

# Further Reform and Sustainable Development of the Accounting Profession

For HKICPA

11 April 2022

# Agenda

- 1. Our Aim**
- 2. Our Approaches**
- 3. Our Consultations**
- 4. Your Views**



# Discipline

11 April 2022

# Discipline Regulatory Philosophy



**Promote** public confidence



**Uphold** proper standards  
of conduct



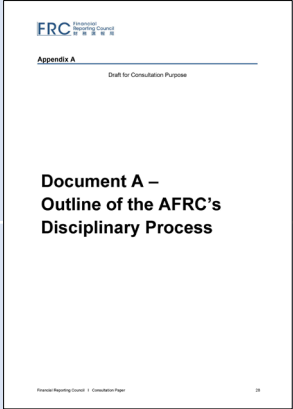
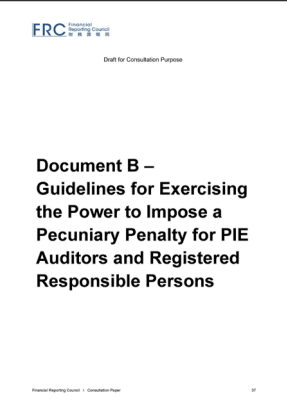
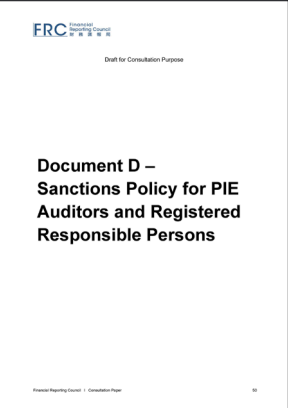
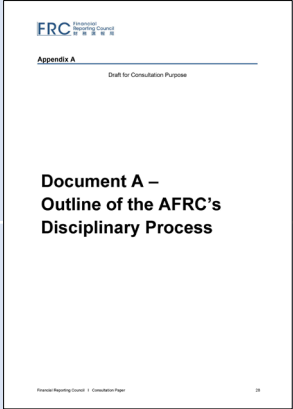
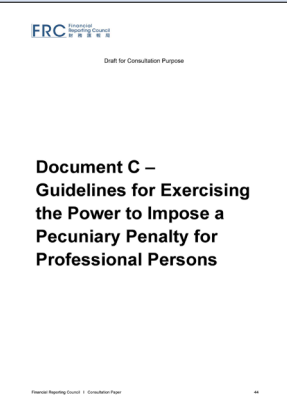
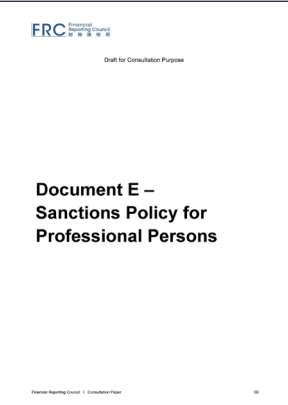
**Protect** public from  
misconduct



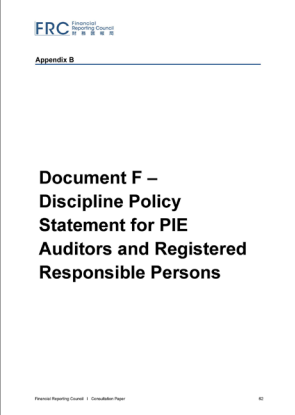
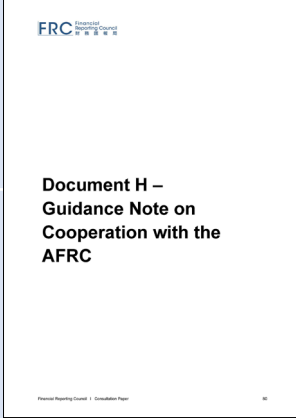
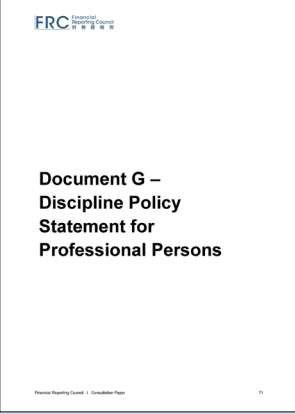
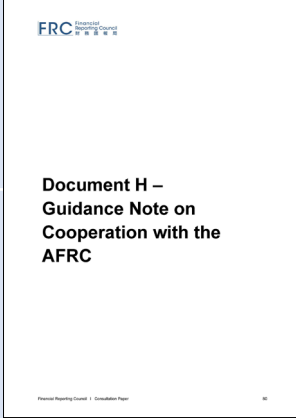
**Deter** regulatees from  
committing misconduct



