



28 April 2014

Dear practising members,

Practice review findings

We have recently published our 2013 Quality Assurance Report ("the Report"), a copy of which can be downloaded from http://www.hkicpa.org.hk/file/media/section6_standards/quality_assurance/2013/qa-report-2013.pdf.

We would like to draw your attention to the following findings from the Report (pages 18 to 21) which will be a principal focus of our work for 2014:

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

These findings are regularly identified by practice review and have been communicated many times in publications and events over the last few years. They relate to basic requirements of HKSQC 1 and a number of HKSA's and have direct and material impact on quality control and audit quality and as a consequence inevitably require significant follow up action. All practices should have procedures in place to address the requirements of HKSQC 1 and HKSA's to ensure the quality of their audit work is acceptable.

HKSQC 1 and most HKSA's have been in place since 2005 and the Practice Review Committee believes that practices have had ample time to put in place procedures to ensure that the above deficiencies will not occur. It is not acceptable for a practice to make no effort to establish appropriate procedures. This shows a lack of commitment to audit quality. The Committee will take strong action against practices that fail to take proactive steps to prevent those deficiencies occurring.

The Committee expects that practices will take immediate action to introduce appropriate procedures if they have not yet done so and, as a result, deficiencies in such basic matters should not be found in future practice reviews and audit engagements for a March 2014 year end or later. If a practice review identifies that a practice has made no or little attempt or effort to address the common areas of weakness, such behaviour will be taken as amounting to serious professional misconduct. Accordingly, consideration will be given to raising a complaint against the practice on the grounds of serious professional misconduct and/or failure to observe, maintain or apply professional standards even in a first visit.

We hope not to have to reach the position of raising a complaint against a practice and therefore advise members and practices to assess whether common areas of weakness exist in their quality control and audit procedures, policies and methodology and, if they do, take proactive steps to rectify them without delay. Our practice review programme will continue to monitor the improvement made by practices in their level of compliance with professional standards and recommend appropriate action to the Committee to uphold audit quality and the reputation of the profession.



Hong Kong Institute of
Certified Public Accountants
香港會計師公會

Should a practice have any questions regarding the above, please do not hesitate to contact our QA Helpline (2287 7850).

Yours sincerely,

Chris Joy
Executive Director

CJ/EH/st