

**STATEMENT 1.401
PRACTICE REVIEW
REVIEW PROCEDURES AND CONDUCT OF MEMBERS**

(Issued July 1992; revised July 1994, October 1994, March 1995, October 1995, January 1997, July 2004, September 2004 (name change), January 2005 and March 2006 and December 2019)

Introduction

1. The Professional Accountants Ordinance (PAO) gives power to the Council of the Hong Kong Institute of Certified Public Accountants (HKICPA) to implement a practice review programme, and governs the conduct and procedures of practice review. After the enactment of the Financial Reporting Council (Amendment) Ordinance (FRC(A)O) that takes effect on 1 October 2019, the Financial Reporting Council (FRC) takes over the responsibilities for inspections of Public Interest Entities (PIE) engagements as defined in the FRC(A)O completed by a PIE auditor on or after 1 October 2019. As a result, those engagements are scoped out from the HKICPA's practice review programme.
- 1a. The HKICPA, being a member of the International Federation of Accountants (IFAC), is required to comply with IFAC's Statements of Membership Obligations (SMO), including SMO 1 *Quality Assurance* which sets out the requirements with respect to quality assurance review systems for those who perform audits, review, other assurance and related services engagements of financial statements. The HKICPA therefore ensures its practice review programme meets the requirements of SMO 1.
2. The objective of practice review is to ensure that members in public practice observe, maintain and apply professional standards.
3. Through a review of a practice unit's system of quality control, defined under Hong Kong Standard on Quality Control 1 "Quality Control for Firms That Perform Audits and Reviews of Historical Financial Information, and Other Assurance and Related Services Engagements", which includes a review of working papers of audit, assurance and related services engagements, practice review serves to determine whether professional standards are being, or have been observed, maintained or applied by the practice unit (referred to below as an audit quality assurance review). With effect from October 2018, following the expansion of the scope of the Anti-Money Laundering and Counter-Terrorist Financing (AML) Ordinance to cover designated non-financial businesses and professions, including accountants, an AML compliance monitoring programme is introduced within the HKICPA's practice review programme to evaluate a practice unit's level of compliance with the Guidelines on AML for Professional Accountants (AML Guidelines) included in the Code of Ethics (referred to below as an AML compliance review). The Practice Review Committee may also make recommendations to the practice unit regarding its system of quality control and AML compliance and the application by the practice unit of other professional standards.
4. The practice review programme does not set new standards. Rather, the standards that a member is expected to observe, maintain or apply are those prescribed by the HKICPA Members' Handbook.
5. This Statement provides details of the requirements of the PAO, what is expected of a member during the conduct of a practice review, and a brief description of the practice review process. This Statement should be read in conjunction with the Practice Review Statement 1.400 "Explanatory Foreword".

Definition of terms

6. *HKSQC 1* - Hong Kong Standard on Quality Control 1 "Quality Control for Firms That Perform Audits and Reviews of Historical Financial Information, and Other Assurance and Related Services Engagements"

<i>Member</i>	-	for the purpose of this Statement, includes a practice unit
<i>Practice Review</i>	-	in relation to a practice unit means an examination or a review to determine whether professional standards are being or have been observed, maintained or applied
<i>Practice Review Committee</i>	-	a committee established under section 32A of the PAO, to conduct practice reviews to determine whether professional standards are being or have been maintained, observed or applied by practice units and to help the HKICPA meet the requirements of SMO1.
<i>Practice Unit</i>	-	(a) a firm of certified public accountants (practising) practising accountancy pursuant to the PAO; (b) a certified public accountant (practising) practising accountancy on his own account pursuant to the PAO; or (c) a corporate practice
<i>Professional Standards</i>	-	(a) statements of professional ethics; or (b) standards of accounting, auditing and assurance practices issued or specified or deemed to have been issued or specified under section 18A of the PAO (see paragraph 10 below)
<i>Questionnaire</i>	-	Practice review self-assessment questionnaire
<i>Reviewer</i>	-	any certified public accountant appointed or engaged by the Council under section 32B(1)(d) of the PAO for the purpose of carrying out practice reviews
<i>Section</i>	-	refers to provisions of the PAO

Scope

Members subject to review

7. All certified public accountants (practising) are required to observe, maintain and apply the standards prescribed by the HKICPA Members' Handbook. All members so engaged, whether in full or part-time practice, must submit to practice review, subject to the exclusion and exemption set out in paragraphs 7a and 8 below, respectively.

