

## **Practice Review Self-assessment Questionnaire 2020**

### **Important Notes**

Below are the contents of the questionnaire for your easy reference. While this can be used to help formulate your responses, practitioners are required to complete and submit the questionnaire **online**. Other forms of submission (e.g. by fax, email or post) will **not** be accepted.

The online questionnaire will include automatic filtering of appropriate questions, based on the responses given. Text (***in brackets, italics and bold***) included below will not be in the survey and is included as information for practitioners.

Unless specified otherwise, the information requested by this questionnaire should refer to your practice's current status.

Please refer to **Explanatory Notes** for more information.

### **Part A – General**

(Please refer to **Explanatory Notes** for the meaning of a “practitioner”)

**A1.** Did your practice provide any services during the period from 1 April 2019 to 31 March 2020 or intend to do so for the period from 1 April 2020 to 31 March 2021?

- Yes (***Practitioners answering “yes” will answer question A2(a) and skip question A2(b) of Part A below***)
- No (***Practitioners answering “no” will skip question A2(a) and answer question A2(b) of Part A below***)

**A2. (a)** Please indicate the professional service(s) that your practice provided during the period from 1 April 2019 to 31 March 2020:  
(You can select more than one of the following)

- Audit and assurance services  
(***Practitioners providing these services will answer both Parts B and C below***)
- Tax compliance and advisory services
- Bookkeeping, accounting and payroll administration services
- Trust and company services
- Corporate finance and company listing services
- Due diligence or advisory services concerning mergers and acquisitions of real estate and business entities and other financial transactions
- Company liquidation, receivership and restructuring services
- Forensic and litigation support
- Management of client money, securities or other assets; or bank, savings or securities accounts
- Others, please specify: \_\_\_\_\_

***(Practitioners only providing services other than audit and assurance will skip Part B and answer Part C)***

**(b)** Please indicate the reason why your practice has been inactive. (Please choose at least one of the following)

- The practitioner(s) is(are) retired.
- The practitioner(s) is(are) practising in other practice(s).
- The practitioner(s) has(have) another full time employment(s).
- Other reasons: \_\_\_\_\_

***(At this stage, practitioners who answered A2(b) will be directed to the message below and asked to confirm their inactivity)***

To apply for an exemption from practice review, you are required to click the box below to signify the following:

- (a) a declaration from you that your practice did not provide any services in the twelve months before 31 March 2020 and will not do so in the twelve months after 31 March 2020; and
- (b) an undertaking from you that you will notify the Quality Assurance Department in writing within 1 month of your practice resuming (or commencing) public practice and providing any services.

Robust actions will be taken if a practice is found to have provided false information in an attempt to avoid a practice review being carried out.

***(If the answer to A1 is "No", and the above undertaking is made → End of the questionnaire)***

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## Part B – Audit and assurance

### B1. Quality control policies and procedures

- (a) Has your practice implemented quality control policies and procedures?
- Yes  
 No, please explain: \_\_\_\_\_
- (b) How were your practice's quality control policies and procedures developed? (Please choose only one of the following)
- Developed by your practice  
 Modified the Institute's publication "*A Guide to Quality Control*" to suit your practice's circumstances  
 Other: \_\_\_\_\_
- (c) Has your practice retained documentation as evidence of compliance with HKSQC 1 *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements* in respect of: (Please choose all that apply)
- Relevant ethical requirements (e.g. individuals' annual declarations of independence and acknowledgement of confidentiality, and independence assessment at engagement level)  
 Acceptance and continuance of clients and engagements (e.g. acceptance and continuance assessment forms)  
 Human resources (e.g. records of performance evaluations and continuing professional development)  
 Monitoring reviews (e.g. monitoring review checklist(s) and report(s))

### B2. Audit methodology and procedures

- (a) Are your practice's audit methodology and procedures documented and available for staff reference?
- Yes  
 No, please explain: \_\_\_\_\_
- (b) Are your practice's audit methodology and procedures updated to take into account the latest requirements of the Hong Kong Standards on Auditing and other professional standards?
- Yes. Please indicate when the most recent update was: \_\_\_\_\_  
 No, please explain: \_\_\_\_\_
- (c) How were your practice's audit methodology and procedures developed? (Please choose all that apply)
- Developed by your practice  
 Adopted the Institute publication "*Audit Practice Manual*" in full

- Adopted relevant parts of the *Audit Practice Manual*
- By reference to sources within your practice's network
- By reference to sources from other professional organizations
- Other: \_\_\_\_\_

### B3. Continuing professional development

(Please refer to **Explanatory Notes** for more details of *IES 8 Professional Competence for Engagement Partners Responsible for Audit of Financial Statements (Revised)*)

(a) Did your practice provide structured internal or external training courses to partner(s), director(s) or audit staff during the period from 1 April 2019 to 31 March 2020?

