

# STATEMENT 1.401 PRACTICE REVIEW REVIEW PROCEDURES AND CONDUCT OF MEMBERS

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## Introduction

1. The Professional Accountants Ordinance gives power to the Council of the Hong Kong Institute of Certified Public Accountants (HKICPA) to implement a practice review programme, and governs the conduct and procedures of practice review.
2. The objective of practice review is to ensure that all members in public practice observe, maintain and apply professional standards.
3. Through a review of a practice unit's system of quality control, defined under Hong Kong Standard on Quality Control 1 "Quality Control for Firms That Perform Audits and Reviews of Historical Financial Information, and Other Assurance and Related Services Engagements", which includes a review of working papers of audit, assurance and related services engagements, practice review serves to determine whether professional standards are being, or have been observed, maintained or applied by the practice unit. The Practice Review Committee may also make recommendations to the practice unit regarding its system of quality control and the application by the practice unit of other professional standards.
4. The practice review programme does not set new standards. Rather, the standards that a member is expected to observe, maintain or apply are those prescribed by the HKICPA Members' Handbook.
5. This Statement provides details of the requirements of the Professional Accountants Ordinance, what is expected of a member during the conduct of a practice review, and a brief description of the practice review process. This Statement should be read in conjunction with the Practice Review Statement 1.400 "Explanatory Foreword".

## Definition of terms

6. *HKSQC 1* - Hong Kong Standard on Quality Control 1 "Quality Control for Firms That Perform Audits and Reviews of Historical Financial Information, and Other Assurance and Related Services Engagements"
- Member* - for the purpose of this Statement, includes a practice unit
- Practice Review* - in relation to a practice unit means an examination or a review to determine whether professional standards are being or have been observed, maintained or applied
- Practice Review Committee* - a committee established under section 32A of the Professional Accountants Ordinance, to conduct practice reviews to determine whether professional standards are being or have been maintained, observed or applied by practice units
- Practice Unit* -
  - (a) a firm of certified public accountants (practising) practising accountancy pursuant to the Professional Accountants Ordinance;
  - (b) a certified public accountant (practising) practising accountancy on his own account pursuant to the Professional Accountants Ordinance; or
  - (c) a corporate practice

- Professional Standards* - (a) statements of professional ethics; or  
(b) standards of accounting, auditing and assurance practices issued or specified or deemed to have been issued or specified under section 18A of the Professional Accountants Ordinance (see paragraph 10 below)
- Questionnaire* - Practice review self-assessment questionnaire
- Reviewer* - any certified public accountant appointed or engaged by the Council under section 32B(1)(d) of the Professional Accountants Ordinance for the purpose of carrying out practice reviews
- Section* - refers to provisions of the Professional Accountants Ordinance
- SMO 1* - Statement of Membership Obligations 1 "Quality Assurance" issued by the International Federation of Accountants

## Scope

### Members subject to review

7. All certified public accountants (practising) are required to observe, maintain and apply the standards prescribed by the HKICPA Members' Handbook. All members so engaged, whether in full or part-time practice, must submit to practice review, subject to paragraph 8 below.

### Exemption

8. Where a certified public accountant (practising) completes a declaration in prescribed form certifying that he is not engaged in the practice of public accounting as it pertains to audit, assurance and related services engagements during the preceding 12 months and does not intend to so practise for the foreseeable future, he may be exempted from practice review at the discretion of the Practice Review Committee.

### Establishment and appointment of the Practice Review Committee

9. The establishment and composition of the Practice Review Committee is governed by section 32A. The principal provisions are as follows:
  - (a) The Practice Review Committee shall consist of such number of members, being not less than 5, as the Council shall fix and of whom not more than 2 may also be members of the Council.
  - (b) Of the members of the Practice Review Committee not less than 2/3rds shall each hold a practising certificate.
  - (c) A person shall not be a member of the Practice Review Committee and the Disciplinary Committee at the same time.
  - (d) The quorum for any meeting of the Practice Review Committee shall be not less than half of the members of the Practice Review Committee for the time being.
  - (e) The Practice Review Committee may appoint sub-committees of its members and may delegate to any such sub-committee, with or without restrictions, any of its functions or powers except the powers conferred on it by section 32D(5), ie. make a complaint against a member.
  - (f) A delegation under section 32A(8) shall not preclude the exercise or performance by the Practice Review Committee of any power or function to which the delegation relates.

