

## Consultation paper on proposed changes to auditing practices

### Frequently Asked Questions

#### Audit practice - Additional QA measures

- Q1. I am a part-time practising certificate (PC) holder practising in my own name. Can I continue to practise part-time in my own name in performing audits and issuing audit reports?
- A1. There is no distinction between “full-time” and “part-time” auditors. Under the proposed Registered Audit Practice regime, a PC holder practising in his own name may perform audits and issue audit reports provided that he is registered as a Registered Audit Practice. Any member active in providing audit services should and will be expected to meet the same standards of technical knowledge and competence.
- Q2. Does a PC holder need to register a firm to provide audit services?
- A2. No, but a PC holder practising audit in his own name will be required to register as a Registered Audit Practice and nominate himself as the Authorised Signatory of the practice for signing audit reports.
- Q3. What extra requirements does a PC holder, firm or corporate practice need to fulfill in order to register as a Registered Audit Practice?
- A3. A practice will need to satisfy the following requirements in order to be registered as a Registered Audit Practice:
- new fit and proper requirement for an audit practice;
  - majority voting rights to be in the hands of PC holders; and
  - identify the individuals that the Registered Audit Practice has nominated as Authorised Signatories to sign audit reports on behalf of the practice. These individuals are required to be:
    - a PC holder;
    - competent to conduct audit work as demonstrated by meeting the competency requirements for Authorised Signatories; and
    - the sole proprietor, partner, director or employee of the Registered Audit Practice except in the case of a sole proprietorship practice unit where no more than one non-employee may be appointed.

These proposed changes are part of the Institute's overall aim to ensure that public trust in audit quality is maintained. The aim is to further demonstrate that members active in providing audit services are up to date in their understanding and application

of current professional standards.

Q4. What is the new fit and proper requirement that a PC holder, firm or corporate practice will need to meet in order to register as a Registered Audit Practice?

A4. A set of guidance on fit and proper requirements for audit practices are being developed and will be made available to members in due course. The requirements as applied to a practice are similar to those required by an individual when becoming a member of the Institute. The criteria to assess a practice's fit and proper status will include:

- financial integrity and reliability (e.g. whether the practice has been the subject of any insolvency proceedings, etc.)
- civil liabilities (e.g. whether the practice unit has been the subject of any civil action relating to its professional or business activities which resulted in a judgement or finding against it by a court, etc.)
- good reputation and character (e.g. whether the practice has been disciplined by any professional or regulatory body, etc.)

Q5. How is a practice unit going to be assessed on whether it meets the fit and proper requirement for registration as a Registered Audit Practice?

A5. When the register of Registered Audit Practices is first established, existing practice units performing audit services which wish to register will be exempted from the assessment. Thereafter, all practice units will be assessed by declarations at the point of initial registration. Upon registration, ongoing assessment will be carried out in part by annual practice review questionnaire and also during the course of practice review visits.

Q6. What are the competency requirements that a PC holder will need to meet in order to act as an Authorised Signatory of a Registered Audit Practice?

A6. Guidelines on competency requirements for audit professionals that draw on the IFAC International Education Standard 8 and other sources are being developed and will be issued in due course.

Q7. How will a PC holder be assessed on whether he meets the competency requirements for Authorised Signatories of a Registered Audit Practice?

A7. In addition to compliance with CPD, competency will be assessed by reference to recent experience in being responsible for significant judgments in an audit and the results of performance on audit engagements subject to practice review. Assessment of competency will be carried out at the time of first registration and during practice

review.

