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25 February 2010

The Registrar
Hong Kong Institute of Certified Public Accountants
37th Floor, Wu Chung House
213 Queen's Road East,
Wanchai,
Hong Kong

Dear Madam,

**Invitation to Comment on Consultation Paper
on Proposed Changes to Auditing Practices
(A revision to the Consultation Paper January 2009) ("the Consultation Paper")**

I refer to your letter dated 29 December 2009.

We have considered the Consultation Paper from the perspective of the Companies Ordinance, Cap 32, of the laws of Hong Kong ("CO") and in the light of the recommendations made in the context of the rewrite of the CO. The comments which follow should not therefore be taken as reflecting the position of the Administration as a whole.

The following proposals in the Consultation Paper are relevant, namely –

- Eligibility for appointment as auditor of a company (paragraphs 18 to 28) and
- Appointment of authorized signatories by practices to sign the audit report (paragraphs 63 to 68)

All references to paragraphs in this letter refer to those in the Consultation Paper.

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Eligibility for appointment

Section 140 of the CO sets out the current criteria for, inter alia, appointment as an auditor of a company. Section 140 of the CO will be modified and replaced by a provision on eligibility for appointment in Part 9 of the Companies Bill (“CB”) which provides that only a practice unit, defined according to section 2 of the Professional Accountants Ordinance, Cap 50, is eligible for appointment as auditor of the company.

We note your proposal in paragraphs 18(ii) and 19(a) to create a new Registered Audit Practice mechanism to allow the existing practice units to be eligible to perform audits and issue audit reports provided that such practice units are registered as a Registered Audit Practice. If so implemented, changes would have to be made to the eligibility requirements in the new CO. A transitional provision along the line of paragraph 25 may also be required.

Appointment of authorized signatories by practices to sign the audit report

Currently there is no requirement in the CO for signing an audit report. There will be a new provision in Part 9 of the CB which provides that an auditor’s report must be signed –

- if the auditor is a natural person, by the auditor; or
- if the auditor is a firm or body corporate, by a person authorized to sign the auditor’s name on the auditor’s behalf.

Allied to authorized signatories, there will be a provision in Part 9 of the CB (modified from section 141(8) of the CO) which allows an auditor which is a firm or body corporate to authorize an individual to act as its representative to attend and be heard at the company’s general meeting on any business of the meeting that concerns the auditor of the company.

As the proposals in the Consultation Paper mentioned above affect section 140 of the CO and the CB, please keep us informed of the Institutes’ consultation conclusions and any proposed legislative amendments. The provisions referred to above in Part 9 of the CB can be found in the Draft Companies Bill Second Phase Consultation which will be published before mid-2010. We trust that you will let us have your comments on them in due course.

Other than the above, we have no comments on the other proposals mentioned in the Consultation Paper.

Yours faithfully,

A handwritten signature in black ink, consisting of a series of connected loops and curves, positioned below the text 'Yours faithfully,'.

(Mrs Christine Sit)
for Registrar of Companies