- Yes
- No, please explain why not (e.g. No audit staff): \_\_\_\_\_

(b) Has your practice taken measures to ensure engagement partner(s) or director(s) of your practice develop and maintain relevant professional competence required by and have achieved the specified learning outcomes set out in Table A of International Education Standard ("IES") 8?

- Yes
- No, please explain: \_\_\_\_\_

### B4. Monitoring review

(Please refer to **Explanatory Notes** for the meaning of a "monitoring review")

(a) Was a monitoring review of your practice's quality control system completed during the period from 1 April 2019 to 31 March 2020? (Please choose only one of the following)

- Yes. Please specify month and year of completion: \_\_\_\_\_
- No. Please specify month and year of completion of the most recently completed monitoring review on your practice's quality control system: \_\_\_\_\_
- No such review has been conducted since incorporation of your practice. Please explain why not: \_\_\_\_\_

(b) Was a completed engagement file monitoring review carried out during the period from 1 April 2019 to 31 March 2020? (Please choose only one of the following)

- Yes. Please specify month and year of completion: \_\_\_\_\_
- No. Please specify month and year of completion of the most recently completed file monitoring review: \_\_\_\_\_
- No such review has been conducted since incorporation of your practice. Please explain why not: \_\_\_\_\_

(c) When is your next planned monitoring review due to complete?

Please specify month and year: \_\_\_\_\_

### B5. Relevant ethical requirements

(Please refer to **Explanatory Notes** for the meaning of "relevant ethical requirements")

(a) Does your practice have policies and procedures to address compliance with the relevant ethical requirements set out in the Code and HKSQC 1?

- Yes  
 No. Please explain why not: \_\_\_\_\_

(b) During the period from 1 April 2019 to 31 March 2020 were any non-assurance services provided to your practice's audit clients by: (i) your practice; (ii) your practice's practising or non-practising partners (or directors or authorized signatories); (iii) staff; or (iv) other parties with a close business relationship with your practice (including an entity controlled by any of the partners or directors of your practice or a subcontractor)?

- Yes  
Please choose the type(s) of non-assurance services(s) provided to audit clients

(You can choose more than one of the following)

- Tax return preparation  
 Tax calculations for the purpose of preparing accounting entries  
 Tax advisory services  
 Company secretarial services  
 Accounting and bookkeeping services  
 Nominee director / shareholder service  
 Other services

- No non-assurance services were provided to audit clients

**B6. New acceptance of clients and engagements**

Does your practice have new client and engagement acceptance policies and procedures?

- Yes  
 No. Please explain why not: \_\_\_\_\_

**B7. Assembly of final engagement files**

Does your practice have policies and procedures for audit teams to complete the assembly of final engagement files on a timely basis after the engagement reports have been issued?

- Yes  
 No. Please explain why not: \_\_\_\_\_

**B8. Use of subcontractors**

(Please refer to **Explanatory Notes** for the meaning of a "network firm")

(a) Has your practice engaged any individual(s), firm(s), corporate practice(s) or other party(ies) which are not your staff or a member of your network firm's staff to perform any audit or assurance engagement work for your practice?

(Select "No" if all related arrangements are purely staff resources sharing within network firms and/or reliance on the audit work of component auditors.)

- Yes  
 No

***(Please answer B8(b) to B8(d), if B8(a) is "Yes".)***

- (b) Please provide details of the relevant entity(ies)/individual(s) referred to in the answer to question B8(a). If the number of the relevant entities/ individuals is more than 5, please input details of the top 5 relevant entities or individuals in terms of the number of clients of which their audits involved the use of subcontractors during the period from 1 April 2019 to 31 March 2020.

Name in full	State "Y" to indicate a Hong Kong Institute of CPAs member <u>or</u> a Practice Unit registered with the Institute or "N" if otherwise	Number of audit clients involved

- (c) Does your practice have controls over the audit process handled by the subcontractor(s) and retain full responsibility for the audit work and report(s)?

- Yes  
 No. Please explain why not: \_\_\_\_\_

- (d) For how many clients in total did your practice use subcontractor(s) in completed audit(s) with an audit report issued during the period from 1 April 2019 to 31 March 2020?

- 0  
 1-10  
 11-20  
 21-30  
 31-40  
 41-50  
 51-100  
 101-300  
 301-500  
 501-1000  
 >1000

**B9. Business referrals**

- (a) Does your practice receive business referrals of audit clients from independent accounting, tax, company secretary and / or other service providers (excluding bankers or lawyers) who are not qualified to engage in public practice ("Independent Service Providers") on a routine basis?