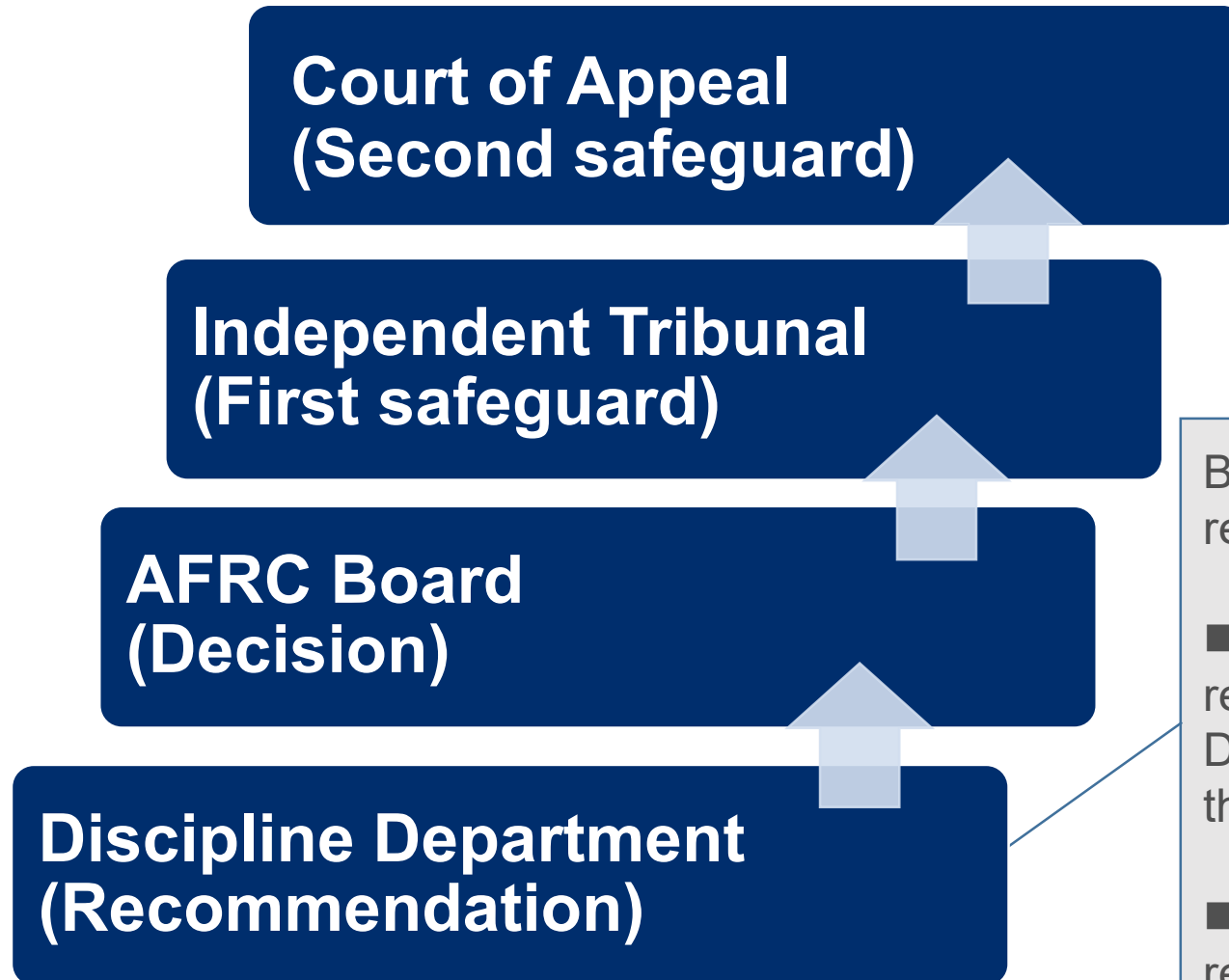
# Consultation Documents

Consultation Document	Disciplinary Process	Fining Guidelines	Sanctions Policy
<p><b>PIE Auditors and Registered Responsible Persons</b></p>	<p>✓</p>  <p>Document A – Outline of the AFRC's Disciplinary Process</p>	<p>✓</p>  <p>Document B – Guidelines for Exercising the Power to Impose a Pecuniary Penalty for PIE Auditors and Registered Responsible Persons</p>	<p>✓</p>  <p>Document D – Sanctions Policy for PIE Auditors and Registered Responsible Persons</p>
<p><b>Professional Persons</b></p>	<p>✓</p>  <p>Document A – Outline of the AFRC's Disciplinary Process</p>	<p>✓</p>  <p>Document C – Guidelines for Exercising the Power to Impose a Pecuniary Penalty for Professional Persons</p>	<p>✓</p>  <p>Document E – Sanctions Policy for Professional Persons</p>

# Engagement Documents

Engagement Document	Policy Statement	Guidance Note on Cooperation
<p><b>PIE Auditors and Registered Responsible Persons</b></p>	<p>✓</p> 	<p>✓</p> 
<p><b>Professional Persons</b></p>	<p>✓</p> 	<p>✓</p> 

# Disciplinary Process – Independent, Fair and Efficient



Before a recommendation is made, rights of regulatees are properly **protected** by:




- **disclosure** of the AFRC's analysis of all relevant issues in the Notice of Proposed Disciplinary Action and all relevant evidence in the List of Documents
- **reasonable opportunity** to make representations in response to the NPDA