- Q8. Why is the Practice Review Committee given the power to order the removal of an Authorised Signatory if he fails to meet the competency requirements? Shouldn't the present procedures of removing PC holders through the disciplinary proceedings apply to future removal of Authorised Signatories?
- A8. The Disciplinary Committee is not the appropriate mechanism to remove an Authorized Signatory from the list of Registered Audit Practices because non-compliance with the competency requirements is not a disciplinary matter. When an Authorized Signatory is found during a practice review to be not meeting the competency requirements, the Registered Audit Practice will be asked to take remedial actions to ensure the Authorized Signatory complies in future. Only when remedial actions fail will consideration be given to removing the Authorized Signatory as he is not qualified to sign audit reports.
- The Practice Review Committee (PRC) is a more suitable committee to consider such cases because the composition of the PRC is governed by the Professional Accountants Ordinance (PAO) which requires a wide representation of practitioners, and members of the PRC have practice review knowledge. Only serious non-compliance cases will be brought to the PRC for consideration of removal. Coupled with the Standards & Quality Accountability Board oversight, the appeal mechanism to Council and further appeal process to the Court, it is felt that sufficient checks and balances exist.
- Q9. How much is the extra fee that a PC holder will need to pay per year?
- A9. The Institute will conduct an overall review of its existing structure and quantum of fees as against the cost of its operation and come up with a new structure of fees for PC and audit practices.
- Q10. Will there be any advertising to educate the public about the new Registered Audit Practice regime when it is implemented?
- A10. The establishment of Registered Audit Practices can only be implemented after appropriate legislative amendments to the Professional Accountants Ordinance (PAO). The Institute will launch publicity programmes to explain to the public the new registration system and the various designations (CPA (practising), Registered Audit Practice and Authorised Audit Signatory).
- Q11. I am a PC holder practising in my own name and have not done any audit work for a

long time. Can I renew my PC? Can I hold myself out as a CPA (practising)?  
What would I have to do if I want to provide audit services again?

A11. A PC holder practising in own name and not engaging in audit work may renew his PC to provide "non-audit" accountancy services and continue to use the designation CPA (practising). If this PC holder wants to provide audit services again, he will have to register as a Registered Audit Practice and nominate himself as the Authorised Signatory. To become an Authorised Signatory, the PC holder will be required to make a self-declaration on his competence to conduct audit work for the Institute's assessment. In addition to the Institute's CPD requirements, competency will be assessed by reference to recent experience in being responsible for significant judgments in an audit.

Q12. Under the new regime, what is the difference between a PC holder who is not engaged in auditing and a member without a PC?

A12. A member without a PC and a PC holder are designated as CPA and CPA (practising) respectively. To obtain a PC, a member has to meet the PC issuance requirements, including passing the Institute's PC examinations and obtaining 4 years of practical experience in a CPA practice with 75% of his work in auditing. If a CPA (practising) chooses to provide other accountancy services but not to carry out audits, s/he should be allowed to continue to hold the designation as s/he would have achieved the requirement for running a public accountancy practice.

### **Obtaining a PC - Mainland auditing**

Q13. One of the conditions for recognition of Mainland auditing experience is that the Mainland CPA practice is affiliated with a Hong Kong CPA practice. What does "affiliated" mean?

A13. It means that both practices belong to the same network of practices.

### **Obtain and maintain a PC - Ordinary resident in Hong Kong**

Q14. Will I be deemed as ordinarily resident in Hong Kong for PC issuance purpose if I am a permanent resident of Hong Kong but was not present in Hong Kong for 180 days in the past 12 months?

A14. Yes.

Q15. It has been proposed that the PAO be amended such that the residency requirement for PC issuance shall be stipulated as defined by Council from time to time. Does it

mean that Council will change the residency requirement at any time in the future without consulting members?

A15. The intention is to give Council the flexibility to redefine the residency requirement for PC issuance without having to go through the full legislative process of amending the PAO. For major policy changes which have significant impact on the profession, Council will not implement changes without consulting members first.

### **Re-apply for a PC – Recent auditing experience**

Q16. I ceased practice a few years ago. I want to obtain a PC again to provide non-auditing services. Do I need to obtain one-year recent local auditing experience before applying?

A16. No.

Q17. I ceased practice a few years ago. I want to obtain a PC again to perform audits. Do I need to obtain one-year recent local auditing experience before applying?

A17. Yes, you need to obtain one-year experience first unless there are extenuating circumstances acceptable to the Registration and Practising Committee. You will need to apply for registration as a Registered Audit Practice or an Authorised Signatory of a Registered Audit Practice in order to provide auditing services.

### **Firm/corporate practice registration - Appointment of authorised signatories**

Q18. Will the CPA firm or the authorised signatory who is an employee and signed the audit report be liable for negligence, omission or error made in an audit?

A18. Both the firm and the authorised signatory may be liable.

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