Exclusion

- 7a. As a consequential amendment to the PAO following the enactment of FRC(A)O, the Council is precluded from issuing any direction under section 32B(1)(b) that has the effect of:
- (a) requiring a practice review to be carried out in relation to a PIE engagement as defined in the FRC(A)O completed by a practice unit on or after 1 October 2019;
 - (b) allowing a practice review to be carried out or continued, after the end of the 5-year period beginning on 1 October 2019 in relation to a PIE engagement as defined in the FRC(A)O completed before that date by a practice unit.

Exemption

8. Where a certified public accountant (practising) completes a declaration in prescribed form certifying that he is not engaged in the practice of public accounting as it pertains to audit, assurance and related services engagements or work to prepare for or carry out specified transactions as defined in the AML Guidelines during the preceding 12 months and does not intend to do so for the foreseeable future, he may be exempted from practice review at the discretion of the Practice Review Committee if he is also not engaged in the practice of any other work (e.g. taxation, consultancy services, etc.) during the relevant periods. If he completes the declaration but is engaged in the practice of other work during the relevant periods, he will still be subjected to desktop procedures to assess his level of compliance

with the minimum AML requirements in respect of the other work.

Establishment and appointment of the Practice Review Committee

9. The establishment and composition of the Practice Review Committee is governed by section 32A. The principal provisions are as follows:
- (a) The Practice Review Committee shall consist of such number of members, being not less than 5, as the Council shall fix and of whom not more than 2 may also be members of the Council.
 - (b) Of the members of the Practice Review Committee not less than 2/3rds shall each hold a practising certificate.
 - (c) A person shall not be a member of the Practice Review Committee and the Disciplinary Committee at the same time.
 - (d) The quorum for any meeting of the Practice Review Committee shall be not less than half of the members of the Practice Review Committee for the time being.
 - (e) The Practice Review Committee may appoint sub-committees of its members and may delegate to any such sub-committee, with or without restrictions, any of its functions or powers except the powers conferred on it by section 32D(5), ie. make a complaint against a member.
 - (f) A delegation under section 32A(8) shall not preclude the exercise or performance by the Practice Review Committee of any power or function to which the delegation relates.
 - (g) Subject to Part IVA of the PAO and any directions issued by the Council under section 32B, the Practice Review Committee or any sub-committee thereof may regulate its own procedure and business.

Directions of the Council

Professional standards

10. Under the provisions of sections 18A and 32B(1)(a) the Council may specify professional standards which are to be examined or reviewed under practice review. For the time being, the professional standards to be examined or reviewed so specified are:
- (a) All the Statements and Guidelines of Professional Ethics, including the Code of Ethics for Professional Accountants, in issue from time to time, in so much as they relate to (1) the conduct of audit and assurance engagements; and (2) guidelines on Anti-Money Laundering and Counter-Terrorist Financing for professional accountants;
 - (b) All Hong Kong Financial Reporting Standards, including the Hong Kong Financial Reporting Standard for Private Entities and the Small and Medium-sized Entity Financial Reporting Framework and Financial Reporting Standard in issue from time to time in so far as significant departures therefrom may affect the requirements for general purpose financial statements and other financial reporting; and
 - (c) All Hong Kong Standards on Auditing and Assurance including Hong Kong Standards on Quality Control, Hong Kong Standards on Auditing, Hong Kong Standards on Assurance Engagements, Practice Notes, Bulletins and Guidelines in issue from time to time.

Scope

11. The Council has issued directions to the Practice Review Committee under section 32B(1)(b) to conduct practice reviews to determine that the professional standards specified in paragraph 10 above are observed, maintained or applied by all practice units, subject to

the exclusion and exemption set out in paragraphs 7a and 8 above respectively.

Extent of powers

12. Practice reviews will be performed by reviewers and the Practice Review Committee will exercise its full powers as permitted under the PAO without restriction.

Conduct of practice reviews

Objective

13. Essentially, a practice review entails an audit quality assurance review and/or an AML compliance review to determine whether professional standards are being or have been observed, maintained or applied by the practice unit. Where a practice unit is not following or has not followed professional standards in certain situations, suggestions and recommendations for improvements may be made, and may be followed by a further practice review.
14. A summary of the practice review procedures designed to meet the above objective is contained in Appendix 1.

