High level international comparison of accounting profession regulatory arrangements (at 30 June 2021)

The Institute has conducted a high level comparison of jurisdictions around the world to determine how the further reform of regulation of the accountancy profession in Hong Kong (Reform) proposals fit in with international practices, looking at regulatory arrangements in a number of jurisdictions, including other major international financial centres. The analyses have been prepared using information available from public sources and our understanding and interpretations of various regulatory regimes. The information is provided to give context and background to further consideration of the Reform proposals. In particular it may help to address questions that have been raised over the alignment of Hong Kong's regulatory regime with other jurisdictions and international practices.

Our review shows that there is no one approach. Other jurisdictions have introduced independent regulation of public interest entity (PIE) auditors within the last twenty years, but regulatory models for the whole of the accountancy profession vary between jurisdictions. Some of the differences reflect the different natures and structures of the profession in different jurisdictions and other factors such as local regulatory or statutory requirements for audits. In some jurisdictions, professional bodies retain, or have been delegated, certain responsibilities in the regulation of non-PIE auditors and generally oversee the professional conduct of non-practising members. While in other jurisdictions, all functions of the professional bodies come under the oversight of a government-appointed authority.

Additional information on accounting profession regulatory arrangements in jurisdictions referenced in the LegCo Panel Paper produced by the Financial Services and the Treasury Buraeu

A. United Kingdom (references to ICAEW operations and functions generally also applies to other professional bodies e.g. ICAS and ACCA)

1. The Financial Reporting Council (FRC) is recognized as the “competent authority” for the UK with a statutory responsibility to regulate audits. The FRC is also the auditing standard setter for the UK and issues ethical and independence requirements for PIE auditors. Since the UK left the European Union the adoption of International Financial Reporting Standards (IFRS) for use in the UK rests with the newly established UK Endorsement Board. The FRC sets local UK Generally Accepted Accounting Practice (GAAP).

2. The FRC directly regulates PIE auditors using a full suite of inspection, investigation and disciplinary powers and procedures.

3. As the UK competent authority the FRC has designated the Institute of Chartered Accountants in England and Wales (ICAEW) (and other professional bodies) as a Recognized Supervisory Body (RSB) with responsibility to regulate non-PIE auditors. The powers of RSBs originated from the EU Statutory Audit Directive which has been adopted into the UK Companies Act. In its RSB role the ICAEW has a range of statutory powers

including registration of audit firms and responsible individuals, inspection and sanctions (enforcement is done directly by the ICAEW Audit Registration Committee and does not routinely involve disciplinary panels). In its RSB role the ICAEW is subject to oversight by the FRC, including periodic reviews.

4. ICAEW qualifies and registers individuals as Chartered Accountants (CAs). The professional conduct of CAs is regulated by the ICAEW through application of the *Code of Ethics* and investigation and disciplinary arrangements.

5. To manage the inherent conflict between regulatory and member support functions the ICAEW a few years ago reorganized its governance and operational structures to introduce an independent board to deal with all regulatory functions and eliminate all involvement of the ICAEW Council.

6. Since 2003 there has been a non-statutory arrangement between the FRC and the ICAEW (and the other UK professional bodies) that the FRC will have oversight and authority over accountancy matters. In the current UK Government consultation "*Restoring trust in audit and corporate governance*" there is a proposal that this voluntary arrangement is superseded by statutory powers for the new regulator, the Audit, Reporting and Governance Authority (ARGA) to supervise "accountants and their professional bodies". This proposal is being opposed by the UK professional bodies as being beyond the necessary remit of and distracting ARGA from its core purpose.

7. The consultation on the future of audit and the audit profession in the UK includes proposals to widen the definition of PIE and PIE audit but does not extend direct regulation by ARGA to non-PIE audits or all professional accountants.

B. Australia

1. The accountancy profession in Australia is regulated by the Corporations Act 2001 and the Australian Securities and Investment Commission (ASIC) Act 2001. The Corporations Act 2001 specifies the two professional accountancy titles – registered company auditor (RCA) and qualified accountant – as well as the three professional accountancy organizations that regulate their members subject to the oversight and regulation of the ASIC. The act also specifies the professional designations from the professional bodies necessary for recognition as a RCA.

