



10 January 2014

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

Dear Mr. Ding,

Regulatory framework for listed company audits

SHINEWING is pleased to provide our comments on the Information Paper relating to the regulatory framework for listed company audits in Hong Kong.

General comments

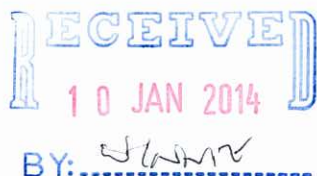
We welcome the reform coordinated by the Hong Kong Institute of Certified Public Accountants (HKICPA), the Hong Kong government's Financial Services and the Treasury Bureau and the Financial Reporting Council. Generally, we support the views of HKICPA on the proposed framework of key reform proposals and its preferred options, as set out on the information paper.

We agree on establishing an independent auditing regulation body so that the regulatory system in Hong Kong meets international benchmarks for regulation of listed company auditors. We believe that such move is undoubtedly important for the standing of Hong Kong's capital market and for the long-term development of the profession.

Specific comments

1. Registration

We agree that HKICPA shall remain responsible for registration of members and member firms. We believe that the responsibilities should be derived from direct assignment in law and not delegated from the Independent Oversight Body (IOB).



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In our view, the “fit and proper” test for registration needs to be clearly defined. We agree that it should be the same as currently used for admission to membership and should not be used to introduce additional competency.

We would like to express our view that we do not agree to register “the person who is in charge of the Firm’s quality control system”, as it is unfair to the relevant person by imposing him/her the liability as a result of non-compliance from a single audit engagement. Specific guidance on the scope of his/her responsibility over the listed engagements and his/her consequences should be considered and provided before requiring to name such person in the register.

We would also like to point out that, the issues about registration or regulation of Mainland and non-Hong Kong auditors of companies listed in Hong Kong should be properly and carefully considered. Safeguarding the interests of Hong Kong auditors and promoting healthy development of the profession in the long run should always be prioritized.

2. Inspection

We support the position that the IOB could directly inspect Hong Kong auditors of Hong Kong-listed companies while HKICPA could conduct the inspection under delegation and direction by the IOB.

3. Investigation

We have no concern on this, as there is no change from the current situation.

4. Discipline and sanctions

We support Option B, which cases arising from inspection or investigation will be sent to a fully independent disciplinary committee for decision and sanctioning. The disciplinary committee is completely independent of the inspection and investigation body, demonstrating a high degree of independence and fairness.

We also agree with the HKICPA’s suggestion on developing a clear guidance on sanctioning procedures and application. We support in favour of the view that all sanctions should be proportionate and reasonable, being taken as a punitive action instead of a destructive one. Thus, we think the monetary penalties capped at the greater of HK\$10 million or three times the profit made or loss avoided are not advisable. That would pose a great threat to the continued existence of many audit firms in Hong Kong, provided that the risks are not insurable. There should also be absolute transparency of process and clear separation of responsibility for inspection and sanction.

5. Standard setting

We agree that HKICPA should remain as the setter of auditing standards and the code of ethics in Hong Kong, where authority for the role is assigned directly by law.

6. Continuing professional development

We support the HKICPA's role of setting and monitoring compliance with CPD standards and requirements for its members.

7. Funding

We agree with the HKICPA's suggestion that the future operations of the independent body should be funded primarily by listed companies and investors.

Other comments

In view of the increasing liabilities and responsibilities being imposed on auditors by the public and s408 of the new Companies Ordinance, we suggest a Professional Liability Reform should be considered such as through imposing liability cap on auditors, in order to safeguard the interests of the audit professionals.

We also suggest that more insurance companies eligible for providing professional indemnity insurance in Hong Kong should be introduced into the market in order to allow the audit practices having more and fair choice of insurance service and protection.

In conclusion, we think the statutory power of HKICPA should not be deprived of, as it still plays a crucial role in promoting efficient accounting practices and maintaining the standing of auditing profession in Hong Kong. Meanwhile, we support the regulatory reform which introduces more independence to listed company auditor regulation system, as the ultimate aim is to advance our standards to an international level.

Should you require any clarification, we would be pleased to discuss any of the points above with you in detail. We wish you every success in the rest of the consultation process.

Yours sincerely,


Barry Ip
Managing Partner