Selection of practice units for review

15. Under section 32B(1)(b), the Council may direct a practice review to be carried out on every practice unit or such practice units as specified by it. Details regarding selection of practice units for practice reviews are set out in Appendix 1.
16. Practice units will be notified by letter of their need to complete the Questionnaire. The practice unit should complete the Questionnaire and return it to the HKICPA within the required period.
17. The Registrar (as prescribed by section 32C(2)) will determine the order of review. Practice units will not be selected until after they have completed 12 months in practice.
18. The Registrar will assign a reviewer or reviewers to each practice unit selected. Any staff member of the HKICPA or member of the Practice Review Committee who has a potential conflict of interest in dealing with the practice review of a practice unit will not be involved in the practice review with that practice unit.

Practice units will be notified by letter of their selection

19. The HKICPA's Quality Assurance Department (QAD) will be responsible for arranging the practice review which will normally be scheduled for not less than six weeks after notification. Members should notify the QAD immediately if they consider the timing of the review to be inconvenient. Another date will be arranged by mutual consent if written evidence is provided to support the need for the rearrangement. Any further extension is at the QAD's sole discretion.

Arrangements for review

20. An on-site practice review visit will be conducted at the practice unit's registered office or other registered place of business. A desktop review, which is designed for a practice unit with a small number of clients and without any pre-determined risk factors, will be conducted at the HKICPA's office. Members should ensure that reviewers are given access to all offices if there are more than one and are given all reasonable assistance for the proper conduct of reviews (section 32E(1)(a)(iii)). It is expected that the reviewer will be provided with adequate office facilities for him to perform his work effectively and efficiently.

Access to documents

21. Section 32E provides powers of access by reviewers as follows:

- (1) The following provisions shall apply as regards any practice review -
 - (a) Any person, to whom this paragraph applies, and who is reasonably believed by a reviewer to have in his possession or under his control any record or other document which contains or is likely to contain information relevant to the practice review shall, subject to section 32E(3) -
 - (i) produce to the reviewer or afford him access to, any record or document specified by the reviewer or any record or other document which is of a class or description so specified and which is in his possession or under his control being in either case a record or other document which the reviewer reasonably believes is or may be relevant to the practice review, within such time and at such place as the reviewer may reasonably require;
 - (ii) if so required by the reviewer, give to him such explanation or further particulars in respect of anything produced in compliance with a requirement under subparagraph (i) as the reviewer shall specify;
 - (iii) give to the reviewer all assistance in connection with the practice review which he is reasonably able to give.
 - (b) Where any information or matter relevant to a practice review is recorded otherwise than in a legible form, any power to require the production of any record or other document conferred under paragraph (a), shall include the power to require the production of a reproduction of any such information or matter or of the relevant part of it in a legible form.
 - (c) A reviewer may inspect, examine or make copies of or take any abstract of or extract from a record or document which may be required to be produced under paragraph (a) or (b).
 - (d) Where -
 - (i) a copy of any record or document is supplied by or on behalf of the practice unit for the purposes of this section; or
 - (ii) a copy thereof is made in the exercise of any power conferred under this section and a photocopying machine or other facility of the practice unit is used to make such copy,

the HKICPA shall reimburse the reasonable photocopying or other expenses incurred in making such copy.
 - (e) A reviewer exercising a power under this section shall, if so requested by a person affected by such exercise, produce for inspection by such person a copy of the appointment furnished to him under section 32B(3).
- (2) Section 32E(1)(a) applies to any certified public accountant of the practice unit to which the particular practice review relates or to any person employed by or whose services are engaged by such unit.
- (3) Nothing in this section shall be taken to compel the production by a person of a record or document containing a privileged communication by or to a legal practitioner in that capacity.

22. Where copies of documents are requested under section 32E(1)(c), the HKICPA will reimburse the practice unit for the cost of the photocopies (section 32E(1)(d)) at a standard rate to be determined by the Practice Review Committee upon a request from the practice unit.
23. Normally the reviewer will require a copy of the financial statements, where applicable, relating to the engagements selected for review. The financial statements will be used as a reference for the reviewer's assessment of the practice unit's observation, maintenance or application with professional standards in relation to the materiality of the items concerned.
24. Where it is considered necessary for the proper completion of his review a reviewer may request copies of other documentation. In such circumstances, the identity of the client will be concealed by the reviewer, prior to the submission of these copies to the Practice Review Committee for consideration.

