



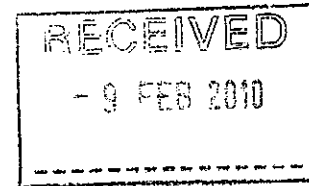
國 衛 會 計 師 事 務 所  
Hodgson Impey Cheng



Chartered Accountants  
Certified Public Accountants

8 February 2010

Hong Kong Institute of Certified Public Accountants  
37<sup>th</sup> Floor Wu Chung House  
213 Queen's Road East  
Wanchai  
HONG KONG



Attn: Ms Winnie Cheung, Chief Executive & Registrar

Dear Sirs

**Re: Consultation Paper on Proposed Changes to Auditing Practices (the "Consultation Paper")**

We are writing to provide our comments to the proposals as set out in the Consultation Paper issued by the Hong Kong Institute of Certified Public Accountants (the "Institute") in December 2009.

***Excessive Power of the Practice Review Committee***

The Consultation Paper proposes major and fundamental changes relating to recent auditing experience and registration of audit practices. Paragraphs 18 to 20 of the Consultation Paper set out the requirement for all practice units to register as a Registered Audit Practice and for each practice unit to meet certain eligibility requirements. In addition, in order for an individual to sign audit reports (i.e. an Authorized Signatory), this person must be a practising certificate holder and competent to conduct audit work (see paragraph 21). According to paragraph 22, "assessment of competency will continue to be carried out as part of the Institute's practice review programme". The Consultation Paper further proposes, in paragraph 26, to give the Practice Review Committee the power to remove an Authorized Signatory from the list of Authorized Signatories in the register of Registered Audit Practices should such Authorized Signatory fail to meet certain competency requirements.

***Distrust to the long-established system***

Whilst we understand the desire for the Institute to raise public trust in audit quality and ensure that those who are authorized to sign audit reports continue to possess relevant and up-to-date knowledge and experience for audits in Hong Kong, we are concerned about some of the proposed changes in the Consultation Paper. To qualify as a CPA, an individual is already subject to various stringent requirements including completing professional examinations and obtaining approved practical experience. Qualified CPAs are subject to continuing professional development requirements and are bound by the Code of Ethics. The existing system proves to be an adequate measure to ensure audit quality. Notwithstanding, however, the proposal in the Consultation Paper suggests the assessment of competency of each individual to be given as part of the Institute's practice review programme administered by the Practice Review Committee. We believe that this proposal gives too much power to the Practice Review Committee.

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Undue and over-reliance on the Practice Review Committee will be a drawback from the existing system. The main duty of the Practice Review Committee is to report to the Standards & Quality Accountability Board on the progress and outcomes of the practice review programme including observations on the application of professional standards by practice units. If a firm or any director/partner thereof or a CPA fails to observe, maintain or apply professional standards, the Practice Review Committee may make a complaint to the Registrar and the complaint will be considered by the Council which has the discretion as to whether or not to refer the matter to the Disciplinary Panels.

***Professional Accountants Ordinance***

Proposing to allow the Practice Review Committee to issue an order for the removal of an Authorized Signatory impairs objectivity and independence of the Practice Review Committee. Indeed, empowering the Practice Review Committee to issue order for removal of an Authorized Signatory may well have exceeded the powers conferred to it under the Professional Accountants Ordinance. The decision to remove an Authorized Signatory is not one which should be taken lightly, and the power to remove an Authorized Signatory is not one which should be delegated to committees but should vest with the Council itself.

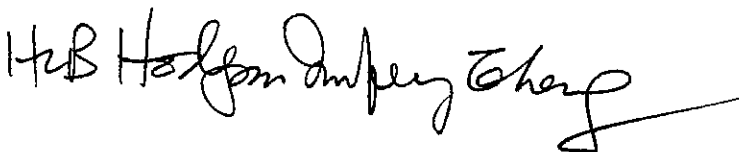
***Smaller practice units in unfavorable position***

Paragraph 26 of the Consultation Paper further proposes that in the event that all Authorized Signatories of a Registered Audit Practice are removed, the Registered Audit Practice will be automatically removed from the register. We believe that the process to remove a Registered Audit Practice should be clearly laid down and transparent to all audit practice units. This proposal in the Consultation Paper is placing practice units with small number of Authorized Signatories at a disadvantaged position and has not provided any transitional provision for practice units to remedy the situation before they are automatically removed.

***A very subjective assessment***

Although as mentioned in the proposal, the Institute intends to set out the competence requirements for audit professionals as specified in the International Federation of Accountants International Education Standard 8, the assessment of one's competency can still be very subjective. We cannot agree with the proposal in the Consultation Paper without first seeing a clear and comprehensive guideline and an opportunity to thoroughly discuss the issues among the audit profession.

Yours faithfully



**HLB Hodgson Impey Cheng**  
Chartered Accountants  
Certified Public Accountants