



Hong Kong Institute of
Certified Public Accountants
香港會計師公會

Information Session on Consultation paper on proposed changes to auditing practices

Presented by : Mr. Wilson Fung, President
Ms. Winnie C.W. Cheung, Chief Executive
& Registrar

Date : 2 February 2010
7:00 p.m. – 8:00 p.m.



Hong Kong Institute of
Certified Public Accountants
香港會計師公會

Agenda

- Background
 - 1st Consultation
 - 2nd Consultation
- 12 Proposals and reasons
- Q&A



Background – 1st Consultation

- January 2009 - issued consultation paper on proposed changes to PC regime.
- Received 237 written submissions by 31 March.
- Views also collected from forums and meetings with SMPs and stakeholders.
- Comments analysed by the R&P Committee.



Background – 1st Consultation

The three most commented on proposals in the January 2009 consultation:

- Require PC holders to have recent audit experience for renewal.
- Require PC holders to register a firm to perform audits.
- Extend the Hong Kong ordinarily resident requirement to include Mainland China and recognise Mainland auditing experience for PC issuance.



Background – 2nd Consultation

- Proposals revised to address concerns.
- Issued revised consultation paper on 17 December 2009.
- Consultation period will end on 1 March 2010.



Objectives of the proposals

Ensuring:-

- public trust in audit quality is maintained.
- practical issues and difficulties in current rules governing audit practices are addressed.



Hong Kong Institute of
Certified Public Accountants
香港會計師公會

Proposals and reasons



Audit Practice

Proposal 1 – Additional QA measures

Additional quality assurance measures for PC holders providing audit services. They must be able to demonstrate

- up-to-date audit experience and knowledge of current standards
- fit and proper.



Audit Practice Proposal 1 – Why?

- Audit is a public service.
- To raise public trust in audit quality, it is necessary to introduce a stronger regime to ensure that those who are authorised to sign audit reports continue to possess relevant and up-to-date knowledge and experience for audits in Hong Kong.



Audit Practice Proposal 1 – How?

- We propose to set up a new “Registered Audit Practice” registration system.
- Separate from PC issuance regime.
- PC holders who do not practise audit are not affected.



Audit Practice

Proposal 1 – Registered Audit Practice (RAP)

- A public register of RAPs will be set up.
- Only those practice units on the register will be eligible to perform audits and issue audit reports.
- A RAP may be an individual PC holder, firm or corporate practice.
- The register will identify the name of the practice and the name(s) of all nominated Authorised Signatories who can sign audit reports on behalf of the practice.



Audit Practice

Proposal 1 – Eligibility for registration

RAP

- Must meet fit and proper criteria for audit practice.
- Must register named individual as authorised audit signatories (AS) for the practice, who
 - Must be a PC holder; and
 - Meet the competency requirements for AS.
- New ownership rules (proposal 11).
- New employee signing rights (proposal 12).



Audit Practice

Proposal 1 – Fit and proper requirement for RAP

- A set of guidance on fit and proper status of a practice will be issued.
- Key considerations:
 - financial integrity and reliability;
 - civil liabilities; and
 - good reputation and character.
- Authorised Signatories, principals and employees involved in audit work must be fit and proper.



Audit Practice

Proposal 1 – Competency requirements for AS

- In addition to compliance with CPD, competency will be assessed by reference to recent experience in being responsible for significant judgments in an audit and the results of performance on audit engagements subject to review.
- Guidelines on competence requirements for audit professionals that will draw on IES 8 and other sources will be issued.



Audit Practice

Proposal 1 – Assessment on “fit and proper” and “competency”

- Will be made on
 - first registration; and
 - during Practice Review.
- Practices need to re-confirm their practice status when completing the PR self-assessment questionnaire.



Audit Practice

Proposal 1 – Transitional arrangements

- When the register of Registered Audit Practices is first established, existing practice units performing audit services will be allowed to register without first undergoing an assessment.



Audit Practice

Proposal 1 – Non-compliance

- A Registered Audit Practice which cannot meet the fit and proper requirement will be referred to the Disciplinary Committee for potential removal.
- If an Authorised Signatory cannot meet the competency requirements, he will be removed from the list of Authorised Signatories in the register of Registered Audit Practices.
- Normal appeal mechanism to Council and further appeal process to the Court similar to existing provisions.



Audit Practice Proposal 1 - Designations

- CPA (practising) – PC holder.
- Registered Audit Practice – individual PC holder/ firm/ corporate practice on the register of Registered Audit Practices which are eligible to perform audits.
- Authorised Audit Signatory – PC holder of a Registered Audit Practice who is eligible to sign audit reports on behalf of the Registered Audit Practice.



Proposals 2 – 7

- Relate to obtaining and renewing a PC
 - Conditions the same as at present
- Except:-
- proposal 2 – Recent audit experience
 - proposal 3 – Employer testimonial on experience
 - proposal 4 – Mainland auditing
 - proposal 5 – Ordinarily resident in Hong Kong
 - proposal 6 – Declaration of commencement of practice
 - proposal 7 – Annual re-application changed to renewal



Obtaining a PC

Proposals 2 – Recent audit experience

- One year local auditing experience within the last 3 years changed to within the last 2 years.
- Same proposal as in the first Consultation paper, which have majority support.



Obtaining a PC Proposal 2 – Recent audit experience

Why?