Reporting

25. At the conclusion of his practice review a reviewer is required by section 32C(3) to make a report to the Practice Review Committee.
26. A reviewer shall, before making a report required by section 32C(3), send a dated draft of the reviewer's report to the practice unit concerned, and to each individual (if any) who is named in the report by post or recorded delivery addressed to the registered office or registered address of the practice unit or the individual, as the case may be (section 32C(4)).
27. The Practice Review Committee has instructed reviewers not to name the practice unit's clients in their reports.
28. As provided by section 32C(5), the practice unit has 21 days, beginning on the day after the dated draft is sent, to make any submissions or representations in writing to the reviewer, concerning the dated draft of the reviewer's report.
29. The reviewer is required by section 32C(5) to attach any written submissions or representations, made under section 32C(5), to the reviewer's report in its final form before submitting it to the Practice Review Committee. The reviewer will delete any reference to the practice unit's clients in the written submissions or representations to preserve anonymity.
30. The reviewer will send to the practice unit or the individual concerned a copy of the report as submitted to the Practice Review Committee, by post or recorded delivery (section 32C(7)).

Powers and procedures of the Practice Review Committee

General

31. The Practice Review Committee, under section 32D, may subject to any directions issued under section 32B(1):
 - (a) determine the practice and procedure to be observed in relation to practice reviews;
 - (b) issue instructions to any reviewer on any matter relating to practice reviews or a particular practice review;
 - (c) do or perform any other thing or act as may be incidental to or which it considers necessary or expedient for the performance of its functions or exercise of its powers under the PAO.

The Council has not issued any specific instructions under section 32B(1) other than that practice reviews will be conducted as regards every practice unit (paragraph 11) other than those engagements excluded (paragraph 7a) and those practice units exempted (paragraph 8). In relation to section 32D(1)(a) the Practice Review Committee has directed that the procedures set out in the PAO and SMO 1 be observed in every practice review when applicable.

Review and Report

32. The reviewer will forward a copy of the reviewer's report and any submissions or representations to the Practice Review Committee for its review.
33. The Practice Review Committee may delegate the review of all reports, submissions and representations and reviewer's files, if needed, to sub-committees set up by the Practice Review Committee. The sub-committee's recommendations on the case will be referred for consideration at a meeting of the Practice Review Committee.

Follow-up action

34. After receipt of a report from a reviewer (section 32C(3)) the Practice Review Committee, having regard to the report and any submissions or representations attached to it, may:
 - (a) make recommendations to the practice unit concerned regarding the application by it of professional standards (section 32D(2));
 - (b)
 - (i) issue an instruction to a reviewer to carry out, within such period as may be specified in the instruction (which period shall not commence earlier than 6 months after the date on which the instruction is issued), a further practice review as regards the practice unit to which the report relates (section 32D(3)(a)); and
 - (ii) specify in the instruction, the matters as regards which the review is to be carried out (section 32D(3)(b));
 - (c) After the conclusion of a practice review, if it is of the opinion that
 - (i) in case the review related to a firm, any one or more or all of the partners in the firm;
 - (ii) in case the review related to a certified public accountant practising on his own account, that accountant;
 - (iii) in case the review related to a corporate practice, 1 or more or all of the directors of the practice,

may have failed to observe, maintain or apply, as the case may be, professional standards, then subject to section 32D(7) the Practice Review Committee may make a complaint regarding any such director, such partner or other certified public accountant concerned or, in case there is more than one such person concerned, a separate complaint in respect of each of them, to the Registrar (section 32D(5)). The Practice Review Committee may also recommend the Registrar to consider raising a complaint against the firm or corporate practice concerned and any other certified public accountants involved under the Registrar's powers defined by the PAO. If an audit, reporting or relevant irregularity is identified in respect of a listed company or its components, the Practice Review Committee may also via the Council refer the case to the FRC.

Section 32D(7) provides:

Where –

- (a) a complaint is made under section 32D(5); and
- (b) immediately prior to the commencement of the relevant practice review -
 - i. the director, the partner or other certified public accountant to whom the complaint relates had not previously been a director of any corporate practice or a partner in any firm at any time when a practice review was carried out as regards that practice or that firm; and
 - ii. a practice review had not previously been carried out as regards his practising on his own account,

the Council shall not refer the complaint to the Disciplinary Panels under section 34(1) unless it decides by a majority of $\frac{3}{4}$ ths of its members for the time being that, were the grounds of complaint or any such ground or any matter or matters complained of established, the relevant act or omission by such director, such partner or other certified public accountant would have amounted to serious professional misconduct.

