the Code provides guidance to enable professional accountants to meet their public responsibility to act in the public interest.
- The survey revealed that conflict of interest/undue bias and manipulation of information were the most commonly encountered ethics issues by respondents in the last twelve months.
- Respondents considered undue pressure from management or client were the major causes to workplace ethics issues.

Members considered the survey results helpful and had the following observations:

- The split of survey respondents between professional accountants in public practice (30%) and professional accountants in business (70%) approximated the corresponding split of the Institute's membership. Hence the Committee considered responses gathered would provide a representative sample although the response rate was low.

- Only a handful of survey respondents were members under age 28. The Committee suggested SSD to strengthen the outreach effort to young members and collaborate with the Institute's Young Members Committee to understand their ethics perception and needs.
- A member suggested further investigation to understand the minority respondents who considered themselves not familiar with the Code, and develop materials to enhance their understanding and application of the Code.
- A member considered an effective whistle-blowing mechanism would be important to prevent undue pressure from management, hence suggesting initiatives to advocate rules or requirements on whistle-blowing by professional accountants.
- Most of the ethical issues identified by the survey had been illustrated in ICAC's featured articles on workplace ethics for professional accountants which were available at ICAC's website and SSD's ethics resource centre online. The ethics resource centre SSD maintained contains ethics resources developed by the Institute, the IESBA and other professional bodies. Members suggested SSD to enhance the accessibility and exposure of its resource centre through further promotion.
- While not currently required, a member proposed advocating certain percentage of the Institute's continuing professional development ("CPD") requirement to ethics related training.

SSD

SSD welcomed members' suggestion and would consider them in due course for the next course of action.

**1679. A.O.B.**

- In view of the coronavirus outbreak, the Institute had issued alerts highlighting specific issues which might pose an impact on a client's audit risks and financial reporting. SSD would monitor the need to develop a similar alert from ethics perspective and seek the Committee's input when necessary.
- The Executive Director reported that the FRC would carry out an on-site assessment on HKICPA's performance between late April and early May. The FRC would also interview some of the Committee members on the function and work progress of the Ethics Committee.

There being no further business, the meeting closed at 1:50 p.m.

PIERA HO  
CHAIRMAN

30 JUNE 2020