



國衛會計師事務所有限公司
Hodgson Impey Cheng Limited



商界展關懷
caring company

10 January 2014

PRIVATE & CONFIDENTIAL

Mr. Raphael Ding
Chief Executive and Registrar
Hong Kong Institute of Certified Public Accountants
37/F Wu Chung House
213 Queen's Road East, Wanchai
HONG KONG

RECEIVED
13 JAN 2014

BY:.....

Dear Mr. Ding

Re: Regulatory Framework for Listed Company Audits

We refer to the Information Paper and Request for Comment in relation to the Regulatory Framework for Listed Company Audits in Hong Kong (the "Information Paper and Request for Comment") dated 8 October 2013 issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and are writing to set out below our comments and views on the Information Paper and Request for Comment.

Overall Principle

Securing International Forum of Independent Audit Regulators ("IFIAR") membership is sufficient to meet the objective of bringing Hong Kong in line with international regulatory standard. The proposed framework of transferring all six regulatory functions to the Independent Oversight Body ("IOB") is excessive and unreasonably beyond meeting the objective.

IFIAR model only required oversight on three areas of responsibilities and exercise oversights only, not ownership or any close involvement in operation by the IOB.

Registration

We do not agree that the IOB should have the power to approve and refuse registration bypassing the HKICPA. In particular the introduction of annual "Fit and Proper" requirement rendered the IOB authority in denying a firm or an individual from being registered unilaterally and without being determined by an independent tribunal (which is against the principle of independent disciplinary process – see "Investigation and Disciplinary" below).

"Fit and Proper" is a very subjective and unclear concept. A clear and detailed guidance must be developed before this concept is implemented.

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31/F, Gloucester Tower, The Landmark, 11 Pedder Street, Central, Hong Kong SAR Tel: + (852) 2810 8333 Fax: + (852) 2810 1948
香港中環畢打街11號置地廣場告羅士打大廈31字樓 電話: +(852) 2810 8333 傳真: +(852) 2810 1948
E-mail: hic@hic.com.hk Web Site: <http://www.hic.com.hk> 電子郵件: hic@hic.com.hk 網址: <http://www.hic.com.hk>

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To: Mr. Raphael Ding
Hong Kong Institute of Certified Public Accountants

Date: 10 January 2014

Page: 2

Investigation and Disciplinary

Separation of responsibilities between inspection and investigation and disciplinary is of utmost important to the profession. Having the functions of investigation, prosecution and determination of judgments within one IOB is simply unacceptable.

Option B is the only acceptable option to ensure independence of the process and meeting the fundamental principle of objectivity.

The IOB should not be given the power to instigate immediate suspension / other immediate punitive actions without the same being determined by an independent tribunal. All professionals should be presumed innocent unless they are proven to be guilty.

Punitive Actions

The proposed penalty of HK\$10,000,000 per case uninsurable posed a risk which is far too excessive for many mid-tier CPA firms to bear. Many CPA firms may simply go out of business when assessing their risks and rewards. The market would then become uneven, unhealthy and anti-competitive and to the extreme monopolized by the big four CPA firms.

The current level of penalties for accountants is already sufficient including criminal sanction under section 408 of the Companies Ordinance and potential unlimited civil claims against accountants on their professional negligence.

Responsibilities for Quality Controls

The Engagement Partner and Engagement Quality Control Reviewer should be the only party to respond to any enquiry or case. Holding an individual responsible for firm-wide problems is totally unreasonable. System and internal quality control of a CPA firm are not developed by nor operated by one individual - they are usually collective responsibility of a group of senior personnel. The proposed concept of holding an individual responsible for firm-wide matters (similar to the concept of legal representative of a Mainland enterprise) arises from a lack of understanding of how CPA firms are operated.

Level Playing Field

The regulations with which Hong Kong auditors are required to comply are different from auditors in other jurisdictions (such as Singapore and the Mainland) although these overseas auditors can audit Hong Kong listed companies. These overseas auditors are not subject to the same regulations as Hong Kong auditors and the proposed framework does not provide a solution to this unfair, unbalanced playing field.

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Expectation Gap

The current market and public expectation from an audit or from auditors are far from what an audit is and what audit is aimed at achieving. A public education campaign should be launched together with the proposed regulatory framework to bridge this gap and to clarify that audit is not a fraud investigation. Auditors should not be taking all the blame for failing to uncover well planned, sophisticated frauds.

Composition and Representation in the IOB and Knowledge of the Profession

Auditing is a profession very different from the other professions and a lot of professional judgments are involved in its work.

The future composition of the governing IOB decision making body must include practicing or retired CPAs drawn from different backgrounds and CPA firms of varying sizes, who understand the profession and have audit experience. The current composition of the FRC is insufficient in terms of number of experienced auditors present to express their views.

Standards Setting and Definition of Public Interest Entities (“PIE”)

Accounting, auditing and ethical standards setting for the accounting profession in Hong Kong has always been the responsibility of the HKICPA. The HKICPA has over 40 years of relevant experience and is represented in different international forums and committees, so the current process is very efficient and effective. Transferring this function to the IOB brings no benefits.

In addition, the definition of PIE is unclear and uncertain in the proposed framework. The definition of PIE is for the time being restricted to only listed companies, but there is no restriction for the IOB to expand this definition to other areas. This potential risk of expansion in definition together with the proposed standard setting responsibility would have given the IOB unnecessary authority in its regulatory function over unlisted companies in the future, well beyond the objective of the proposed reform. We would therefore suggest that any future changes to the definition of PIE be subject to members and public consultations.

Liability Reform

The market and the profession have been discussing about the possibility of a liability reform for auditors in Hong Kong for a long time already. Hong Kong is very behind in this area as compared to the international benchmark.

Liability reform should be introduced parallel with the proposed audit regulatory reform to achieve a healthy and balanced development for the market and for the profession.

To: Mr. Raphael Ding
Hong Kong Institute of Certified Public Accountants

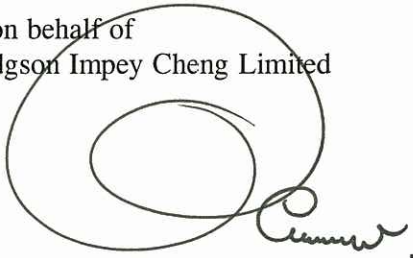
Date: 10 January 2014

Page: 4

Please do not hesitate to contact us if you wish to have further discussion on any of the above comments.

Yours sincerely

For and on behalf of
HLB Hodgson Impey Cheng Limited

A handwritten signature in black ink, consisting of a large, stylized 'R' followed by a smaller, more fluid signature.

Raymond Cheng
Managing Director