- 35. The Practice Review Committee may make recommendations to the practice unit under section 32D(2) in respect of areas of improvements regarding the practice unit's system of quality control and the application by it of other professional standards.
- 36. A further practice review will be required under section 32D(3) where the practice unit has not satisfied the Practice Review Committee that its system of quality control has been designed to meet the requirements under HKSQC 1 and that the practice unit has complied with its system of quality control during the review period.
- 37. Section 32D(7) makes it clear that where a potential complaint relates to the first ever review of the individual concerned, whether in the practice unit which is the subject of the report, or in any other practice unit previously reviewed, no complaint can be lodged with the Registrar unless the conditions set out in paragraph 38 below are fulfilled.
- 38. The Practice Review Committee will, even on a first review, make a complaint against a member where the weaknesses in the performance of engagements, or the disregard of professional standards amount to, in its opinion, serious professional misconduct. In subsequent reviews, the Practice Review Committee may make a complaint where it is of the opinion the member has failed to observe, maintain or apply professional standards.
- 39. On considering a complaint made by the Practice Review Committee on a first review, the Council may refer it to the Disciplinary Panels if it is of the opinion that any matter or matters complained of, if established, would have amounted to serious professional misconduct and the vote on this resolution is passed by a $\frac{3}{4}$ ths majority. The Council will determine on a case by case basis what is considered to be serious professional misconduct.

Referral of disputes

- 40. Where a dispute arises over the powers of reviewers as regards section 32E (access to documents etc.), the practice unit, the reviewer or both may refer the dispute to the Practice Review Committee (section 32F(1)). A practice unit should refer a dispute to the Practice Review Committee in writing via the Registrar.
- 41. The Practice Review Committee may delegate the determination of such a dispute to a sub-committee chaired by the Chairman of the Practice Review Committee.
- 42. Where a dispute is referred, after considering any submissions or representations (which shall be in writing) made by the relevant practice unit and/or the relevant reviewer, the Practice Review Committee -

- (a) shall determine the dispute and communicate such determination to each of the parties to the dispute (section 32F(2)(a)); and
 - (b) may issue directions relating to the matter in dispute to such practice unit or the reviewer concerned and require such unit or reviewer to comply with them (section 32F(2)(b)).
43. Where a practice unit or a reviewer is required to comply with a direction under section 32F(2)(b) and fails to comply with the requirement, the Practice Review Committee may make a complaint to the Registrar regarding any corporate practice or any certified public accountant concerned, and in case such a complaint is made it shall, for the purposes of Part V of the PAO, be deemed to have been made under section 34(1) (section 32F(3)).

Confidentiality

44. Strict confidentiality provisions of the PAO apply to all those involved in the practice review process. Namely, the Registrar, reviewers, members of the Practice Review Committee, the Council, or any person holding any other position who assists any of these parties.
45. Those persons subject to the secrecy provision:
- (a) shall at all times after his appointment preserve and aid in preserving secrecy with regard to any matter coming to his knowledge in the performance or in assisting in the performance of any function (section 32H(1)(a));
 - (b) shall not at any time communicate any such matter to any other person (section 32H(1)(b)); and
 - (c) shall not at any such time suffer or permit any other person to have any access to any record, document or other thing which is in his possession or under his control by virtue of his being or having been so appointed or his having performed or having assisted any other person in the performance of such a function (section 32H(1)(c)).

These provisions shall not apply in relation to:

- (a) any disclosure made in relation to or for the purpose of any disciplinary proceedings under Part V of the PAO or criminal proceedings (section 32H(2)(a)); or
 - (b) any disclosure to the FRC for the purpose of enabling or assisting the FRC to perform its functions under the FRCO (section 32H(2)(b)).
46. Any person who contravenes section 32H(1) commits an offence and is liable on conviction to a fine of \$100,000 and to imprisonment for 6 months (section 32H(3)).
47. In order to enhance confidentiality and impartiality, the identity of the members' clients is not known to the Practice Review Committee. When preparing the report to the Practice Review Committee the practice unit's clients are identified by code numbers. Any member of the Practice Review Committee who has a potential conflict of interest in dealing with the practice review of a practice unit will not be involved in the practice review with that practice unit.
48. The practice review report, work papers and correspondence pertaining to a practice review are retained until the conclusion of the next practice review or seven years from the conclusion of that former review, whichever is earlier. The retention period for the following categories of documents is however determined on a case by case basis;
- Practice review work papers of listed company auditors which have been referred to the FRC for investigation;
 - Practice review work papers of practice units subject to follow up visits; and
 - Practice review work papers of practice units against which a complaint has been raised by the Committee.