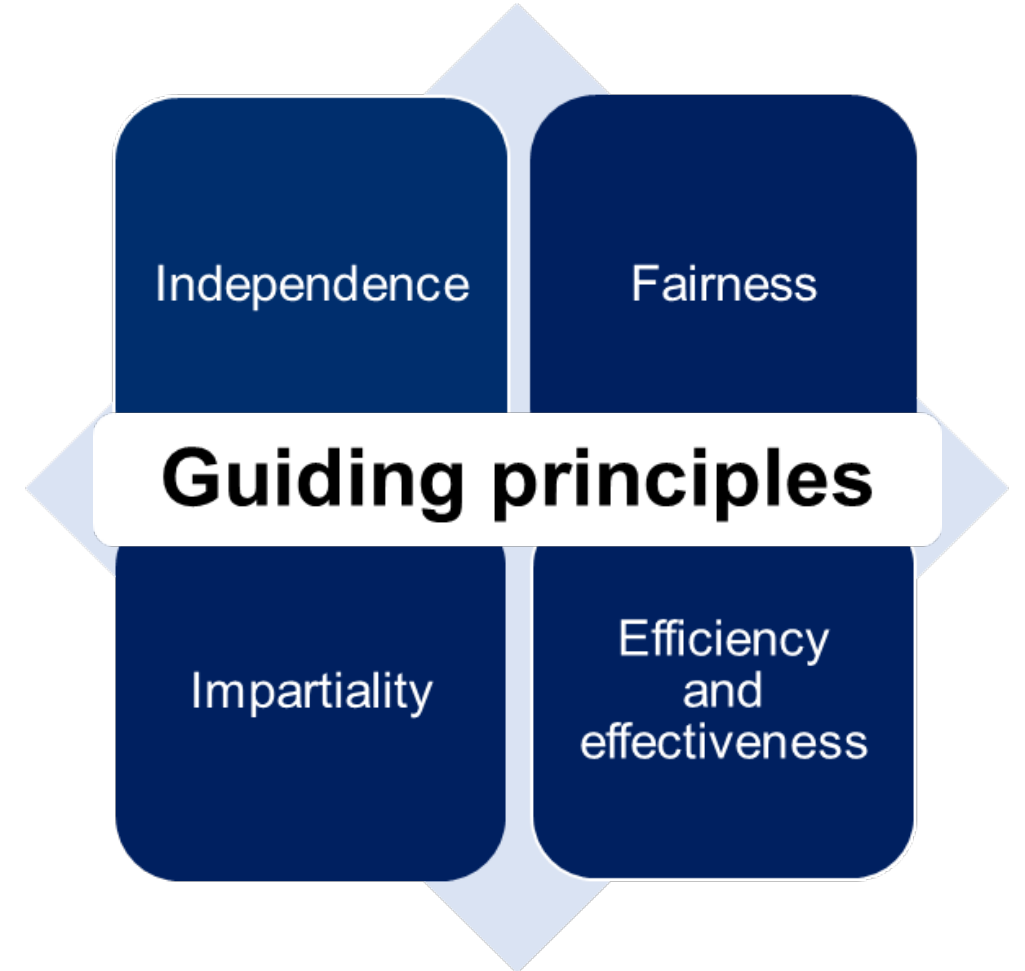
# Types of Sanctions

PIE Auditors and Registered Responsible Persons	Professional Persons
<ul style="list-style-type: none"><li>■ Remedial action</li><li>■ Reprimand (private / public)</li><li>■ Pecuniary penalty (not exceeding HK\$10m or 3 x profit / loss, whichever is higher)</li><li>■ Registration or recognition<ul style="list-style-type: none"><li>➤ Imposition of a condition</li><li>➤ Suspension</li><li>➤ Revocation</li><li>➤ Prohibition from application</li></ul></li><li>■ Removal of name from the list of registered responsible persons</li></ul>	<ul style="list-style-type: none"><li>■ Reprimand (private / public)</li><li>■ Pecuniary penalty (not exceeding HK\$0.5m)</li><li>■ Registration<ul style="list-style-type: none"><li>➤ Suspension</li><li>➤ Revocation</li></ul></li><li>■ Practising certificate<ul style="list-style-type: none"><li>➤ Cancellation</li><li>➤ Non-issuance</li></ul></li></ul>