- Yes  
 No

***(If the answer is "Yes", please answer question B9(b))***

- (b) Do the Independent Service Providers or their staff assist in performing audits of the clients referred by them?

- Yes

No

**(If the answer is “Yes”, please answer question B9(c) to B9(d))**

(c) Please provide details of the relevant entity(ies)/individual(s) referred to in the answers to question B9(a) and (b) above. If the number of the relevant entities or individuals is more than 5, please input details of the top 5 relevant entities or individuals in terms of the number of audit clients referred.

Name in full	State “Y” to indicate a HKICPA member or “N” if otherwise

(d) How many audit clients on which your practice issued an audit report during the period from 1 April 2019 to 31 March 2020 were referred by the Independent Service Providers?

- 0
- 1-10
- 11-20
- 21-30
- 31-40
- 41-50
- 51-100
- 101-300
- 301-500
- 501-1000
- >1000

**B10. Top 5 findings**

Have your practice taken appropriate actions to address the Top 5 findings set out below and to avoid them from occurring in your practice? You should be aware that failing to demonstrate efforts to do so will result in robust actions being considered against relevant CPAs if those findings are found in a practice review even if it is a first visit.

(Please refer to **Explanatory Notes** for further details)

- No or insufficient quality control policies and procedures
- No or ineffective monitoring
- Inappropriate audit methodology
- Unsatisfactory subcontracting arrangements
- Misuse of modified opinion

- Yes
- No. Please explain why not \_\_\_\_\_



## B11. Current statistics

On 1 October 2019, the Financial Reporting Council (Amendment) Ordinance (“FRCO”) (Cap. 588) took effect, giving the Financial Reporting Council (“FRC”) more powers to regulate auditors of listed companies in Hong Kong. The FRC has since taken on the responsibilities for inspections of public interest entities (“PIE”) engagements completed by PIE auditors on or after 1 October 2019. All non-PIE engagements, which include those engagements falling outside the definition of PIE engagements in the FRCO, carried out by a practice unit registered with the Institute remains under the remit of the Institute’s practice review programme. Accordingly, the questions set out in B11(e), (g) and (h) below place emphasis on gaining information about the non-PIE engagements of your practice.

(Please refer to **Explanatory Notes** for the meaning of a “non-PIE engagement”)

(a) How many branch offices in Hong Kong did your practice have as at 31 March 2020?

- 0
- 1-2
- 3-5
- >5

(b) How many full-time audit staff did your practice have as at 31 March 2020?

- 0
- 1- 10
- 11-20
- 21-30
- 31-40
- 41-50
- 51-100
- 101-500
- >500

(c) How many part-time audit staff did your practice have as at 31 March 2020?

- 0
- 1- 10
- 11-20
- 21-30
- >30

(d) How many practising principal(s) did your practice have as at 31 March 2020?  
(Please refer to **Explanatory Notes** for the meaning of “practising principal(s)”)

- 1-2
- 3-4
- 5-6
- 7-8
- 9-10
- 11-20



- 21-49
- 50 or above

(e) How many **non-PIE Audit and Assurance clients** on which your practice issued an audit or assurance report (i.e. a non-PIE engagement) during the period from 1 April 2019 to 31 March 2020?

(Please refer to **Explanatory Notes** for the meaning of a “non-PIE engagement”)

- 0
- 1-10
- 11-20
- 21-30
- 31-40
- 41-50
- 51-100
- 101-300
- 301-500
- 501-800
- 801-1000
- 1001-1200
- 1201-1500
- >1500

Remark: If your practice issued audit reports on the consolidated financial statements of a group as well as on the individual or separate financial statements of some (or all) of the individual companies within the group, **please count each non-PIE Audit and Assurance client within the group on which an audit or assurance report was issued during the period referred to above as a separate client.**

(f) Among the number of non-PIE Audit and Assurance clients referred to in B11(e), please show below how many of them are under the following categories of clients on which your practice issued an audit or assurance report during the period from 1 April 2019 to 31 March 2020?

**Regulated non-PIE Audit and Assurance clients**

Types of clients	Numbers	Input the exact number, if the number of non-PIE Audit and Assurance clients is less than 10	Tick the boxes as appropriate				
			11-20	21-30	31-50	51-100	>100
- "Authorised Institutions" as defined under the Banking Ordinance							
- "Insurers" as defined under the Insurance Ordinance							
- "Insurance Brokers" as defined under the							

Insurance Ordinance						
- "Licensed Corporations" or "Associated Entities of Intermediaries" as defined under the Securities and Futures Ordinance						

**Other specific non-PIE Audit and Assurance clients**

Numbers	Input the exact number, if the number of non-PIE Audit and Assurance clients is less than 10	Tick the boxes as appropriate				
		11-20	21-30	31-50	51-100	>100
Types of clients						
- Entities (excluding kindergartens, schools or universities) that received annual subvention in excess of HK\$ 50 million from the Government of the Hong Kong Special Administrative Region						
- Kindergartens accepting pre-primary education vouchers, schools under the direct subsidy scheme or universities						

(g) For how many clients under the following categories did your practice issue audit report(s) during the period from 1 April 2019 to 31 March 2020?