- (g) Subject to Part IVA of the Professional Accountants Ordinance and any directions issued by the Council under section 32B, the Practice Review Committee or any sub-committee thereof may regulate its own procedure and business.

## **Directions of the Council**

### **Professional standards**

- 10. Under the provisions of sections 18A and 32B(1)(a) the Council may specify professional standards which are to be examined or reviewed under practice review. For the time being, the professional standards which will be examined are:
  - (a) All the Statements and Guidelines of Professional Ethics in issue from time to time, in so much as they relate to the conduct of audit and assurance engagements;
  - (b) All Hong Kong Financial Reporting Standards in issue from time to time in so far as significant departures therefrom may affect the requirement for financial statements to give a true and fair view; and
  - (c) All Hong Kong Standards on Auditing and Assurance including Hong Kong Standards on Quality Control, Hong Kong Standards on Auditing, Statements of Auditing Standards, Hong Kong Standards on Assurance Engagements, Practice Notes, Bulletins and Guidelines in issue from time to time.

### **Scope**

- 11. The Council has issued directions to the Practice Review Committee under section 32B(1)(b) to conduct practice reviews to determine that the professional standards specified in paragraph 10 above are observed, maintained or applied by all practice units, subject to paragraph 8 above.

### **Extent of powers**

- 12. Practice reviews will be performed by reviewers and the Practice Review Committee will exercise its full powers as permitted under the Professional Accountants Ordinance without restriction.

## **Conduct of practice reviews**

### **Objective**

- 13. Essentially, a practice review entails an examination or a review of a practice unit's system of quality control defined under HKSQC 1, including a review of working papers of audit, assurance and related services engagements to determine whether professional standards are being or have been observed, maintained or applied by the practice unit. Where a practice unit is not following or has not followed professional standards in certain situations, suggestions and recommendations for improvements may be made, and may be followed by a further practice review.
- 14. A summary of the practice review procedures designed to meet the above objective is contained in the Appendix.

### **Selection of practice units for review by the Council**

- 15. Practice units will be selected for practice reviews by the Council, under section 32B(1)(b). Details regarding the Council's selection of practice units for practice reviews are set out in the Appendix.
- 16. Practice units will be notified by letter of their need to complete the Questionnaire. The practice unit should complete the Questionnaire and return it to the HKICPA within the required period, which will normally be 2 months beginning on the day after the notification letter is sent.

17. The Registrar (as prescribed by section 32C(2)) will determine the order of review. Practice units will not be selected until after they have completed 12 months in practice.
18. The Registrar will assign a reviewer or reviewers to each practice unit selected. The identity of the practice unit will be kept confidential from those staff of the HKICPA not directly involved in practice review. Any member of the Practice Review Committee who has a potential conflict of interest in dealing with the practice review of a practice unit will not be involved in the practice review with that practice unit.

**Practice units will be notified by letter of their selection**

19. The reviewer assigned to the practice unit will be responsible for arranging the on-site practice review visit which will normally be scheduled for six weeks after notification. Members should notify the HKICPA immediately if they consider the timing of the visit to be inconvenient. Another date will be arranged by mutual consent such that the review will be held within four months of notification. Any further extension is at the reviewer's sole discretion.

**Arrangements for review**

20. On-site practice review visit will be conducted at the practice unit's registered office or other registered place of business. Members should ensure that reviewers are given access to all offices if there are more than one and are given all reasonable assistance for the proper conduct of reviews (section 32E(1)(a)(iii)). It is expected that the reviewer will be provided with adequate office facilities for him to perform his work effectively and efficiently.

