

12 February 2010



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Via e-mail to: admission@hkicpa.org.hk

Dear Sir/Madam

**CONSULTATION PAPER ON PROPOSED CHANGES TO AUDITING PRACTICES – DECEMBER 2009
(A revision to the consultation paper January 2009)**

Thank you for the opportunity to comment on the Institute's Consultation Paper on proposed changes to auditing practices.

CPA Australia represents the diverse interests of more than 129,000 members in finance, accounting and business in 110 countries throughout the world. Over 26,000 of our members are located in South East Asia, including over 12,000 in Hong Kong and China. We also provide this response for the accounting profession generally and in the broader public interest.

The Revised Proposals

▪ **Ordinary residence**

CPA Australia agrees with the Institute's proposal to deem practising certificate holders as ordinarily resident where the criteria specified in the Consultation paper are met. Permanent residency status and being present within Hong Kong for not less than 180 days in the past 12 months are appropriate conditions to impose for such purposes.

▪ **Mainland auditing**

We support the Institute's revised proposed position that imposes conditions on the acceptance of auditing experience gained in the mainland. However, as noted in our initial submission on 18 March 2009 we believe it is important to clarify what constitutes auditing experience. Consideration could be given to including in the second condition, that the work which significantly relates to Hong Kong audit engagements requires the auditor to have attained relevant IFRS knowledge and applicable experience. Furthermore, given the relatively short period of time since the mainland adopted a quality control standard equivalent to ISQC 1, consideration could be given to clarifying in the first condition that the mainland CPA practice has complied with relevant and appropriate quality control standards.

▪ **Recent auditing experience and registered firms**

CPA Australia notes the problem identified in the Consultation Paper in relation to practising certificate holders providing services other than auditing services. The creation of a register of Registered Audit Practice, with the features identified in the Consultation Paper, is supported.

We note that it is proposed that the assessment of competency of registered audit practice will be undertaken as part of the Institute's practice review programme. It is appropriate for the Institute to use IES 8 as the basis for this competency assessment. However, it is possible that the Institute may not be able to review all practices on an annual basis. A requirement for an annual declaration outlining recent audit experience, to be furnished by practising certificate holders providing auditing services promotes greater transparency and accountability for those registered. Consideration could be given to retaining this original proposal for an annual declaration as a condition of being registered as a Registered Audit Practice.

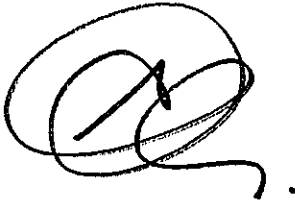
Other Proposals

We note the Institute's position in respect to the other proposals outlined in this Consultation Paper. The following comments are offered in relation to two of these proposals:

- The Consultation Paper notes that a majority of respondents, including CPA Australia, supported the original proposal in the January 2009 Consultation Paper of identifying the engagement partner in the audit report. We note that the Joint Government and Hong Kong Institute of CPAs Working Group considered the proposal but decided not to support it. A recent Consultation Paper issued by the International Organization of Securities Commissions (IOSCO) examines the transparency of audit firms, proposing that there is a link between greater disclosure by audit firms and audit quality. Arguably, the increased transparency that occurs when engagement partners are identified in audit report may be a driver for promoting greater accountability and ultimately improving audit quality. We suggest that the Institute monitors projects such as those being undertaken by IOSCO to determine whether, at some time in the future, this matter is reconsidered.
- We support the revised proposal with respect to the ratio of practising certificate holders as partners or directors. As noted in your Consultation Paper an important issue to consider is the individuals and groups which effectively control and direct the culture and ethical standards of the practice. It is important that such direction and control resides with those who have practice experience. The proposed requirements that focus on the majority of voting rights being held by individuals with an audit licence or qualification is appropriate.

CPA Australia is committed to ensuring the highest quality auditing practices by its members around the world. If you have any questions regarding this letter, please contact Deborah Leung, General Manager, Greater China, or Dr Gary Pflugrath, Policy Adviser, Professional Standards

Yours sincerely



Alex Malley FCPA
Chief Executive Officer

cc. Deborah Leung
Gary Pflugrath