(Please refer to **Explanatory Notes** for the meaning of "listed entities")

Numbers	Tick the boxes as appropriate				
	0	1-10	11-50	51-100	>100
- Listed entities whose <b><u>securities</u></b> are listed in Hong Kong (i.e. PIE engagements)					
- Listed entities whose <b><u>debts</u></b> only are listed in Hong Kong (i.e. non-PIE engagements)					
- Listed entities whose securities are listed <b><u>outside</u></b> Hong Kong (i.e. non-PIE engagements)					

- (h) For how many clients did your practice issue accountants' report(s) or auditors' report(s) on the following transactions that fall outside the definition of PIE engagements in the FRCO during the period from 1 April 2019 to 31 March 2020?

(Please refer to **Explanatory Notes** for the meaning of a “major transaction”, a “very substantial disposal” and an “extreme transactions”)

Numbers	Tick the boxes as appropriate				
	0	1-10	11-50	51-100	>100
- Major transactions of listed companies					
- Very substantial disposals of listed companies					
- Extreme transactions of listed companies					

**B12. Audit activities in the Mainland under temporary licenses**

(Please refer to **Explanatory Notes** for further guidance)

- (a) Has your practice applied for any temporary licenses for engagements?  
 Yes  
 No

***(Practitioners who answer “Yes” must answer questions B12(b) and B12(c))***

- (b) Please provide the information below based on the latest temporary license **annual** reporting form filed by your practice. If your practice has applied for a temporary license but has not filed the form, please provide the information below as if your practice were required to complete the form for the period from 1 April 2019 to 31 March 2020.

- (i) The period of audit activities covered by the form:  
 From \_\_\_\_\_ [Insert dd/mm/yy] to \_\_\_\_\_ [Insert dd/mm/yy]
- (ii) Total number of relevant Mainland entities reported in the form  
 \_\_\_\_\_ [Insert number only]
- (iii) Total number of overseas engaging parties reported in the form  
 \_\_\_\_\_ [Insert number only]

Among the total number stated in question B12(b)(iii) above, the total numbers of

	Total	Relevant Mainland entities involved
Hong Kong listed entities	<b><i>(Input number)</i></b>	<b><i>(Input number)</i></b>
Hong Kong IPO entities	<b><i>(Input number)</i></b>	<b><i>(Input number)</i></b>

- (c) (i) Does your practice consider that the information provided in B12(b) above a reasonable reflection (within a deviation of +/-20%) of the information about your practice's client and engagement portfolios under temporary licenses as at 31 March 2020?

- Yes  
 No. Please describe why not:

Narrative box

**(Please answer question B12(c)[(ii) – (iv)] if B12(c)(i) is "No")**

- (ii) Total estimated number of relevant Mainland entities as at 31 March 2020  
\_\_\_\_\_ [Insert number only]
- (iii) Total estimated number of overseas engaging parties as at 31 March 2020  
\_\_\_\_\_ [Insert number only]
- (iv) Among the total number stated in question B12(c)(iii) above, the total estimated numbers of

	Total	Relevant Mainland entities involved
Hong Kong listed entities	<i>(Input number)</i>	<i>(Input number)</i>
Hong Kong IPO entities	<i>(Input number)</i>	<i>(Input number)</i>

**B13. Audit activities in the Mainland under the Provisional Regulations**

(Please refer to **Explanatory Notes** for further guidance)

Does your practice have Hong Kong listed or IPO clients falling within the scope of the Provisional Regulations?

- Yes  
 No

**B14. Other comments**

Below is a text box for you to supplement your answers to each question of **Part B - Audit and assurance**, if necessary. Please note that supplementary answers are not mandatory. This facility is available in case you wish to share something about your specific circumstances.

Narrative box

## Part C – Anti-money laundering and counter-terrorist financing (“AML / CTF”) compliance

**Note:** The following part requests some basic information about AML / CTF related matters of your practice for practice review purposes. The Institute has plans to carry out an institutional assessment of money laundering and terrorist financing risks of the accounting profession in which further information about AML/CTF compliance and related matters will be collected from all CPAs and practice units, including your practice, tentatively towards the end of 2020. The institutional assessment will assist the Institute in the future development of its supervisory function to ensure compliance with the Anti-money Laundering and Counter-terrorist Financing Ordinance and Financial Action Task Force recommendations. Details of the institutional assessment will be communicated to members in due course.