**Access to documents**

21. Section 32E provides powers of access by reviewers as follows:
  - (1) The following provisions shall apply as regards any practice review -
    - (a) Any person, to whom this paragraph applies, and who is reasonably believed by a reviewer to have in his possession or under his control any record or other document which contains or is likely to contain information relevant to the practice review shall, subject to section 32E(3) -
      - (i) produce to the reviewer or afford him access to, any record or document specified by the reviewer or any record or other document which is of a class or description so specified and which is in his possession or under his control being in either case a record or other document which the reviewer reasonably believes is or may be relevant to the practice review, within such time and at such place as the reviewer may reasonably require;
      - (ii) if so required by the reviewer, give to him such explanation or further particulars in respect of anything produced in compliance with a requirement under subparagraph (i) as the reviewer shall specify;
      - (iii) give to the reviewer all assistance in connection with the practice review which he is reasonably able to give.
    - (b) Where any information or matter relevant to a practice review is recorded otherwise than in a legible form, any power to require the production of any record or other document conferred under paragraph (a), shall include the power to require the production of a reproduction of any such information or matter or of the relevant part of it in a legible form.
    - (c) A reviewer may inspect, examine or make copies of or take any abstract of or extract from a record or document which may be required to be produced under paragraph (a) or (b).

- (d) Where -
  - (i) a copy of any record or document is supplied by or on behalf of the practice unit for the purposes of this section; or
  - (ii) a copy thereof is made in the exercise of any power conferred under this section and a photocopying machine or other facility of the practice unit is used to make such copy,

the HKICPA shall reimburse the reasonable photocopying or other expenses incurred in making such copy.
- (e) A reviewer exercising a power under this section shall, if so requested by a person affected by such exercise, produce for inspection by such person a copy of the appointment furnished to him under section 32B(3).
- (2) Section 32E(1)(a) applies to any certified public accountant of the practice unit to which the particular practice review relates or to any person employed by or whose services are engaged by such unit.
- (3) Nothing in this section shall be taken to compel the production by a person of a record or document containing a privileged communication by or to a legal practitioner in that capacity.
- 22. Where copies of documents are requested under section 32E(1)(c) the HKICPA will reimburse the practice unit for the cost of the photocopies (section 32E(1)(d)) at a standard rate to be determined by the Practice Review Committee from time to time.
- 23. Normally the reviewer will require a copy of the financial statements, where applicable, relating to the engagements selected for reviewed. The financial statements will be used as a reference for the Practice Review Committee's assessment of the practice unit's observation, maintenance or application with professional standards in relation to the materiality of the items concerned. Before the copy of the financial statements is submitted to the Practice Review Committee for consideration, all references to the client's name or names and references within the financial statements which could reveal the client's identity will be concealed by the reviewer.
- 24. Where it is considered necessary for the proper completion of his review a reviewer may request copies of other documentation. In such circumstances, the identity of the client will be concealed by the reviewer, prior to the submission of these copies to the Practice Review Committee for consideration.

### **Reporting**

- 25. At the conclusion of his practice review a reviewer is required by section 32C(3) to make a report to the Practice Review Committee.
- 26. A reviewer shall, before making a report required by section 32C(3), send a dated draft of the reviewer's report to the practice unit concerned, and to each individual (if any) who is named in the report by post or recorded delivery addressed to the registered office or registered address of the practice unit or the individual, as the case may be (section 32C(4)).
- 27. The Practice Review Committee has instructed reviewers not to name the practice unit's clients in their reports.
- 28. As provided by section 32C(5), the practice unit has 21 days, beginning on the day after the dated draft is sent, to make any submissions or representations in writing to the reviewer, concerning the dated draft of the reviewer's report.

29. The reviewer is required by section 32C(5) to attach any written submissions or representations, made under section 32C(5), to the reviewer's report in its final form before submitting it to the Practice Review Committee. The reviewer will delete any reference to the practice unit's clients in the written submissions or representations to preserve anonymity.
30. The reviewer will send to the practice unit or the individual concerned a copy of the report as submitted to the Practice Review Committee, by post or recorded delivery (section 32C(7)).