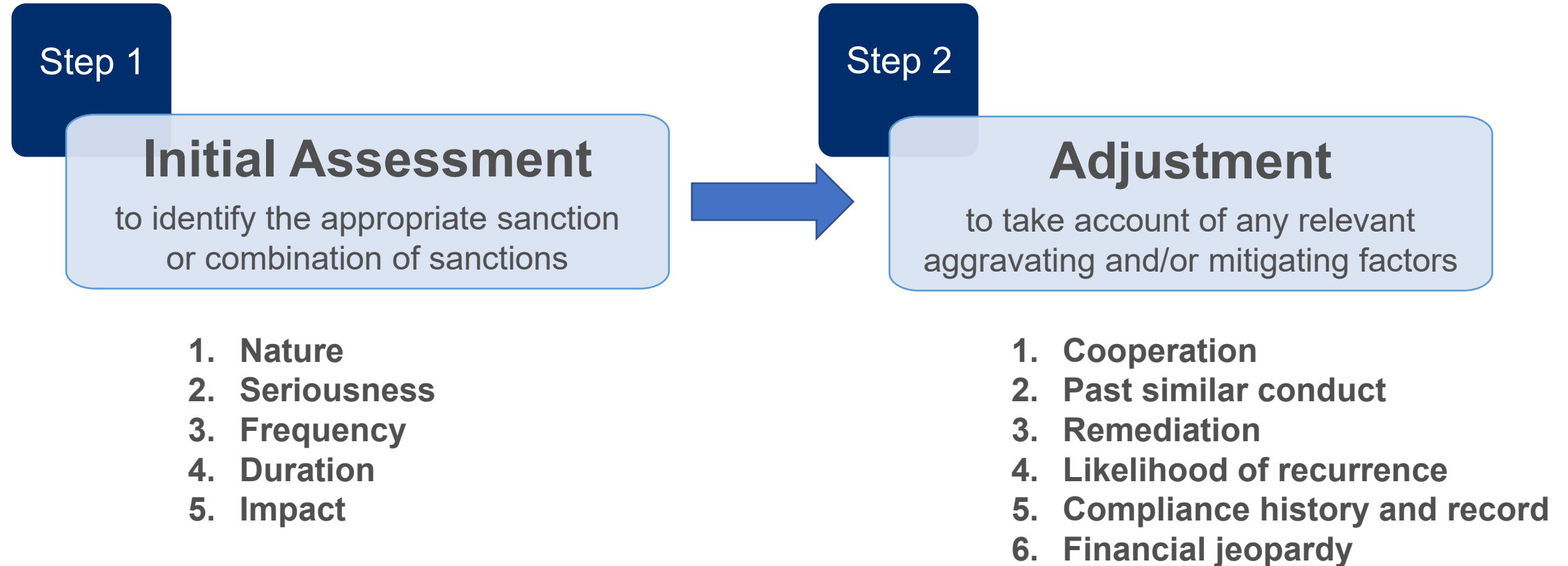


# Approach of Sanctions – Proportionate and Fair

- 1  Principle-based
- 2  Proportionality
- 3  Transparency



# Approach of Sanctions



# Guidance Note on Cooperation

Protect public interest  
by encouraging self-report



Encourage early conclusion  
through cooperation  
credits and settlement



Facilitate early detection and prompt  
remediation of misconduct

Promote culture of responsibility and  
self-improvement



# Inspection

11 April 2022

# Scope of Inspection

1. AFRC inspection covers all practice units, including:
  - a. A CPA (practising) who practises accountancy under the accountant's own name;
  - b. A CPA firm\*; and
  - c. A corporate practice
  
2. AFRC inspection covers two elements:
  - a. Firm-level – review policies and procedures of firm-wide system of quality control to assess compliance with HKSQC 1 or HKSQM 1 and AML Guidelines\*\*
  - b. Engagement-level – review selected engagements to assess compliance with the PAO professional standard

*\* Under section 2 of the AFRCO, CPA firm means – (a) a certified public accountant (practising) who practises accountancy on the accountant's own account under a firm name registered under Division 2 of Part 2A of the AFRCO; or (b) a firm of certified public accountants (practising) that – (i) practises accountancy in partnership; and (ii) is registered under Division 2 of Part 2A of the AFRCO.*

*\*\* AML Guidelines refer to “Guidelines on Anti-Money Laundering and Counter-Terrorist Financing for Professional Accountants” contain in the “Code of Ethics for Professional Accountants”.*