### **C1. Specified transactions falling within the scope of paragraphs 600.2.1 and 600.2.2 of the Guidelines on AML / CTF for Professional Accountants (“AML Guidelines”)**

(Please refer to **Explanatory Notes** for the meaning of “specified transactions”)

Was your practice engaged to prepare for or carry out specified transactions during the period from 1 April 2019 to 31 March 2020?

- Yes  
 No

### **C2. Application of “good practices” in transactions other than specified transactions**

(Please refer to **Explanatory Notes** for the meaning of “good practices”)

Has your practice applied “good practices”, including but not limited to requiring customer due diligence (“CDD”) and ongoing monitoring procedures to be applied on clients whose engagements do not involve work to prepare for or carry out specified transactions?

- Yes  
 No

*(If the answer(s) to either question C1 or question C2 is “Yes” or both are “Yes”, continuing answering question C3)*

*(If the answers to both question C1 and question C2 are “No”, skip questions C3 – C4)*

### **C3. Policies, procedures and controls (specified transactions / good practices)**

Has your practice established written policies and procedures and developed/implemented relevant appropriate controls (including risk-based CDD procedures and ongoing monitoring, record keeping and staff hiring and training) for engaging in work to prepare for or carry out specified transactions or for application of good practices?

- Yes  
 No, please explain: \_\_\_\_\_

#### C4. High risk clients

Did your practice have client(s) assessed to have high money laundering and terrorist financing (“ML / TF”) risk exposure (including those meeting the high ML / TF risk situations set out in Section 620.12 of the *AML Guidelines*) and hence enhanced CDD was applied during the period from 1 April 2019 to 31 March 2020?

(Please refer to **Explanatory Notes** for the “high ML / TF risk situations set out in Section 620.12 of the *AML Guidelines*”)

- Yes  
 No

#### C5. Policies, procedures and controls (suspicious transactions reporting and sanctions)

Has your practice established written policies and procedures regarding suspicious transaction reporting and financial sanctions and terrorist financing?

- Yes  
 No. Please explain why not: \_\_\_\_\_

#### C6. Money Laundering Reporting Officer (“MLRO”) and Compliance Officer (“CO”)

(a) Has your practice appointed an MLRO in accordance with the *AML Guidelines*?

- Yes, please specify the name and title of the MLRO: \_\_\_\_\_  
 No. Please provide reason(s) as to why not: \_\_\_\_\_

(b) Has your practice appointed a CO who is responsible for the establishment and maintenance of your practice's AML / CTF controls?

- Yes, please specify the name and title of the CO: \_\_\_\_\_  
 No. Please provide reason(s) as to why not: \_\_\_\_\_

#### C7. Suspicious transaction reports received and filed

(a) Did your practice's MLRO receive any internal suspicious transaction report(s) during the period from 1 April 2019 to 31 March 2020?

- Yes  
 No

(b) Did your practice file any suspicious transaction report(s) with the Joint Financial Intelligence Unit during the period from 1 April 2019 to 31 March 2020?

- Yes  
 No

## C8. Sanctions screening

(a) Did your practice perform sanctions screening of new clients against the latest sanctions lists before establishing the client relationships during the period from 1 April 2019 to 31 March 2020?

- Yes  
 No. Please explain why not: \_\_\_\_\_

(b) Did your practice perform ongoing sanction screening of its client base against an update of sanctions lists as soon as practicable after it was released during the period from 1 April 2019 to 31 March 2020?

- Yes  
 No. Please explain why not: \_\_\_\_\_

## C9. Other comments

Below is a text box for you to supplement your answers to each question of **Part C – AML / CTF compliance**, if necessary. Please note that supplementary answers are not mandatory. This facility is available in case you wish to share something about your specific circumstances.

**Narrative box**

<End of the Questionnaire>

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香港會計師公會



## **Practice Review Self-assessment Questionnaire 2020 - Explanatory notes**

The explanations below are intended to provide guidance on the questions in the practice review self-assessment questionnaire.

These explanatory notes are to be read in conjunction with Hong Kong Standard on Quality Control 1 *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements* (“HKSQC 1”), and the *Guidelines on Anti-money Laundering and Counter-terrorist Financing for Professional Accountants* (Part F of the Code of Ethics for Professional Accountants (“Code of Ethics”), “AML Guidelines”).

The Quality Assurance Department welcomes your comments and feedback on the questionnaire and these explanatory notes. Please send any comments to [qualityassurance@hki CPA.org.hk](mailto:qualityassurance@hki CPA.org.hk).