## **Powers and procedures of the Practice Review Committee**

### **General**

31. The Practice Review Committee, under section 32D, may subject to any directions issued under section 32B(1):
  - (a) determine the practice and procedure to be observed in relation to practice reviews;
  - (b) issue instructions to any reviewer on any matter relating to practice reviews or a particular practice review;
  - (c) do or perform any other thing or act as may be incidental to or which it considers necessary or expedient for the performance of its functions or exercise of its powers under the Professional Accountants Ordinance.

The Council has not issued any specific instructions under section 32B(1) other than that practice reviews will be conducted as regards every practice unit (paragraph 11) other than those exempted (paragraph 8). In relation to section 32D(1)(a) the Practice Review Committee has prepared for reviewers a reviewer's manual which determines the procedures reviewers should adopt with respect to practice reviews.

### **Review and Report**

32. The reviewer will forward a copy of the reviewer's report, any submissions or representations and the reviewer's file to the Practice Review Committee for its review.
33. The Practice Review Committee will normally delegate the review of all reports and files to three person sub-committees of the Practice Review Committee. Where the sub-committee recommends that a type C report (please refer to paragraph 4(c)(iii) of the Appendix to the Statement for details) for the practice unit, the case will be referred for consideration at a meeting of the Practice Review Committee.

### **Follow-up action**

34. After receipt of a report from a reviewer (section 32C(3)) the Practice Review Committee, having regard to the report and any submissions or representations attached to it, may:
  - (a) make recommendations to the practice unit concerned regarding the application by it of professional standards (section 32D(2));
  - (b)
    - (i) issue an instruction to a reviewer to carry out, within such period as may be specified in the instruction (which period shall not commence earlier than 6 months after the date on which the instruction is issued), a further practice review as regards the practice unit to which the report relates (section 32D(3)(a)); and
    - (ii) specify in the instruction, the matters as regards which the review is to be carried out (section 32D(3)(b));

- (c) After the conclusion of a practice review, if it is of the opinion that -
- (i) in case the review related to a firm, any one or more or all of the partners in the firm;
  - (ii) in case the review related to a certified public accountant practising on his own account, that accountant;
  - (iii) in case the review related to a corporate practice, 1 or more or all of the directors of the practice,

may have failed to observe, maintain or apply, as the case may be, professional standards, then subject to section 32D(7) the Practice Review Committee may make a complaint regarding any such director, such partner or other certified public accountant concerned or, in case there is more than one such person concerned, a separate complaint in respect of each of them, to the Registrar (section 32D(5)).

Section 32D(7) provides:

Where –

- (a) a complaint is made under section 32D(5); and
- (b) immediately prior to the commencement of the relevant practice review -
  - i. the director, the partner or other certified public accountant to whom the complaint relates had not previously been a director of any corporate practice or a partner in any firm at any time when a practice review was carried out as regards that practice or that firm; and
  - ii. a practice review had not previously been carried out as regards his practising on his own account,

the Council shall not refer the complaint to the Disciplinary Panels under section 34(1) unless it decides by a majority of  $\frac{3}{4}$ ths of its members for the time being that, were the grounds of complaint or any such ground or any matter or matters complained of established, the relevant act or omission by such director, such partner or other certified public accountant would have amounted to serious professional misconduct.

- 35. The Practice Review Committee may make recommendations to the practice unit under section 32D(2) in respect of areas of improvements regarding the practice unit's system of quality control and the application by it of other professional standards.
- 36. A further practice review will be required under section 32D(3) where the practice unit has not satisfied the Practice Review Committee that its system of quality control has been designed to meet the requirements under HKSQC 1 and that the practice unit has complied with its system of quality control during the review period.
- 37. Section 32D(7) makes it clear that where a potential complaint relates to the first ever review of the individual concerned, whether in the practice unit which is the subject of the report, or in any other practice unit previously reviewed, no complaint can be lodged with the Registrar unless the conditions set out in paragraph 38 below are fulfilled.
- 38. The Practice Review Committee will, even on a first review, make a complaint against a member where the weaknesses in the performance of engagements, or the disregard of professional standards amount to, in its opinion, serious professional misconduct. In subsequent reviews, the Practice Review Committee may make a complaint where it is of the opinion the member has failed to observe, maintain or apply professional standards.