# Approach of Inspection

## Largely follow the HKICPA's current practices

- Proportionality
- Manner of inspection: desktop review or on-site inspection

### *Factors to consider include:*

- Number of audit clients
  - Nature of business of the practice unit's audit clients
  - Complexity of the practice unit
- Progressive  
(educational → regulatory)

# Process of Inspection – Desktop Review

*Typical timetable for desktop review of a practice unit other than PIE auditor*

Stage	Tasks	Approximate timeline
<b>Stage 1 Before commencement of desktop review</b>	1a. Notification of intended inspection and request for information	T1
	1b. Firm returns requested information	T1 + 3 weeks
	1c. Notification of selected engagement for inspection	T1 + 5 weeks
	1d. Firm provides information on the selected engagement	T1 + 6 weeks
<b>Stage 2 Perform desktop review (at the AFRC's office)</b>	2a. Opening meeting	T1 + 6 weeks
	2b. Inspection of the firm-wide system of quality control and compliance with the AML Guidelines	T1 + 6 weeks (duration: ~ 1 week)
	2c. Inspection of the selected engagement	T1 + 7 weeks (duration: > 1 week)

# Process of Inspection – Desktop Review (continued)

*Typical timetable for desktop review of a practice unit other than PIE auditor*

Stage	Tasks	Approximate timeline
<b>Stage 3 After desktop review</b>	3a. Exit meeting	T2
	3b. AFRC provides draft report	T2 + 6 weeks
	3c. Firm responds on draft report	T2 + 9 weeks
	3d. AFRC issues final report	T2 + 12 weeks
	3e. Firm provides remediation plan	T2 + 15 weeks