2. ASIC is responsible for oversight of audit firms that audit entities that are required to have an audit under the Corporations Act 2001, in addition to its wider role as corporate and capital markets regulator. ASIC's functions are to: (i) register RCAs who meet professional development requirements outlined in the Corporations Act 2001; (ii) set CPD requirements for RCAs; (iii) conduct quality assurance (QA) reviews for all audits to monitor compliance with auditing standards; and (iv) investigate breaches of law and issue related sanctions. In

the event of ASIC recommending the most serious sanctions i.e. cancellation or suspension of registration, the matter is referred to an independent statutory tribunal.

3. ASIC directly performs file inspections at audit firms that audit listed entities and significant public interest entities. The professional accounting bodies in Australia also undertake reviews of members in practice. The programme monitors whether members offering services to the public have quality control systems in place to ensure they comply with the Accounting Professional & Ethical Standard (APES) 110 *Code of Ethics for Professional Accountants* (*Code of Ethics*), professional standards, and legal and regulatory requirements. However, it does not seek to replicate the coverage of ASIC's inspections or specifically target audit files individually.

4. Members of the professional bodies also have to comply with their educational requirements and other regulations. They also require members to adhere to the *Code of Ethics*, which is based on the *International Code of Ethics for Professional Accountants* as well as the Australian Accounting Standards which incorporate the IFRS. APES 110 is set by the Accounting Professional & Ethical Standards Board, an independent body that was established in 2006 through a joint initiative by Chartered Accountants Australia and New Zealand, and CPA Australia. All professional bodies maintain quality assurance and investigative and disciplinary systems for their members.

5. Auditing and financial reporting standards are set by independent government boards.

C. Singapore

1. The Singapore Accountancy Commission, established under the Singapore Accountancy Act, is a statutory body of the Singapore government that oversees the strategic direction and promotion of the accountancy sector. The Accounting Corporate Regulatory Authority (ACRA), is a statutory body responsible for regulating public accountants in Singapore.

2. The Public Accountants Oversight Committee (PAOC), operating under ACRA, is authorized to oversee all matters related to the registration of public accountants in Singapore. The PAOC is also responsible for: (i) administering a quality assurance (QA) mechanism; (ii) operating an investigation and disciplinary mechanism; (iii) setting ethical requirements for public accountants (all auditors and audit firms of PIEs); (iv) approving the adoption of auditing standards as developed by the Institute of Singapore Chartered Accountants (ISCA) Auditing and Assurance Standards Committee; (v) and administering CPD programmes for public accountants.

3. ISCA responsibilities include: setting auditing standards to be applied in Singapore, setting ethical requirements to be observed by its members, administering the Singapore Chartered Accountant Qualification, establishing CPD requirements that all members are required to adhere to, and administering its investigation and disciplinary mechanism. ISCA also administers a voluntary QA review mechanism that members are encouraged to participate

in to ensure quality of work conducted. Only a public accountant or an accounting entity approved by ACRA can conduct audits on financial statements. As a prerequisite to registering as a public accountant with ACRA and practicing as an auditor, individuals must be a CA and a member of ISCA. Members of ISCA carrying out audits of non-PIEs are reviewed by ISCA under the direction and authority of the PAOC.

4. Financial reporting standards are developed and issued by the independent Accounting Standards Council.

D. United States

1. To use the designation "CPA", individuals have to be licensed by a state board of accounting. State boards are government appointed, and exercise disciplinary authority over their licensees (CPAs). State boards also set conditions/criteria for issue of a license (professional qualification, CPD requirements etc.).

2. To audit listed entities a firm or CPA has to be registered with the Public Company Accounting Oversight Board (PCAOB). PCAOB registrants have to comply with auditing, quality control, ethics, independence, and other standards relating to the preparation of audit reports for public companies developed or adopted by the PCAOB and are subject to conduct standards and enforcement (disciplinary procedures) by the PCAOB.

3. The American Institute of CPAs (AICPA) is a membership body. Membership is voluntary. CPAs licensed by state boards join the AICPA to get the benefit of professional advocacy, training, member support services and product and services discounts. AICPA issues auditing and ethical standards for use by auditors of non-listed entities. Audits for non-listed entities are not required by law but are often mandated by lenders and other finance providers. AICPA oversees a scheme of peer review for non-listed entity auditors. AICPA has a mechanism to discipline members for non-compliance with professional standards or membership criteria.

4. US GAAP for public and private companies is set by the US Financial Accounting Standards Board (FASB). The non-profit FASB is funded primarily through accounting support fees, which are paid by U.S. corporations that issue publicly-traded securities.