



HKE_x
香港交易所

----- 11:50 8

RECEIVED
1 MAR 2010

The Stock Exchange of Hong Kong Ltd.

(A wholly-owned subsidiary of Hong Kong Exchanges and Clearing Limited)

26 February 2010

**BY FAX (2865 6603)
AND BY POST**

Our Ref: LD/CC/028-10

Ms. Winnie Cheung
Chief Executive & Registrar
Hong Kong Institute of Certified Public Accountants
37/F., Wu Chung House
213 Queen's Road East
Wanchai, Hong Kong

Dear Winnie,

Consultation paper on Proposed Changes to Auditing Practices (the "Consultation Paper")

We have reviewed the Consultation Paper which contains revised proposals aimed at addressing the concerns raised in respect of the earlier Consultation Paper "Proposed Changes to the Practising Certificate Regime" issued in January 2009. We are in general agreement with the direction of the revised proposals and set out our comments regarding certain key areas in the paragraphs below.

Scope of Registered Audit Practices

We support the Institute's proposal to create a new register of Registered Audit Practices 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. This should promote higher quality audits.

We understand that the current practising certificates entitle the holders to perform statutory audit functions, namely, to act as an auditor under the Companies Ordinance. However there is currently a blurring of the meaning of what is an "audit" and how it differs from other assurance work. Only the generic terms of "audit" and "audit experience" are set out in the Consultation Paper and we would suggest that the Institute should provide clarity in this respect. We understand that the International Auditing and Assurance Standards Board intends to carry out a project to study the meaning of an audit and this may provide some useful guidance.

We believe that the scope of work that may be performed by Registered Audit Practices could not only cover statutory audits but a wider range of assurance engagements which we understand may be the intended purpose of the current practising certificates.

The Stock Exchange of Hong Kong Ltd.

(A wholly-owned subsidiary of Hong Kong Exchanges and Clearing Limited)

Currently, there are various reports issued by auditors and examples include a review report on interim financial information and an accountants' report included in a prospectus or an investment circular. There are different standards governing such work, namely:-

- (a) HKSA – Hong Kong Standards on Auditing
- (b) HKSRE – Hong Kong Standards on Review Engagements
- (c) HKSAE – Hong Kong Standards on Assurance Engagements
- (d) HKSIR – Hong Kong Standards on Investment Circular Reporting Engagements

As set out in Appendix 1 to the “Preface to Hong Kong Standards on Quality Control, Auditing, Assurance and Related Services” (see copy at **Appendix**), audits fall under a wider framework of assurance engagements.

We therefore consider all the above are assurance engagements. In order to provide the intended users of assurance reports with the degree of confidence expected, the Institute should clearly define the scope of work permitted to be performed by Registered Audit Practices and if deemed appropriate, the Institute may wish to establish other categories and registers which may be differentiated based on the type of work permitted.

At the same time, given that the objective of an engagement under Hong Kong Standard on Related Services 4400 “Engagements to Perform Agreed-Upon Procedures Regarding Financial Information” *“is for the auditor to carry out procedures of an audit nature to which the auditor and the entity and any appropriate third parties have agreed and to report on factual findings”*, the Institute may wish to consider whether such engagements should be regrouped under assurance engagements. Currently, “Related Services” do not fall under the assurance umbrella.

Scope of practising certificate (PC) in new regime

Paragraph 3 of the Consultation Paper recognises that some current PC holders no longer carry out audits but practise in other areas, such as taxation, insolvency, forensic accounting, bookkeeping, secretarial, accounting and other advisory services. Paragraph 28 of the Consultation Paper proposes that *“practising certificate holders can continue to keep their practising certificates to provide non-audit related accountancy services without being a Registered Audit Practice”*.

We believe that the key issue is what is the intent of issuing a PC. In substance, the proposals will lead to two categories of PC holders:-

- (a) PC holders who are authorised to carry out audits; and
- (b) PC holders who are not authorised to carry out audits.

The Stock Exchange of Hong Kong Ltd.

(A wholly-owned subsidiary of Hong Kong Exchanges and Clearing Limited)

However, we understand that there are also Institute members who provide non-audit services but do not hold a PC. Currently, if a member of the Institute does not wish to offer audit services, the member is not required to obtain a PC. For example, we understand that currently those members who focus on performing taxation services do not require a PC. In the event that the Institute proceeds with its proposals it should ensure that the purpose of holding a PC and scope of work of the Registered Audit Practices is clear so that it is fully understood by the Institute's members and other stakeholders.