Change in composition of a practice unit

49. Under section 32I(4), no change in composition of a practice unit (as described in sections 32I(1) to (3)) shall affect:
 - (a) any right, obligation or liability acquired or incurred by or accrued to a practice unit under Part IVA of the PAO before the change; or
 - (b) Any practice review or further practice reviews of a practice unit, and any practice review or further practice reviews may be carried out and continued as regards the practice unit notwithstanding a change or further changes in composition of the practice unit.

Effective date

50. This Statement came into effect on 13 March 2006 and was revised on 16 December 2019.

APPENDIX 1

Summary of Practice Review Procedures

Selection of practice units for reviews

1. Practice units will be selected for practice reviews primarily based on their risk profiles, identified from an initial review process which analyses practice units' responses in the Questionnaires and other relevant information. With effect from 1 October 2019, the effective date that the FRC takes over the responsibility for inspection of PIE engagements as defined in the FRC(A)O, the selection of practice units for reviews will take into account the following factors
 - (a) The HKICPA has a goal established to review all practice units, unless exempted, at least once in every six years. Practice units that have distinct risk profiles should be reviewed on a more frequent basis.
 - (b) Practice units are to be separated into standard, tier 1, tier 2 and tier 3 categories. Tiers 1, 2 and 3 categories are those considered to have more distinct risk profiles based on the numbers of non-PIE engagements, regulated clients and partners or directors and will be selected once in every three years, one and a half years and one year respectively. The QAD will set and review the definition of tiers 1, 2 and 3 practice units as and when required and will make appropriate announcements as required. Appendix 2 sets out the definition of different categories of practice units as of the effective date of this revised statement. These practice units may be selected for practice reviews sooner or more frequently if the practice units' responses in the Questionnaires and other relevant factors indicate that the practice units' risk profiles require that more frequent reviews should be taken. Relevant factors include previous regulatory history of the practice unit based on past practice review results and regulatory actions taken by the HKICPA and other regulators and other risk factors identified through the HKICPA's regulatory system. A small number of practice units will also be selected randomly for review each year.
 - (c) Whenever practicable, an AML compliance review will be included within an on-site practice review visit or a desktop review of a practice unit with audit and assurance clients. A separate AML compliance review will be carried out for an active practice unit without audit and assurance clients.
 - (d) The Council may also direct practice reviews to be carried out on specific practice units on other basis such as referrals from other regulators or committees of the HKICPA where the information available to the Council suggests that the practice units might not have observed, maintained or applied professional standards. Depending on the circumstances of individual cases, practice units selected on other basis may be subject to reviews of their systems of quality control or AML compliance or reviews which are of a lesser scope.

Target practice reviews to be carried out

2. The target for practice reviews to be conducted each year will take into account the factors including the following:
 - (a) Practice units' risk profiles.
 - (b) The availability and priority of allocation of resources among different categories of practice units selected for practice reviews.

The Questionnaire process

3. All practice units will complete the Questionnaire as and when required.
The Questionnaire will collect the following 4 main categories of information about a practice unit:

- (a) Organisation and management of the practice unit.
- (b) Quality control policies and procedures established by the practice unit.
- (c) Client profile and activities of the practice unit.
- (d) AML compliance policies and procedures and specified transactions as defined in the AML Guidelines undertaken by the practice unit.

A practice unit's risk profile will be assessed through an initial review process which analyses responses in the completed Questionnaire and other relevant information like public information obtained in relation to the practice unit.

Review procedures

4. The Practice Review Committee, under section 32D(1) of the PAO, determined the practice and procedure to be observed in relation to practice reviews. These procedures are summarised below and can be categorised into three stages - planning, execution and reporting.

(a) Planning

(i) Return of completed Questionnaire

- Each practice unit should complete and return the Questionnaire to the QAD within the required period, which will normally be 2 months beginning on the day after the notification letter is sent.

(ii) Determination by the Registrar of the order in which the practice units are to be reviewed or examined

- The Registrar will determine the order in which the practice units selected by the Council are to be reviewed or examined.

(iii) Notification

- A practice unit will be notified in writing about an impending practice review.
- Practice units will be required to enclose a complete list of their clients in particular their audit and assurance clients and clients for which they have provided specified transactions as defined in the AML Guidelines and to provide any other information necessary to facilitate the review. Where applicable, practice units will be notified if they are assessed to be suitable for a desktop review, instead of an onsite practice review visit.

