

恒健會計師行有限公司

**HLM CPA LIMITED**

**Certified Public Accountants**

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21 December 2013

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

Ref:DC/20131221/reform

Dear Mr. Ding,

**Regulatory Framework for Listed Company Audits**  
**Information Paper and Request for Comment**

HLM is pleased to comment on the above information paper and request for comment.

**General Comments**

As a leading capital market in the world, Hong Kong auditing professional maintain high standards is important. However, we must take a balance position between the supervision and the continuing health growth of the auditing profession in Hong Kong.

We agree with the HKICPA's view that IFIAR membership is benefit to the Hong Kong auditing profession. However, the benefits of EC equivalence are not vital to Hong Kong. We believe that Hong Kong does not need to reform so much to obtain the EC equivalence that is worthless.

Currently, HKICPA enjoys high reputation in Hong Kong, the PRC, or even in the world. The function of HKICPA is effective and we believe that no issue of independence in Hong Kong listing company audit. We believe that the overall objective of the reform is limited to establish an independent body to exercise oversight over of the audits of listed companies, so that Hong Kong could meet the IFIAR benchmarks for independent regulation of listed company auditors. As a result, we believe that the newly independent body is not proper to take extra responsibility out from HKICPA. It should remain in oversight objective.

## **Specific Comments**

The following are our specific comments to the Information Paper and Draft Proposed Framework.

### **1. General principles of reform and exercise of oversight**

We agree with HKICPA's view that there is no evidence to indicate that the HKICPA is not meeting public interest in its standard setting or public expectation. We believe any removal of statutory responsibilities from HKICPA under PAO is not necessary. However, in order to secure Hong Kong's membership in IFIAR, we propose that there is an option of oversight by IOB of HKICPA responsibilities.

### **2. Definition of "Public Interest Entities ("PIEs")**

We agree with the proposed definition of PIEs to be limited to public listed companies in Hong Kong.

### **3. Registration**

We agree with HKICPA's position. In addition, we need to make sure that the same framework including administering recognition criteria is also applied on the Mainland auditors.

### **4. Inspection and investigation**

We support HKICPA's position.

### **5. Enforcement and discipline**

We are very concerned the proposed disciplinary mechanism. After consideration, we support HKICPA's view that Option B which provides the necessary balance among discipline, inspection, and investigation.

We are not supportive of the proposed monetary sanctions of three times profit or loss, or HK\$10 million, which is greater. Based on our estimation, Mid-Tier firm cannot afford this price and these risks are not insurable.

As an auditor, our responsibility is to express our audit opinion based on our finding. We did not commit the wrong doing. For example, it is also not justified to punish a policeman if he cannot catch the criminals. In turn, auditors should not bear unacceptable high penalty.

### **6. Continuing professional development**

We agree with HKICPA's position that HKICPA should perform the existing CPD functions, subject to the oversight of the IOB.

### **7. Standard setting**

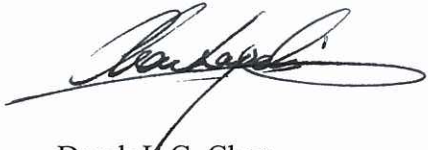
We agree with HKICPA's position that HKICPA should continue in its role as the standard setter in Hong Kong.

## 8. Funding

We agree with HKICPA's position that listed companies should bear the entire funding.

If you want to further discuss with me, please feel free to contact me 31036977.

Yours faithfully,

A handwritten signature in black ink, appearing to read 'Derek L.C. Chan', with a large, sweeping flourish underneath.

Derek L.C. Chan  
Director  
HLM CPA Limited