We note that under paragraph 28 of the Consultation Paper members who have previously obtained a PC and choose not to continue to offer audit services may retain their PC holder status and do not need to meet the recent audit experience and competency requirements. The question then is for a member who wishes to only provide non-audit services, should the member be obliged to surrender his PC licence and should he be entitled to continue to be designated as a Certified Public Accountant (Practising) member which we understand is intended to indicate that he is eligible to sign audit reports. To allow such members of the Institute to continue to describe themselves as a Certified Public Accountant (Practising) may be misleading. The Institute may wish to reconsider and, if deemed appropriate, revise the meaning of the designation.

“Fit and proper” and “competency” requirements

We understand that under the proposals, to be eligible for registration as a Registered Audit Practice, the practice must be “fit and proper” to act as a Registered Audit Practice and authorised signatories eligible to sign audit reports of the Registered Audit Practice must be “competent” to conduct audit work.

The Institute has indicated that it will develop fit and proper criteria based on those used in the United Kingdom for audit firms for registration as Registered Audit Practices and will also introduce competency requirements for audit professionals based on the International Federation of Accountants International Education Standard 8. It is however unclear whether they will be adopted in full without amendment or will be modified. Without details we are unable to comment on whether the “fit and proper” and “competency” criteria will be suitable for Hong Kong.

Although we agree with the proposed direction, to assist the Institute's members and other stakeholders' understanding of the requirements, we would recommend that the Institute make it very clear and transparent what will be the initial eligibility requirements and if different, the continuing eligibility requirements. It would be useful to separately identify the requirements for admission of individuals to membership of the Institute from competency requirements for continued membership, and other requirements to perform specific services such as audit work. The Institute may then wish to consider different requirements for audit practices, which may be in form of a sole practitioner, partnership or a corporate practice.

The Stock Exchange of Hong Kong Ltd.

(A wholly-owned subsidiary of Hong Kong Exchanges and Clearing Limited)

Removal of authorised signatories of a Registered Audit Practice

One of the proposals is that if an authorised signatory fails to meet the competency requirements, the order for removal of the authorised signatory from the register of Registered Audit Practices may come from the Practice Review Committee. However, if a Registered Audit Practice is found not to meet the fit and proper requirements, it will be referred to the Disciplinary Committee for potential removal from the register.

We have concerns on the proposal to empower the Practice Review Committee to remove an authorised signatory. We understand that the Disciplinary Committee is currently the only authority empowered to deal with formal complaints concerning allegations of misconduct by the Institute's members, member practices or registered students. Any complaint made by the Practice Review Committee may be referred to the Disciplinary Committee. The Disciplinary Committee mechanism allows the respondent to be heard and to defend his case, and appeal mechanisms are in place to allow reconsideration of decisions made by the Disciplinary Committee.

We believe that the "competency" and "fit and proper" requirements may sometimes overlap and are interrelated. Moreover, their assessment is quite subjective. If the Practice Review Committee has decided that an authorised signatory is not competent, this may also raise the question of whether the authorised signatory continues to be a fit and proper person to be a member of the Institute. This is currently only determinable by the Disciplinary Committee.

Accordingly, to reduce complexity and to improve efficiency and to minimise possible allegations of unfairness, we would prefer that the removal of an authorised signatory should be determined by the Disciplinary Committee.

Voting rights in a Registered Audit Practice

We note the proposal to require "*a majority of the voting rights in a registered audit practice be held by practising certificate holders*" (paragraph 61 of the Consultation Paper). To achieve the objective for the introduction of a register of Registered Audit Practices to require higher eligibility requirements for members that undertake audit work, we believe that a Registered Audit Practice should be controlled by PC holders that meet the proposed competency requirements for audit professionals, and not a simple majority of PC holders, which under the proposals, may include members that do not undertake audit work.

The Stock Exchange of Hong Kong Ltd.

(A wholly-owned subsidiary of Hong Kong Exchanges and Clearing Limited)

Consequential impact

We understand that some proposals in the Consultation Paper will require amendments to the Professional Accountants Ordinance (PAO). As the changes will have an impact on other legislation and regulations, we would suggest that the Institute should ensure that any consequential effects and other required amendments are taken into consideration before making amendments to the PAO. For example, if the proposed changes are made, we will need to amend our Listing Rules to clarify the persons who are permitted to act as auditors and reporting accountants for listed issuers and listing applicants.

We hope that you find our comments useful.

Yours sincerely,
For and on behalf of
The Stock Exchange of Hong Kong Limited



Colin Chau
Senior Vice President
Listing Division

CC/el

c.c. Mr. Mark Dickens – Head of Listing

APPENDIX 1

Structure of Hong Kong Standards on Quality Control, Auditing, Assurance and Related Services, Practice Notes and Auditing Guidelines