(b) Execution

(i) Confirmation of the practice review

- A date will be set for the on-site practice review visit to be carried out or provision of required documents for a desktop review. A request for rearrangement of the date will be accepted only if written evidence is provided to support the need for the rearrangement. Further extension will be at the sole discretion of the QAD.

(ii) Initial meeting

- An initial meeting will be held between the reviewer and the practice unit for an on-site practice review visit. Such an initial meeting is optional for a desktop review but will be held if so requested by either the reviewer or the practice unit. The primary purpose of this meeting is to confirm the accuracy of the responses given in the Questionnaire. The reviewer should have an initial understanding of the practice unit's system of quality control and its system to ensure AML compliance and be able to form a preliminary

evaluation of their adequacy at the conclusion of the meeting.

- For larger practice units which may have more extensive documentation regarding their policies and procedures, an additional on-site planning visit may be arranged before the on-site practice review visit.
- When a practice unit is selected for an on-site practice review, the reviewer will conduct the practice review visit at the practice unit's registered office or other registered place of business. When a practice unit is confirmed to be suitable for a desktop review, the reviewer will conduct the review at the HKICPA's office and request the practice unit to deliver the required documents to the HKICPA's office prior to the review.

(iii) Audit quality assurance review

- A reviewer will carry out a review and assessment of the practice unit's system of quality control, audit work and regulatory compliance and address the following matters in the reviewer's report in accordance with paragraph 70 of SMO 1.
 - Whether the practice unit's system of quality control has been designed to meet the requirements under HKSQC 1; and
 - Whether the practice unit has complied with its system of quality control during the review period.
 - Reasons for negative conclusions on the above.
 - Recommendations for improvements at both practice unit wide and engagement level.
- In accordance with paragraph 44 of SMO 1, the procedures performed during the audit quality assurance review will include:
 - An assessment of the system of quality control relating to audits of financial statements;
 - Review of the quality control policies and procedures and reviews of audit working papers to evaluate:
 - The functioning of the system of quality control, and compliance with it; and
 - The compliance with professional standards and regulatory and legal requirements in respect of audits of financial statements.
 - An assessment of compliance with professional standards to the extent that such standards are used in the engagements included in the scope of the review.
- A key part of the practice review methodology will be the assessment of a practice unit's monitoring policies and procedures. If these are judged to be effective the reviewer may rely on them by performing tests of the conclusions of the applicable period's monitoring as a source of evidence.
- Assessment of other quality control policies and procedures, where appropriate, may include discussion with the practice unit's appropriate individuals through interviews and focus group meetings, reviewing documentation, observation of the system of quality control in operations like attending the practice unit's training sessions for its staff.
- In accordance with paragraph 45 of SMO 1, the review of audit working papers will include evaluating:
 - The existence and effectiveness of the system of quality control implemented by the practice unit, and the performance of the audit;

- Compliance with professional standards and regulatory and legal requirements related to the engagement;
 - The sufficiency and appropriateness of evidence documented in the working papers; and
 - Based on the above, whether the audit reports are appropriate in the circumstances.
- The procedures which may be carried out for review of audit working papers include considering the following:
 - Significant risks identified during the engagement and the responses to those risks.
 - Judgments made, particularly with respect to materiality and significant risks.
 - Whether appropriate consultation has taken place on matters involving differences of opinion or other difficult or contentious matters, and the conclusions arising from those consultations.
 - The significance and disposition of corrected and uncorrected misstatements identified during the engagement.
 - The matters to be communicated to management and those charged with governance and, where applicable, other parties such as regulatory bodies.
- (iv) AML compliance review
- A reviewer will assess the practice unit's level of compliance with the AML Guidelines and relevant laws and regulations. The procedures include reviewing the practice unit's AML policies and procedures and engagements to assess whether adequate procedures are performed and appropriate documents are obtained in the performance of risk assessment, customer due diligence and ongoing monitoring procedures. A focus will be made on reviewing specified transactions carried out by the practice unit which are subject to more stringent requirements under the AML Guidelines.
- (v) Review of a lesser scope
- A review of a lesser scope may be undertaken, which could include the following:
 - Follow-up on the practice unit's action plan as agreed at the conclusion of the previous visit;
 - Reviewing the results of the practice unit's last completed monitoring review;
 - Reviewing and discussing as necessary the practice unit's latest completed Questionnaire;
 - Obtaining an update on changes and developments in the practice unit's audit methodology and quality control and AML policies and procedures; and
 - Discussing the practice unit's response to topical issues and developments in auditing and AML compliance.
 - For further practice reviews instructed by the Practice Review Committee under section 32D(3), the reviews of a lesser scope will address the target areas which the Practice Review Committee instructs and will apply the elements of the practice review visit methodology that are deemed appropriate to address the matters of concern.