39. On considering a complaint made by the Practice Review Committee on a first review, the Council may refer it to the Disciplinary Panels if it is of the opinion that any matter or matters complained of, if established, would have amounted to serious professional misconduct and the vote on this resolution is passed by a ¾ths majority. The Council will determine on a case by case basis what is considered to be serious professional misconduct.

#### **Referral of disputes**

40. Where a dispute arises over the powers of reviewers as regards section 32E (access to documents etc.), the practice unit, the reviewer or both may refer the dispute to the Practice Review Committee (section 32F(1)). A practice unit should refer a dispute to the Practice Review Committee in writing via the Registrar.
41. Normally, the Practice Review Committee will delegate the determination of such a dispute to a sub-committee chaired by the Chairman of the Practice Review Committee.
42. Where a dispute is referred, after considering any submissions or representations (which shall be in writing) made by the relevant practice unit and/or the relevant reviewer, the Practice Review Committee -
  - (a) shall determine the dispute and communicate such determination to each of the parties to the dispute (section 32F(2)(a)); and
  - (b) may issue directions relating to the matter in dispute to such practice unit or the reviewer concerned and require such unit or reviewer to comply with them (section 32F(2)(b)).
43. Where a practice unit or a reviewer is required to comply with a direction under section 32F(2)(b) and fails to comply with the requirement, the Practice Review Committee may make a complaint to the Registrar regarding any corporate practice or any certified public accountant concerned, and in case such a complaint is made it shall, for the purposes of Part V of the Professional Accountants Ordinance, be deemed to have been made under section 34(1) (section 32F(3)).

#### **Confidentiality**

44. Strict confidentiality provisions of the Professional Accountants Ordinance apply to all those involved in the practice review process. Namely, the Registrar, reviewers, members of the Practice Review Committee, the Council, or any person holding any other position who assists any of these parties.
45. Those persons subject to the secrecy provision:
  - (a) shall at all times after his appointment preserve and aid in preserving secrecy with regard to any matter coming to his knowledge in the performance or in assisting in the performance of any function (section 32H(1)(a));
  - (b) shall not at any time communicate any such matter to any other person (section 32H(1)(b)); and
  - (c) shall not at any such time suffer or permit any other person to have any access to any record, document or other thing which is in his possession or under his control by virtue of his being or having been so appointed or his having performed or having assisted any other person in the performance of such a function (section 32H(1)(c)).

These provisions shall not apply in relation to any disclosure made in relation to or for the purpose of any disciplinary proceedings under Part V of the Professional Accountants Ordinance or criminal proceedings (section 32H(2)).

46. Any person who contravenes section 32H(1) commits an offence and is liable on conviction to a fine of \$100,000 and to imprisonment for 6 months (section 32H(3)).



47. In order to enhance confidentiality and impartiality, the identity of the members' clients is not known to the Practice Review Committee. When preparing the report to the Practice Review Committee the practice unit's clients are identified by code numbers. Any member of the Practice Review Committee who has a potential conflict of interest in dealing with the practice review of a practice unit will not be involved in the practice review with that practice unit.
48. Where the final report has been issued by the Practice Review Committee and no further action is required, the report, work papers and correspondence pertaining to the review are destroyed after six months. Data required for administration purposes is retained in order to evidence that a review requiring no further action has been completed and to identify the members reviewed. Where the Practice Review Committee decides that further action is necessary, all files are retained until such further action has been completed to the satisfaction of the Practice Review Committee.

