

Policy on Determining a Group of Identical Practice Units for the Purpose of Practice Review

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.
2. In the above regard, the Council has commenced its revised practice review programme aiming to assess whether a practice unit has an adequate system of quality control to ensure work quality is maintained in every assurance and related services engagements. More details about the revised practice review programme can be found in the *Second Communciation Paper on the Revision of Practice Review Programme & Practice Review Questionnaire* located in the HKICPA’s website.
3. In general, all practice units are subject to practice reviews under the revised practice review programme. A practice unit is defined in the PAO as:
 - i. a firm of certified public accountants (practising) practising accountancy pursuant to the PAO;
 - ii. a certified public accountant (practising) practising accountancy on his own account pursuant to the PAO; or
 - iii. a corporate practice registered under the PAO.
4. According to a ruling of the Council, a certified public accountant (CPA) (practising) may, as a maximum, register under three firm/ corporate practice names as sole proprietor(s), partner(s), director(s) or authorized persons (as the case may be). Accordingly, under the HKICPA’s registration system, there are groups of practice units that are closely connected in terms of ownership or management.
5. Under the PAO, the HKICPA’s Practice Review Committee (PRC) determines the practice and procedure to be observed in relation to practice review. In order to

enhance the efficiency in carrying out a practice review and to reduce the burden of the practice units, the PRC has decided that a group of practice units that are closely connected in terms of ownership or management and share an identical system of quality control can be treated as a group of identical practice units for the purpose of practice review. A practice review on a group of identical practice units will normally be carried out on a group basis rather than on an individual basis. The PRC considers that this is a practical approach to dealing with closely connected groups of practice units and will not dilute the robustness of practice review.

6. This paper sets out the policy of the PRC in determining a group of identical practice units for the purpose of practice review and highlights the implication of forming a group of identical practice units.

Determining a group of identical practice units

7. The PRC will have the sole right to determine which practice units may constitute a group of identical practice units for the purpose of practice review. In principle, there should both be a management linkage as well as a policy and procedures linkage before the practice units can be grouped as a group of identical practice units. For example, practice units that merely share common overheads or use the same set of manual are not a group of identical practice units.
8. For the purpose of establishing the management linkage, the initial selection of which practice units may constitute a group of identical practice units is made by the Quality Assurance Department (QAD) through the HKICPA's registration system based on the consideration of the following criteria:
 - i. Firms with identical partners;
 - ii. Corporate practices with identical practising or non-practising directors;
 - iii. Corporate practices where the practising or non-practising directors are the same people as the partners of the firm;
 - iv. Firms where the sole proprietor is the same person as the CPA (practising) practising on his own account; and
 - v. Corporate practices where the managing director is the sole CPA (practising) and is the same person as the CPA (practising) practising on his own account.

However, if the QAD identifies a group of practice units that meets the principle of a group of identical practice units but does not satisfy the above criteria, the QAD could seek approval by the PRC for selecting it as a potential group of identical practice units. Given that the initial selection is made by the QAD through the HKICPA's registration system and that the PRC will formally invite selected practice units to take up this status, grouping is not a free option for all practice units.

9. After establishing the management linkage, those potential groups of identical practice units as identified under the HKICPA's registration system will be invited to make a declaration that:
 - i. the firm(s) and corporate practice(s) within the identified group are very closely related in terms of partners and/ or directors and that the CPA (practising) practising in his own name is a partner and/or director of all the firm(s) and corporate practice(s) within the identified group; and all the practice units within the identified group share an identical system of quality control, and operational procedures, methodologies and practices; or
 - ii. in respect of a subsequent declaration, the situation as referred to (i) above has changed at a specified time and the new composition of the identical group of practice units as specified meets the requirements of (i) above,

so that the practice units within the declared group can be treated as a single unit for the purpose of practice review. In making the above declaration, the group of identified practice units will also be requested to identify a firm or corporate practice within the group to be the master practice unit of the group for the purpose of practice review. The master practice unit would be expected to be the primary or at least equally prominent operating practicing unit within the group.

10. Once the declaration is made, all the practice units within the declared group will be treated as a single unit under the name of the master practice unit for the purpose of practice review.

Implications of forming a group of identical practice units

11. Having been identified by QAD as a potential group and invited by PRC to take up that status it remains the option of the practice units to make the declaration of a group of identical practice units and to form a group of identical practice units for the purpose of practice review. However, once a group of identical practice units is declared, the group formed will be treated as a single unit for the purpose of practice review unless the PRC directs otherwise. Accordingly, unless the PRC directs otherwise, a practice review on a declared group of identical practice units will be carried out on a group basis rather than an individual practice unit basis.

12. As stipulated in paragraph 3 of the Appendix of Statement 1.401 (March 2006) *Practice Review – Review and Conduct of Members*, all practice units are required to complete the practice review self-assessment questionnaire on an annual basis. The questionnaire will collect the following 3 main categories of information about a practice unit:
 - i. Organisation and management of the practice unit;
 - ii. Quality control policies and procedures established by the practice unit;
 - iii. Client profile of the practice unit.

13. The declaration of the grouping will reduce the burden of the practice units falling within a group of identical practice units having to complete duplicate questionnaires. After making the declaration, only the master practice unit of the declared group will be required to submit a questionnaire but that questionnaire would cover all the practice units within the declared group. However, if an identified group chooses not to make the declaration, each practice unit within the group will be required to submit a questionnaire.

14. Under the revised practice review programme, practice units are selected for practice reviews primarily based on their risk profiles to be assessed through the desktop review process which analyses the responses in the completed questionnaire and other relevant information like public information obtained in relation to the practice unit.

15. For those declared groups of identical practice units, their risk profiles will be assessed on a group basis. This approach will neither increase nor decrease the chance of the master practice unit of a declared group being selected for a practice review. However, since all other practice units within the declared group are considered to be part of the master practice unit for the purpose of practice review, those other practice units will not normally be selected for practice review on an individual practice unit basis.
16. However, if a master practice unit is selected for a practice review, all practice units within the declared group to which the master practice unit belongs will fall within the scope of that practice review. Therefore a reviewer may, during the course of the review, request access to information relating to the quality control procedures and processes or audit engagement work of any of the practice units within the group. A review of the evidence in support of the declared group sharing an identical system of quality control would, however, be made.
17. Regarding the output of the practice review, the findings on the system of quality control will apply across all the practice units within the declared group since they share an identical system of quality control but the findings on a specific engagement will be limited to the specific practice unit. Accordingly, in dealing with the output of the practice review, the PRC will initially only be able to pursue a complaint, if any, against the specific practice unit in which significant findings on its engagements are found, unless the complaint is raised solely on the system of quality control which all the practice units within the declared group apply. However, this does not prevent the PRC from seeking undertakings that all the practice units within the declared group take the same remedial action as the individual practice unit within the declared group thereby ensuring that the problem is corrected across the group and that standards are improved accordingly.
18. Notwithstanding the above, the PRC can still request a practice review to be carried out for a practice unit separately at any time if it is deemed necessary even though the practice unit may be part of a declared group of identical practice units. This, therefore, would enable a punitive action to be pursued against an individual practice unit if more than an uplifting of standards in future is required for a particular practice unit.
19. For those groups that choose not to make the declaration, the risk profiles of all

practice units within the groups will be assessed individually. In this case, given that the practice units within the group are considered to be separate practice units, the practice units might be subject to practice reviews at different point in time.

Enquiries

20. Enquiries about the PRC policy or the procedures to be applied in identifying and reviewing a group of identical practice units should be directed to the HKICPA's Quality Assurance Department on telephone number: 2287 7256.