### **Explanatory notes**

#### **Part A – General**

##### **Question A2**

A practitioner takes the meaning of (1) the sole proprietor in case of a sole proprietorship, (2) a partner in case of a firm of CPA (practising) and (3) a director in case of a corporate practice.

#### **Part B – Audit and assurance**

##### **Questions B3(a), B11(b) and B11(c)**

Audit staff are both qualified and non-qualified staff of the practice that carry out audit or other assurance work under control and supervision of a practising principal.

##### **Question B3(b)**

International Education Standard (“IES”) 8 *Professional Competence for Engagement Partners Responsible for Audit of Financial Statements* provides a closer link between the competence and capability requirements set out in ISA/HKSA 220 *Quality Control for an Audit of Financial Statements* and ISQC/HKSQC 1. IES 8 also recognizes that learning and development occurs throughout an individual’s career and development and maintenance of competence required for performing the roles of an engagement partner occurs over time. While a premise of IES 8 is that engagement partners have already developed the professional competence to assume that role, IES 8 acknowledges that engagement partners operate in an environment of significant change which is why this particular IES requires engagement partners to develop and maintain professional competence throughout their careers. Further details are set out in the below designated webpage in the Institute’s website:

<https://www.hki CPA.org.hk/en/Standards-and-regulation/Standards/New-and-major-standards/New-and-Major-Standards/IES8-Professional-Competence-for-Engagement-Partners-Responsible-for-Audit-of-Financial-Statements>

#### **Questions B4**

Monitoring is a periodic firm level review of quality control policies and procedures that includes reviews of a sample of completed engagement files of each partner/ director. A monitoring review is expected to be carried out on the firm's system of quality control on an annual basis and on the level of engagements normally over a cycle of no more than three years. This function is different from an Engagement Quality Control Review ("EQCR"), which is a process designed to provide an objective evaluation, before the report is issued, of the significant judgments made and conclusions reached by the engagement team in formulating the audit / other assurance report. Some practices may describe this review as a second partner review.

#### **Question B5**

Relevant ethical requirements refer to the requirements to which the engagement team and engagement quality control reviewer are subject, which ordinarily comprise Chapter A, Parts 1, 3, 4A and 4B, and Chapter C of the *Code of Ethics*.

#### **Question B8**

A network firm is a firm or entity that belong to a network. According to the *Code of Ethics*, a network is a larger structure (a) that is aimed at co-operation; and (b) that is clearly aimed at profit or cost sharing or shares common ownership, control or management, common quality control policies and procedures, common business strategy, the use of a common brand-name, or a significant part of professional resources.

#### **Question B10**

A letter was issued by the Quality Assurance Department on 28 April 2014 to all practising members drawing their attention to the five common deficiencies (the "Top 5 findings"). Practices are again reminded that if a practice is found in a practice review to have made no or little attempt or effort to address any of the Top 5 findings existing within the practice, such behaviour will be taken as amounting to serious professional misconduct. The letter can be found at:

[https://www.hkicpa.org.hk/-/media/HKICPA-Website/HKICPA/section6\\_standards/quality\\_assurance/practice-review/practice-review-findings.pdf?la=en&hash=755E1C9444F09EDDA07FCA4D37921070](https://www.hkicpa.org.hk/-/media/HKICPA-Website/HKICPA/section6_standards/quality_assurance/practice-review/practice-review-findings.pdf?la=en&hash=755E1C9444F09EDDA07FCA4D37921070)

#### **Question B11(d)**

A practising principal is a practising certificate holder who can sign documents in the name of the practice. An authorised signatory is a practising principal.

The practising principal can be a sole practitioner practising in his/her own name, a partner of a partnership practice, or a director of a corporate practice.

#### **Question B11(e)**

##### **Non-Public Interest Entity ("Non-PIE") engagements**

Under section 3(1) of the FRCO, a Public Interest Entity ("PIE") means a listed corporation with listed shares or stocks or a listed collective investment scheme in Hong Kong.

A non-PIE engagement is an engagement that **falls outside the definition of a PIE engagement** as set out in Part 1 of Schedule 1A of the FRCO. Those PIE engagements include annual audits, specified reports and accountants' reports on a listed or "seeking to be listed" corporation or collective investment scheme. Practices are reminded that non-PIE engagements also **include** (a) statutory audits and compliance reports on non-PIE subsidiaries and non-PIE regulated entities within a listed group; and (b) audits of entities whose debts only are listed in Hong Kong. Other examples of non-PIE engagements are set out in the Explanatory note to Question B11(h) below.