### **Change in composition of a practice unit**

49. Under section 32I(4), no change in composition of a practice unit (as described in sections 32I(1) to (3)) shall affect:
  - (a) any right, obligation or liability acquired or incurred by or accrued to a practice unit under Part IVA of the Professional Accountants Ordinance before the change; or
  - (b) any practice review or further practice reviews of a practice unit, and any practice review or further practice reviews may be carried out and continued as regards the practice unit notwithstanding a change or further changes in composition of the practice unit.

### **Effective date**

50. This Statement came into effect on 13 March 2006.

## **APPENDIX**

### **Summary of Practice Review Procedures**

#### **Selection of practice units for reviews by the Council**

1. The Council will select practice units for practice reviews annually primarily based on their risk profiles, identified from a desktop review process which analyses practice units' responses in the Questionnaires and other relevant information:
  - (a) Practice units which have listed entity client(s) have distinct risk profiles and should be reviewed on a more frequent basis.
  - (b) Practice units with listed entity client(s) will be selected for reviews of their systems of quality control at least once in every three years. These practice units may be selected for practice reviews sooner or more frequently if the desktop review process indicates that the practice units' risk profiles require that such reviews should be taken.
  - (c) Practice units with no listed entity clients will be selected on the basis of their risk profiles. The practice units selected will be subject to reviews of their systems of quality control.
  - (d) The Council may also direct practice reviews to be carried out on specific practice units on other basis such as referrals from other regulators or committees of the HKICPA where the information available to the Council suggests that the practice units might not have observed, maintained or applied professional standards. Depending on the circumstances of individual cases, practice units selected on other basis may be subject to reviews of their systems of quality control or reviews which are of a lesser scope.
  - (e) The Council will select certain practice units for practice reviews on a random basis to ensure that all practice units will have a chance of being selected for practice reviews.

#### **Target practice reviews to be carried out on an annual basis**

2. The Council considers that the target for practice reviews to be conducted annually will take into account the factors including the following:
  - (a) Practice units' risk profiles.
  - (b) The priority of allocation of resources among different practice units selected for practice reviews.

A target practice review sample may be set for practice units with no listed entity clients but with other regulated or other significant public interest clients if the number of those practice units is of such a size that such a target sample should be set.

#### **The Questionnaire and the desktop review process**

3. All practice units will complete the Questionnaire on an annual basis.

The Questionnaire will collect the following 3 main categories of information about a practice unit:

- (a) Organisation and management of the practice unit.
- (b) Quality control policies and procedures established by the practice unit.
- (c) Client profile of the practice unit.

A practice unit's risk profile will be assessed through the desktop review process which analyses responses in the completed Questionnaire and other relevant information like public information obtained in relation to the practice unit.

### **Review procedures**

4. The Practice Review Committee, under section 32D(1) of the Ordinance, determined the practice and procedure to be observed in relation to practice reviews. The review procedures have been endorsed by the Council. These procedures are summarised below and can be categorised into three stages - planning, execution and reporting.

#### **(a) Planning**

##### **(i) Return of completed Questionnaire**

- Each practice unit should complete and return the Questionnaire to the HKICPA within the required period, which will normally be 2 months beginning on the day after the notification letter is sent.

##### **(ii) Determination by the Registrar of the order in which the practice units are to be reviewed or examined**

- The Registrar will determine the order in which the practice units selected by the Council are to be reviewed or examined.

##### **(iii) Notification**

- A practice unit will be notified in writing about an impending practice review.
- Practice units will be required to enclose a complete list of their audit and assurance clients, suitably codified if desired, and to provide any other information the reviewer considers necessary to facilitate the review of the practice unit's system of quality control.

#### **(b) Execution**

It is estimated that at least a full day will be needed to complete an on-site practice review visit for a smaller practice unit. However, this is based on the assumption that the practice unit concerned has made all the necessary information and documentation available to the reviewer for his examination or review. Reviews of larger practice units may take a longer time to complete.