# Process of Inspection – On-site Inspection

*Typical timetable for on-site inspection of a practice unit other than PIE auditor*

Stage	Tasks	Approximate timeline
<b>Stage 1 Before commencement of on-site inspection</b>	1a. Notification of intended inspection and request for information	T1
	1b. Firm returns requested information	T1 + 3 weeks
	1c. Notification of selected engagement(s) for inspection	T1 + 5 weeks
	1d. Firm provides information on the selected engagement(s)	T1 + 6 weeks
<b>Stage 2 On-site inspection</b>	2a. Opening meeting	T1 + 6 weeks
	2b. Inspection of the firm-wide system of quality control and compliance with the AML Guidelines	T1 + 6 weeks (duration: ~ 2 weeks)
	2c. Inspection of the selected engagement(s)	T1 + 8 weeks (duration: > 2 weeks)

# Process of Inspection – On-site Inspection (continued)

*Typical timetable for on-site inspection of a practice unit other than PIE auditor*

Stage	Tasks	Approximate timeline
<b>Stage 3 After on-site inspection</b>	3a. Exit meeting	T2
	3b. AFRC provides draft report	T2 + 6 weeks
	3c. Firm responds on draft report	T2 + 9 weeks
	3d. AFRC issues final report	T2 + 12 weeks
	3e. Firm provides remediation plan	T2 + 15 weeks

# Reporting of Inspection and Follow Up Actions

## Reporting

At the conclusion of an engagement inspection, results of inspection will be reported as:

1. No findings
2. Findings (other points to note)
3. Significant findings

## Follow up actions

Under Section 20ZZE of Part 3AA of the AFRCO:

1. Decide no follow-up action is required
2. Require the practice unit to take a measure or corrective action
3. Carry out a further inspection
4. Refer to the Department of Investigation and Compliance
5. Refer to the Department of Discipline

# Preparedness for an Effective Inspection

1. Set the right tone at the top
2. Ensure proper record keeping for the firm's system of quality control and assembly of final audit file
3. Prepare for questions on the background and significant risks of the engagements selected for inspection
4. Ensure individuals responsible for the firm-wide system of quality control and engagements selected for inspection are available to clarify issues raised by the CPA Inspectors
5. Seek clarification if unclear and be responsive to comments
6. Take immediate and robust remediation actions to address audit quality concerns in the areas identified in our inspection



# Investigation

11 April 2022

# Investigation – expanded functions

1. Investigation power expanded to cover all practice units and CPAs (i.e. **professional persons**)
2. Powers under the AFRCO
  - a. PIE auditors and registered responsible persons – no change
  - b. Professional persons – largely the same as those under the PAO

# Professional Persons

1. Investigation can be carried out in relation to **professional irregularity** committed by a professional person (note)
  - Largely the same as under the PAO
  
2. **Professional irregularity**, examples include:
  - a. Falsifies a document
  - b. Makes a statement knowing to be false
  - c. Fails to observe, maintain or otherwise apply a PAO professional standard
  - d. Fails to comply with or causes or allows a breach of an applicable AML/ CTF requirement
  - e. Fails (without reasonable excuse) to comply with a requirement (inspection/ investigation)
  - f. Negligent in the conduct of the person's profession
  - g. Guilty of professional misconduct or dishonourable conduct

Note: Exclude investigations into practice irregularities in relation to PIE engagements