Definition of a PIE in the FRCO is set out below:

- 1) An auditor's report on a PIE's annual financial statements required by the Companies Ordinance (Cap 622), the Listing Rules or any relevant code issued by the Securities and Futures Commission.
- 2) A specified report<sup>1</sup> required to be included in (i) a listing document for the listing of the shares or stocks of a corporation seeking to be listed or a listed corporation, or (ii) a listing document of a collective investment scheme seeking to be listed or a listed collective investment scheme.
- 3) An accountant's report required under the Listing Rules to be included in a circular issued by or on behalf of a PIE for a reverse takeover or a very substantial acquisition.

#### **Question B11(g)**

##### **Listed entity**

An entity is listed if its shares, stocks or debts are quoted or listed on a recognized stock exchange, or are marketed under the regulations of a recognized stock exchange or other equivalent body. An engagement requiring an auditor's or accountant's report to be issued on an entity with its shares and stocks listed in Hong Kong falls within the definition of a PIE engagement. However, an engagement requiring an auditor's or accountant's report to be issued on an entity with only its debts listed in Hong Kong falls outside the definition of a PIE engagement (i.e. non-PIE Engagement).

#### **Question B11(h)**

Engagements not falling within the definition of PIE Engagements (i.e. non-PIE Engagements) include those requiring an auditor's or accountant's report to be issued in relation to:

##### **A major transaction**

Based on the definition set out in rule 14.06 of Chapter 14 EQUITY SECURITIES – NOTIFIABLE TRANSACTIONS of the Listing Rules ("Chapter 14"), a major transaction is a transaction or a series of transactions by a listed issuer where any relevant percentage ratio is 25% or more, but

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<sup>1</sup> Specified report — (a) in relation to a prospectus issued by or on behalf of a listed corporation, means any report, specified in Part II of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32), that is required under section 38 or 342 of that Ordinance to be set out in the prospectus; (Amended 28 of 2012 ss. 912 & 920) (b) in relation to a listing document (other than a prospectus) issued by or on behalf of a listed entity, means any report on the profits and losses of, the assets and liabilities of, and other financial information on— (i) the entity; or (ii) a business or undertaking to be acquired, or disposed of, by the entity, that is required for inclusion in the listing document issued for the purposes of the relevant code or the Listing Rules.

less than 100% for an acquisition or 75% for a disposal.

#### A very substantial disposal

Rule 14.06 of Chapter 14 defines a very substantial disposal as a disposal or a series of disposals (aggregated under rules 14.22 and 14.23) of assets (including deemed disposals referred to in rule 14.29) by a listed issuer where any relevant percentage ratio is 75% or more.

#### An extreme transaction

Based on the definition set out in rule 14.06C of Chapter 14, an “extreme transaction” is an acquisition or a series of acquisitions of assets by a listed issuer, which individually or together with other transactions or arrangements, may, by reference to the factors set out in Note 1 to rule 14.06B of Chapter 14, have the effect of achieving a listing of the acquisition targets, but where the issuer can demonstrate to the satisfaction of the Hong Kong Stock Exchange that it is not an attempt to circumvent the requirements for new applicants set out in Chapter 8 of the Listing Rules and those factors set out in rule 14.06C of Chapter 14 including (a) the issuer must operate a principal business of substantial size; or (b) the issuer must have been under the control or de facto control of the same person(s) for a long period (normally not less than 36 months) and the transaction will not result in a change in control or de facto control of the issuer.

#### **Question B12**

Hong Kong CPA practices carrying out audit services in the Mainland that are not subject to or exempted from the "Provisional regulations on CPA practices carrying out audit services relating to the listing of Mainland enterprises outside Mainland" 《會計師事務所從事中國內地企業境外上市審計業務暫行規定》 ("Provisional Regulations") which took effect from 1 July 2015 shall apply for a temporary license with the Ministry of Finance (“MoF”). Based on the temporary license regulations 《境外會計師事務所在中國內地臨時執行審計業務暫行規定》 clause 10, each practice that has applied and obtained a temporary license is required to file an annual reporting form (境外會計師事務所臨時執業業務報告表) on or before 31 May each year on activities undertaken under temporary license(s) in the preceding year. Information regarding overseas engaging parties (境外委托方) and relevant Mainland entities (境內相關機構) is required to be provided under the second and third columns of that form respectively. A copy of the form can be downloaded by clicking the following link:

[https://www.hkicpa.org.hk/-/media/HKICPA-Website/HKICPA/section6\\_standards/technical\\_resources/pdf-file/appform.pdf](https://www.hkicpa.org.hk/-/media/HKICPA-Website/HKICPA/section6_standards/technical_resources/pdf-file/appform.pdf)

#### **Question B13**

Under the Provisional Regulations, Hong Kong CPA practices auditing Mainland enterprises listed in Hong Kong will have to enter into business cooperation arrangements with Mainland CPA practices. Hong Kong CPA practices will be responsible for the scope of arrangements and for making appropriate filing to the MoF at least 7 days before entering into the Mainland to carry out audit services.