##### **(i) Confirmation of the on-site practice review visit**

- In consultation with the practice unit a date will be set for the on-site practice review visit to be carried out. Flexibility will be permitted to ensure that practitioners are not inconvenienced at especially busy periods. The on-site practice review visit date will be arranged by mutual consent such that the review will be held within 4 months of notification. Further extension beyond 4 months will be at the sole discretion of the reviewer.

##### **(ii) Initial meeting**

- An initial meeting will be held between the reviewer and the practice unit. The primary purpose of this meeting is to confirm the accuracy of the responses given in the Questionnaire. The reviewer should have a full understanding of the practice unit's system of quality control and be able to form a preliminary evaluation of its adequacy at the conclusion of the meeting.

- For larger practice units which may have more extensive documentation regarding their policies and procedures, an additional on-site planning visit may be arranged before the on-site practice review visit.
  - When a practice unit is selected for practice review, the reviewer will conduct the on-site practice review visit at the practice unit's registered office or other registered place of business.
- (iii) Review of system of quality control
- A reviewer includes a conclusion, with a limited assurance under Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information", of the following in the reviewer's report under paragraph 52 of SMO 1:
    - Whether the practice unit's system of quality control has been designed to meet the requirements under HKSQC 1; and
    - Whether the practice unit has complied with its system of quality control during the review period.
    - Reasons for negative conclusions on the above.
    - Recommendations for improvements at both practice unit wide and engagement level.
  - Under paragraph 29 of SMO 1, the procedures performed during the practice review should include:
    - An assessment of the system of quality control relating to audits of financial statements of listed entities;
    - Sufficient review of the quality control policies and procedures and reviews of engagement working papers to evaluate:
      - The functioning of that system of quality control, and compliance with it; and
      - The compliance with professional standards and regulatory and legal requirements in respect of the engagements.
  - A key part of the practice review methodology will be the assessment of a practice unit's monitoring policies and procedures. If these are judged to be effective the reviewer may rely on them by performing tests of the conclusions of the applicable period's monitoring as a source of evidence.

- Assessment of other quality control policies and procedures, where appropriate, may include discussion with the practice unit's appropriate individuals through interviews and focus group meetings, reviewing documentation, observation of the system of quality control in operations like attending the practice unit's training sessions for its staff.
- Under paragraph 30 of SMO 1, the review of engagement working papers should include evaluating:
  - The existence and effectiveness of the system of quality control implemented by the practice unit, and the performance of the engagement.
  - Compliance with professional standards and regulatory and legal requirements related to the engagement.
  - The sufficiency and appropriateness of evidence documented in the working papers.
  - Based on the above, whether the auditor's reports are appropriate in the circumstances.
- The nature and extent of review of engagement working papers will be similar to the review conducted by an engagement quality control reviewer under paragraphs 64 and 65 of HKSQC 1.
- The procedures which may be carried out for review of engagement working papers include considering the following:
  - Significant risks identified during the engagement and the responses to those risks.
  - Judgments made, particularly with respect to materiality and significant risks.
  - Whether appropriate consultation has taken place on matters involving differences of opinion or other difficult or contentious matters, and the conclusions arising from those consultations.
  - The significance and disposition of corrected and uncorrected misstatements identified during the engagement.
  - The matters to be communicated to management and those charged with governance and, where applicable, other parties such as regulatory bodies.

(iv) Review of a lesser scope

- A review of a lesser scope may be undertaken, which could include the following:
  - Follow-up on the practice unit's action plan as agreed at the conclusion of the previous visit;
  - Reviewing the results of the practice unit's last completed monitoring review;
  - Reviewing and discussing as necessary the practice unit's latest completed Questionnaire;
  - Obtaining an update on changes and developments in the practice unit's audit methodology and quality control procedures; and
  - Discussing the practice unit's response to topical issues and developments in auditing.
- For further practice reviews instructed by the Practice Review Committee under section 32D(3), the reviews of a lesser scope will address the target areas which the Practice Review Committee instructs and will apply the elements of the on-site practice review visit methodology that are deemed appropriate to address the matters of concern.
- For practice reviews directed by Council under section 32B(1)(b) on practice units selected on other basis such as referrals from a regulators or committees of the Institute, the reviews could be on the systems of quality control, if the circumstances suggest so, or of a lesser scope which will address the target areas which the Council directs and will apply the elements of the on-site practice review visit methodology that are deemed appropriate to address the matters of concern.

