

11 November 2013

Dear Susana, the President of HKICPA
Raphael, the Chief Executive

Re: Regulatory framework for listed company audits

I have read the handouts of the regulatory framework for listed company audits and attended the lunch seminar in such respect. I feel that the framework is too much concentrated on those six functions that HKICPA is going to give up and take back. The “give and take” tactic is a rather passive response per se. Why don’t we think outside the box by taking this opportunity *to strengthen the legitimate authority of HKICPA in accounting regulatory and auditing standard setting?*

To align with the international practice, there seems no way to ignore the formation of an independent oversight body to monitor the PIE auditors. It seems that the requirement lies on the word “independent”. Can *HKICPA simply set up an independent oversight body which will be established in the form as a second limb of the association* on oversight of PIE auditors?

The independent oversight body is of course working free from the influence of HKICPA on executing its duties. However, *HKICPA shall have the right to nominate at least a board member to the independent oversight body*. The aim is to signify the ultimate authority of HKICPA on auditing standard setting and execution of the proper accounting standards.

Unlike other western countries, HKICPA is the only legitimate body in Hong Kong to monitor and issue of accounting standards. Therefore, HKICPA shall remain its sole legitimacy in setting accounting and auditing standards. It seems not necessary to have another body which will have overlapping functions with HKICPA.

If the above suggestions are implemented, then the six primary functions as mentioned in the framework should be modified to reflect the situation that HKICPA is the paramount authority on standards issue and the independent oversight body is a second limb of HKICPA. Importantly, for the disciplinary proceeding, there should be an unrestricted appeal resort, and *HKICPA should provide the function as the final court of appeal*. But, this is *only limited to non-criminal cases*.

HKICPA should have the right to nominate a sitting board member and to have an authoritative judgement on technical auditing issues to the verdict of the oversight body even if the independent oversight body cannot be established in the form as a second limb of HKICPA. The practice is in line with the fact that HKICPA is the influential body to formulate accounting and auditing standards.

Thank you for your kind attention.

Regards,
KY NGAI
Member F06033