- Audit is a public service
- We need to ensure auditors have up-to-date knowledge and experience in auditing to meet the high quality standards expected of them.

Note: this is not required on annual PC Renewal. AS will be assessed during Practice Review.



Obtaining a PC

Proposal 3 – Employer Testimonial on experience

“Employer Testimonial on experience” requires to confirm that the applicant has had responsibility for making significant judgements in an audit.

Why?

- Encourage employer to focus on quality, not just length of experience, when training prospective audit professionals.

Same proposal as in the first Consultation paper, which have majority support.



Obtaining a PC

Proposal 4 – Mainland auditing

- 1) Remove the original Proposal in the first Consultation paper to accept Mainland auditing experience as satisfying the Hong Kong experience rule.

New Proposal

- 2) Mainland auditing experience accepted for PC issuance only if :
 1. Mainland CPA practice is affiliated with a Hong Kong CPA practice;
 2. the PC applicant's work significantly relates to a Hong Kong engagement; and
 3. the PC applicant is working under the direct supervision of a Hong Kong PC holder.



Obtaining a PC Proposal 4 – Mainland auditing

Why?

- Will not grant general recognition to any Mainland auditing experience.
- Address a concern that non-relevant Mainland auditing experience should not be recognised.



Obtain and Maintain a PC

Proposal 5 – Ordinarily resident in Hong Kong

- 1) Remove the original proposal in the first Consultation paper to accept residency in Mainland China as satisfying the Hong Kong ordinarily residence rule.

New Proposal

- 2) Council shall deem people as ordinarily resident in Hong Kong if:
 1. present in Hong Kong for not less than 180 days in the past 12 months; or
 2. have the right of abode in Hong Kong.



Obtain and Maintain a PC Proposal 5 – Ordinarily resident in Hong Kong

Why?

- Enable all PC holders who are Hong Kong permanent residents, including those working in the Mainland on Hong Kong-related engagements, to apply or renew PCs.



Obtain and Maintain a PC

Proposal 6 – Declaration of commencement of practice

- PC holders will not be required to file declaration for commencement of practice on first time application and annually.

Why?

- Streamline the PC issuance and renewal procedures and remove requirement of no significant value.
- No longer needed under the Registered Audit Practice mechanism.



Maintaining a PC

Proposal 7 – Annual re-application changed to renewal

- Move away from annual re-application for a PC to a simpler annual renewal process by amending the PAO.

Why?

- Tidy up the relevant PAO sections and streamline the PC renewal procedures.

Same proposal as in the first Consultation paper, which have majority support.



Re-apply for a PC

Proposal 8 – Recent auditing experience

- Any former PC holder who has ceased practice, or whose PC has not been renewed or has been cancelled, or whose membership has been removed, will need to re-apply for a PC, in the same manner as a first-time applicant.
- those who do not intend to perform audit work do not need to obtain one-year recent local auditing experience;
- those who will be Authorised Signatories in a Registered Audit Practice will need to obtain one-year audit experience in the last 2 years unless there are extenuating circumstances acceptable to the R&P Committee.

Why?

- Link recent audit requirement to PC holders acting as Authorised Signatory only.



Re-apply for a PC

Proposal 9 – Council power to attach conditions to the PC

- The Disciplinary Committee be empowered to include conditions in a disciplinary order and Council be empowered to attach conditions where these are related directly to a disciplinary offence.

Why?

- Allow conditions to be set to restrict particular area of practice which presented problems rather than to suspend PC or RAP or AS completely.

Same proposal as in the first Consultation paper, which have majority support.



Firm/corporate practice registration Proposal 10 – Identification of engagement partner in audit report

Do not propose to require partnership firm (in the same way as is currently required for corporate practice) to identify the engagement partner in the engagement letter and audit report.

Why?

- The Joint Government and HKICPA Working Group discussed the proposal and decided not to make any change in the Companies Ordinance.



Firm/corporate practice registration Proposal 11 – Ownership rules

Now

- All partners/directors of a CPA firm/corporate practice must be members of the Institute (i.e. CPA) of whom at least two-thirds shall be PC holders.

New Proposal

- All partners/directors of a Registered Audit Practice must be CPAs. A majority of the voting rights has to be held by PC holders.

Why?

- Changes in the business of CPA practices where many partners are engaged in non-audit work. Applying a simple principle of majority control by individuals with PC - common in overseas jurisdictions like Australia, the UK and US – will help firms in their practice development.



Firm/corporate practice registration

Proposal 12 – Appointment of authorised signatories

Now

- CPA firms may appoint authorised signatories to sign audit reports on behalf of the firm, not necessarily employees. Corporate practices are not allowed to do so except for sole practising member corporate practice, which may appoint one under specified circumstances.

New Proposal

- Allow all firms and corporate practices to appoint authorised signatories who are full-time PC holder employees.
- Allow sole proprietorship firms and sole-practising member corporate practices to appoint any number of PC holder employees and no more than one non-employee PC holder as authorised signatories.



Firm/corporate practice registration

Proposal 12 – Appointment of authorised signatories

Why?

- Align the policy for firms and corporate practices. In line with overseas practice.
- Enhance quality as employees are under the quality control system of the practice, which is subject to practice review.
- Address the occasionally difficult circumstances when the sole proprietor is away from Hong Kong but needs to issue an audit report.



Hong Kong Institute of
Certified Public Accountants
香港會計師公會

Q&A