# Powers of investigator

1. Issue certain requirements to **specified persons**
2. **Who are “specified persons“?**

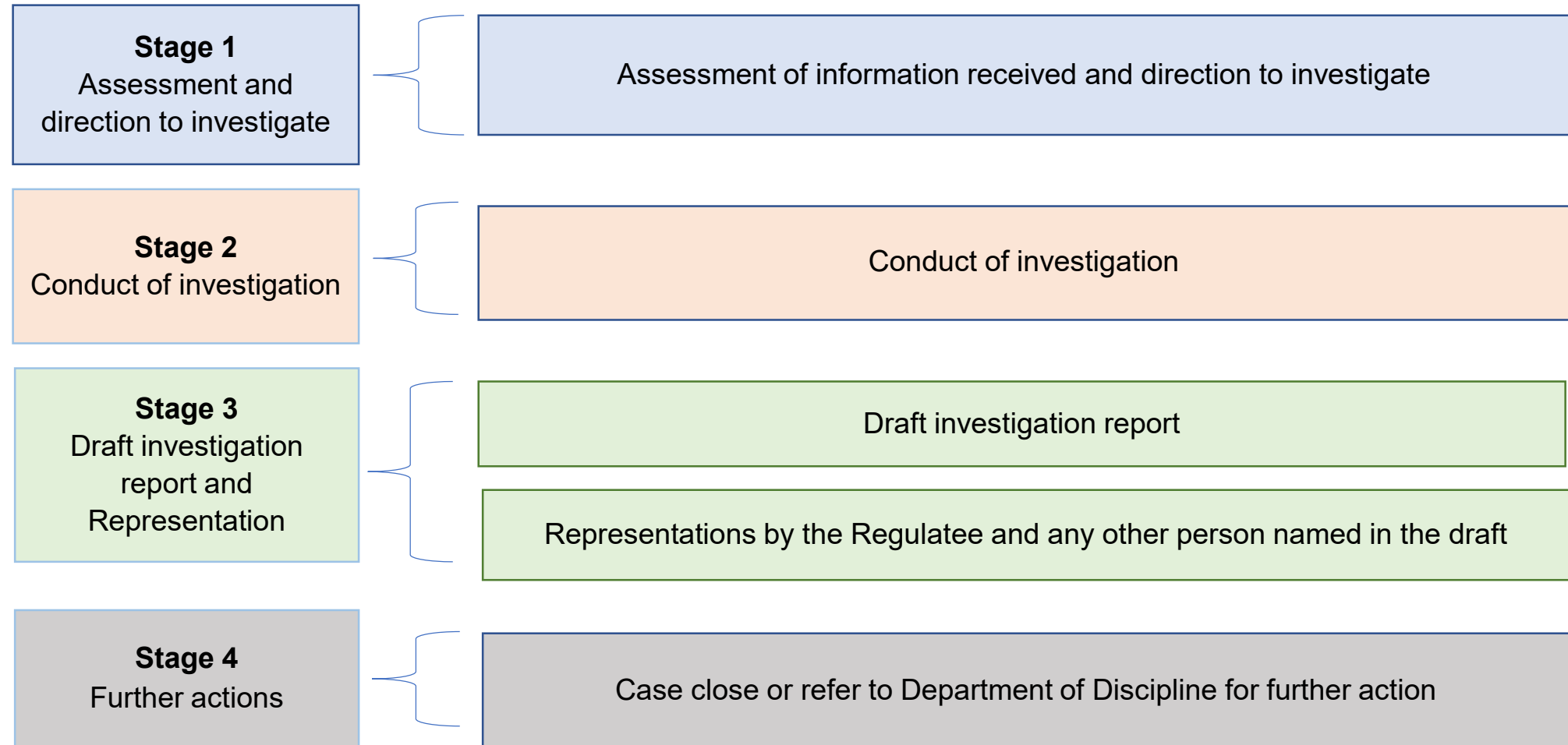
PIE Auditors and Registered Responsible Persons	Professional Persons
<ul style="list-style-type: none"><li>■ A person who is relevant to the matter under investigation</li><li>■ A person whom an investigator has reasonable cause to believe to be in possession of a relevant record or document, or to be otherwise in possession of the relevant information</li></ul>	<ul style="list-style-type: none"><li>■ A professional person</li><li>■ An employee or former employee of a professional person and a student registered with the HKICPA</li><li>■ An employee or former employee of a practice unit if the investigation relates to a practice unit</li><li>■ The employer or former employer of a CPA if the a investigation relates to a CPA</li></ul>