(v) Closing meeting

- At the end of an on-site practice review visit, a draft report of factual findings will be prepared for discussion with the practice unit. During the closing meeting, the practice unit has the opportunity to make representations, suggestions and recommendations in relation to the matters raised. The reviewer has the duty of explaining to the practice unit the advantages and benefits of implementing suggestions and recommendations for improvements. At the conclusion of the closing meeting, the practice unit and the reviewer are required to sign on the draft report of factual findings to signify their agreement of the findings' factual accuracy.

## (c) Reporting

- (i) The reviewer will prepare a report to the Practice Review Committee (the reviewer's report), incorporating the report of factual findings as discussed with the practice unit. After review by the Director, Quality Assurance of the HKICPA, a dated draft of the reviewer's report will be sent to the practice unit for submissions or representations. Any submissions and representations are to be made in writing within 21 days beginning on the day after the draft report is sent. The reviewer will finalise his report upon the receipt of the submissions or representations (if any). In finalising the report the reviewer may make changes to the dated draft he considers appropriate in the light of the submissions or representations. The submissions or representations will be attached to the reviewer's report before it is sent to the Committee for consideration. A copy of the reviewer's report will be sent to the practice unit for its information.
- (ii) The practice unit will be allowed ample opportunity to make its submissions or representations throughout the review process. It is expected that the on-site closing meeting between the reviewer and the practice unit will provide an excellent channel for the communication of views concerning the findings and recommendations. In addition, the practice unit has 21 days to consider the dated draft report and make its formal submissions or representations to the Practice Review Committee through the reviewer.
- (iii) A meeting of the Practice Review Committee will be held to consider the reviewer's report and the practice unit's submissions. The Committee may issue a final report to the practice unit and instruct the reviewer to perform any follow-up action as considered appropriate. The final report will be graded in terms of the degree of compliance with the professional standards as prescribed in paragraph 10:

- *Type A*

Where a practice unit's system of quality control has been designed to meet the requirements under HKSQC 1 and that the practice unit has complied with the system of quality control during the review period, the report will be regarded as type A. However, the report may contain minor recommendations for improvements regarding the system of quality control and the application by the practice unit of other professional standards. The practice unit may exercise its discretion in considering what course of action to be taken. The Practice Review Committee will not instruct any specific follow-up procedures on the practice unit arising from the practice review.

- *Type B*

A type B report is where a practice unit's system of quality control has been designed to meet the major requirements under HKSQC 1 and that the practice unit in major areas has complied with its system of quality control during the review period but some weaknesses are found in certain areas which are considered material enough to bring to the attention of the practice unit. The practice unit should seriously consider the suggestions and recommendations and take all necessary action (implementing new policies and procedures) to ensure that the objectives of the particular areas are achieved. The Practice Review Committee will request the practice unit to provide it with a written undertaking that the practice unit will take the necessary action to ensure the objectives of the particular areas are achieved.

- *Type C*

Finally, a type C report is where a practice unit has failed to satisfy the Practice Review Committee that its system of quality control has been designed to meet the requirements under HKSQC 1 and that the practice unit has complied with its system of quality control during the review period. In such case, the Practice Review Committee will order the reviewer to perform a further practice review as regards the practice unit no earlier than six months after the issue of the final report. This will allow time for the practice unit to take steps to improve as suggested. The further practice review will address the target areas the Practice Review Committee instructs and will apply the elements of the on-site practice review visit methodology that are deemed appropriate to address the matters of concern.

It is possible that where a type C report reveals extensive weaknesses or disregard of professional standards amounting to serious professional misconduct the Practice Review Committee will make a complaint against the member to the Registrar on a first review.