- For practice reviews directed by Council under section 32B(1)(b) on practice units selected on other basis such as referrals from regulators or committees of the HKICPA, the reviews could be on the systems of quality control or AML compliance, if the circumstances suggest so, or of a lesser scope which will address the target areas which the Council directs and will apply the elements of the practice review visit methodology that are deemed appropriate to address the matters of concern.

(vi) Closing meeting

- At the end of a practice review, a draft report of factual findings will be prepared by the reviewer for discussion with the practice unit. A closing meeting will be arranged for an on-site practice review visit and is optional for a desktop review depending on whether any request is made by the reviewer or the practice unit. During the closing meeting, the practice unit has the opportunity to make representations, suggestions and recommendations in relation to the matters raised. The reviewer has the duty of explaining to the practice unit the advantages and benefits of implementing suggestions and recommendations for improvements.

(c) Reporting

- (i) The reviewer will prepare a report to the Practice Review Committee (the reviewer's report), incorporating the report of factual findings as discussed with the practice unit. Findings in the report will be classified as "significant findings" or "other points for attention", as appropriate. Significant findings are findings that may have a more direct and material impact on the quality control system and the audit opinion. Other findings will be classified as "other points for attention". After internal review within the QAD, a dated draft of the reviewer's report will be sent to the practice unit for submissions or representations. Any submissions and representations are to be made in writing within 21 days beginning on the day after the draft report is sent. The reviewer will finalise his report upon the receipt of the submissions or representations (if any). In finalising the report the reviewer may make changes to the dated draft he considers appropriate in the light of the submissions or representations. The submissions or representations will be attached to the reviewer's report before it is sent to the Practice Review Committee for consideration. A copy of the reviewer's report will be sent to the practice unit for its information.
- (ii) A meeting of the Practice Review Committee will be held to consider the reviewer's report and the practice unit's submissions. The Committee will determine the outcome of the practice review and issue its decision letter to the practice unit. The outcome of the practice review can be summarized in the following categories depending on the level of compliance with professional standards:
- Conclude a practice review with no follow up action required ("Direct closed")
 - Make recommendations and specific requests to ensure appropriate follow up action is taken to address weaknesses and shortcomings ("Required follow up action")
 - Instruct that another visit is required ("Required follow up visit")
 - Make a complaint to initiate disciplinary action ("Complaint") and/or via the Council, refer the case to the FRC if an audit, reporting or relevant irregularity is identified in respect of a listed company or its components. ("Referral to the FRC")

APPENDIX 2

Definition of standard and tiers 1, 2 and 3 practice units

All active practice units with audit and assurance (AA) clients will be separated into the following categories and will be subject to practice reviews according to the following frequencies:

	Practice units	Frequency of reviews
Standard	With 500 or fewer non-PIE AA clients and with 10 or fewer regulated non-PIE AA clients*	6 year cycle (ultimately when achievable based on resources available)
Tier 1	With more than (i) 500 non-PIE AA clients or (ii) 10 regulated non-PIE AA clients*	3 year cycle
Tier 2	With more than (i) 1000 non-PIE AA clients and (ii) 10 regulated non-PIE AA clients*	1.5 year cycle
Tier 3	With more than (i) 1000 non-PIE AA clients; (ii) 20 regulated non-PIE AA clients* and (iii) 50 practising partners or directors	Annually

* Non-PIE AA clients are AA clients whose engagements fall outside the definition of PIE engagements specified in FRC(A)O and therefore are included in the scope of the HKICPA's practice review programme. Non PIE-AA clients included in the following categories are considered regulated non-PIE AA clients for the above purpose:

- a. "authorized institutions" as defined under the Banking Ordinance
- b. "insurers" as defined under the Insurance Companies Ordinance
- c. "insurance brokers" as defined under the Insurance Companies Ordinance
- d. "licensed corporations" and "associated entities" as defined under the Securities and Futures Ordinance