# Requirements to specified persons

PIE Auditors and Registered Responsible Persons	Professional Persons
<ul style="list-style-type: none"> <li>Produce any record or document relevant to the investigation</li> </ul>	✓
<ul style="list-style-type: none"> <li>Give explanation or further particulars in relation to a record or document produced</li> </ul>	✓
<ul style="list-style-type: none"> <li>Give the investigator all assistance in connection with the investigation</li> </ul>	✓
<ul style="list-style-type: none"> <li>Attend before the investigator to answer questions</li> </ul>	N/A
<ul style="list-style-type: none"> <li>Answer in writing to a question relating to the investigation</li> </ul>	N/A
<ul style="list-style-type: none"> <li>Provide verification by a statutory declaration</li> </ul>	N/A

# Investigation process





# Registration and Licensing

11 April 2022

# Registration and Licensing

- The FRC's registration and licensing power will be expanded.

Registration Power	Current arrangement		New arrangement	
	HKICPA	FRC	HKICPA	AFRC
▪ Registration of Certified Public Accountants ( <b>CPA</b> )	✓		✓	
▪ Registration of firms and corporate practices ( <b>CP</b> )	✓			✓
▪ Registration of PIE auditors	✓			✓
▪ Issuing practising certificates to CPAs	✓			✓

# Philosophy and Approach – Enhancing the quality of auditors

## Registration and licensing criteria will be largely the same

1. Ensure the professional ethics, integrity and competency of the auditing profession.
2. Foster independent and impartial regulation
3. Conduct rigorous assessments and monitor auditors' ongoing compliance

# Registration and Renewal of Firms, CPs and PIE auditors

## For firms and CPs

Key registration/renewal criteria	Firms	CPs
1. Composition of firms / CPs <ul style="list-style-type: none"> <li>a. All partners / directors are CPA</li> <li>b. At least a proportion of partners / directors are CPA (practising)</li> </ul>	<b>No change</b> <i>(Proportion is specified by AFRC)</i>	
2. Requirements on articles of association and professional indemnity	N/A	<b>No change</b> <i>(Requirements are set by HKICPA)</i>

## For PIE auditors

Key registration/renewal criteria	
1. Every partner (for firms), director (for CPs), and responsible person is a fit and proper person to be a CPA	<b>No change</b>
2. Quality control system responsible person is the CEO/a member of the managing board of partners	
3. Every responsible person is a fit and proper person to be a CPA	

# Issuance and Renewal of PC

Key issuance/renewal criteria	
1. Satisfies the fit and proper requirement to be a CPA	<b>New</b>
2. Specific amount of full time approved accounting experience	<b>No change</b> <i>(Accounting experience is approved by HKICPA)</i>
3. Local experience and knowledge of local law and practice (may include completion of HKICPA's PC examinations and having no less than 1 year of full time approved accounting experience in Hong Kong)	<b>No change</b> <i>(Requirements are set by HKICPA)</i>
4. CPD requirements	
5. Ordinarily resident in Hong Kong	
6. Not bankrupt or has not entered into a voluntary arrangement with the creditors	
7. Not subject to sanction/disciplinary order of AFRC/HKICPA that prevents the person from being issued with a PC	<b>No change</b>
8. Intends to practice as a CPA (practising)	

# From the Commencement of the AFRCO

## 1. The AFRC will:

- a. Register firms, CPs, PIE auditors and issue the practising certificate to CPA (practising)
- b. Receive and evaluate all renewal applications
  - Planned application period:
    - PC, firms and CPs: 1 November to 15 December 2022
    - Registered PIE auditors: 1 October to 16 November 2022
  - Typical processing time: Within 30 business days
- c. Collect application fees
  - PC, firms and CPs: First year of implementation: Exempted;  
Thereafter: Initially not higher than that collected by the HKICPA
  - Registered PIE auditors: New Application: \$250  
Renewal: \$200



# From the Commencement of the AFRCO

d. Will require more information from applicants in 2022 than in previous years :

- Personal identification information
- CPA certificates/Membership certificates issued by other accountancy bodies
- Business registration certificate, certificate of incorporation and articles of association
- Fit and proper declarations

2. Guides and revised application forms will be available on the AFRC's website in August 2022

# Q&A

**Thank You**