## **Part C – AML / CTF compliance**

### **Question C1**

The amended Anti-Money Laundering and Counter-Terrorist Financing (“AML / CTF”) Ordinance (“AMLO”), effective on 1 March 2018, extends the scope of the AMLO to cover designated non-financial businesses and professions, including accountants. The Institute *issued AML Guidelines* as part of the *Code of Ethics* and practices<sup>2</sup> are required to carry out certain AML / CTF policies and procedures when they, by way of business, prepare for or carry out for clients any of the specified transactions as set out in paragraphs 600.2.1 and 600.2.2 of the AML Guidelines in Part F of the Code from 1 March 2018. The guidelines can be found here:

[http://www.hkicpa.org.hk/file/media/section5\\_membership/Professional%20Representation/aml/HKICPA\\_AML\\_Enforceable\\_GLs\\_Feb2018\\_20180228.pdf](http://www.hkicpa.org.hk/file/media/section5_membership/Professional%20Representation/aml/HKICPA_AML_Enforceable_GLs_Feb2018_20180228.pdf)

The definition of specified transactions is reproduced below for easy reference:

- (a) buying or selling of real estate;
- (b) managing of client money, securities or other assets;
- (c) management of bank, savings or securities accounts;
- (d) organisation of contributions for the creation, operation or management of corporations;
- (e) creation, operation or management of legal persons or arrangements;
- (f) buying or selling of business entities;
- (g) forming corporations or other legal persons;
- (h) acting as, or arranging for another person to act as, a director or secretary of a corporation, a partner of a partnership, or a similar position in relation to other legal persons;
- (i) providing a registered office, business address, correspondence or administrative address for a corporation, a partnership or any other legal person or arrangement;
- (j) acting as, or arranging for another person to act as, a trustee of an express trust or similar legal arrangement; or
- (k) acting, or arranging for another person to act, as a nominee shareholder for a person other than a corporation whose securities are listed on a recognized stock market.

### **Question C2**

According to Section 600.2 of the *AML Guidelines*, the extent to which a practice should comply with the requirements depends on the nature of transactions / services that a practice carries out or prepares for its clients (see the table below). If a practice carries out or prepares for its clients transactions or services specified in paragraphs 600.2.1 and 600.2.2 of the *AML Guidelines*, all sections are mandatory for the practice to the extent that they are applicable to the part of its business concerning specified service activities.

If a practice does not carry out or prepare for its clients transactions or services specified in paragraphs 600.2.1 and 600.2.2 of the *AML Guidelines*, it is not mandatory for it to comply with sections other than suspicious transaction reporting and financial sanctions. If this practice chooses to comply with all sections of the AML Guidelines (including applying customer due diligence (“CDD”), ongoing monitoring and record keeping (“RK”) measures on clients regardless of services provided), the practice is considered to have applied “good practices”.

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<sup>2</sup> Practices referred to in the AML guidelines includes (a) practice units under the Professional Accountants Ordinance; (b) trust or company service providers, where the proprietors, partners or directors are members and; (c) members working in practices.



The <i>AML Guidelines</i> apply to practices as follows:	AML / CTF policies, procedures and controls (section 610)	CDD, RK and ongoing monitoring (sections 620, 630, 660)	Suspicious transaction reporting and financial sanctions (sections 640, 650)	Staff hiring and training (section 670)
When providing any service specified in paragraphs 600.2.1 or 600.2.2	<b>Mandatory</b>	<b>Mandatory</b>	<b>Mandatory</b>	<b>Mandatory</b>
When providing services other than those specified in paragraphs 600.2.1 or 600.2.2	<b>Good practice</b>	<b>Good practice</b>	<b>Mandatory</b>	<b>Good practice</b>

#### Question C4

High ML / TF risk situations set out in Section 620.12 of the *AML Guidelines* are:

- A client not physically present for identification purposes
- A politically exposed person
- A client with bearer shares
- A client that is connected with or has transactions or businesses in jurisdictions that do not apply, or insufficiently apply, the Financial Action Task Force recommendations, or otherwise posing higher ML / TF risk

#### Frequent asked questions (“FAQs”) on AML / CTF compliance monitoring

The Institute has issued answers to FAQs regarding AML / CTF compliance monitoring which can be accessed via the following link:

<https://www.hkicpa.org.hk/en/Tools/FAQ/Quality-assurance/Practice-review---AML-Monitoring>