



Report on the FRC's Assessment of the HKICPA's Performance of the Specified Functions

11 December 2020

About the FRC

The Financial Reporting Council is an independent body established on 1 December 2006 under the Financial Reporting Council Ordinance. It is entrusted with the statutory duty to regulate auditors of listed entities through a system of registration and recognition, and through inspection, investigation and disciplinary action.

The mission of the FRC is to uphold the quality of financial reporting of listed entities in Hong Kong, so as to enhance protection for investors and deepen investor confidence in corporate reporting.

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Foreword from the Chief Executive Officer

I am pleased to present the FRC's report on our first assessment of the statutory functions ("specified functions") of the Hong Kong Institute of Certified Public Accountants ("HKICPA") that fall within our new Oversight function under the amended FRC Ordinance ("FRCO"). These functions are critical elements of the overall system for regulating the auditors of listed entities. The FRC is charged with acting in the public interest to oversee that system, under the FRCO.



These functions relate to the registration of local auditors of listed entities, the setting of standards on professional ethics, and auditing and assurance practices, and the setting of continuing professional development requirements for PIE auditors. Our oversight role was established because these functions continue to be performed by the HKICPA as a self-regulatory body, within what is intended to be an independent regulatory regime for auditors of listed entities.

In performing the specified functions, the HKICPA makes important decisions about the suitability of local listed entity auditors to carry out PIE audits, the professional standards those auditors are to apply in their audits, and the ongoing professional training and other development they must undertake each year to renew their registration.

We take a holistic approach to our assessment, which includes considering not only the policies, process and procedures established by the HKICPA and how they are implemented, but also the related governance arrangements. Our focus is on whether these matters ensure the effective performance of the specified functions. It is our duty to recommend improvements that we consider will serve the public interest in audit quality.

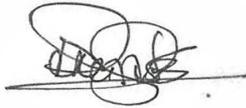
We communicated our findings and recommendations to the HKICPA and considered their responses, including their intended follow-up actions. We were satisfied that the HKICPA's follow-up actions were adequate to address our recommendations.

The findings and recommendations resulting from our assessment are included in this report. Our findings vary in their significance to the effective performance of the specified functions. However, we believe that adequate follow-up actions to address each of our recommendations will serve the public interest in audit quality well.

Many of our recommendations address the need to strengthen HKICPA's policies and procedures to ensure consistent effective discharge of the specified functions. These include its policies and procedures for the selection of members of committees responsible for the specified functions, the maintenance of the terms of reference of such committees, and for setting specific continuing professional development requirements for local PIE auditors.

In conducting our second assessment, the FRC will build on our first assessment by carefully reviewing the HKICPA's further elaboration and implementation of its intended follow-up actions. We will also focus on the HKICPA's internal controls over the performance of the specified functions.

Our experience of carrying out our first assessment was one of constructive engagement. We welcome the HKICPA's positive attitude to our important public interest role and are grateful to them for facilitating our assessment.



Marek Grabowski
Chief Executive Officer

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Section 1

Overview

1.1 Introduction

- 1.1.1 This Report summarizes the key findings and recommendations of the FRC's assessment of the HKICPA's performance of the functions set out in paragraph 1.1.2 (i.e. the Specified Functions) from the commencement of the new auditor regulatory regime on 1 October 2019 to 31 March 2020 (i.e. the Assessment Period).
- 1.1.2 The FRC has a statutory duty under section 9(b) of the Financial Reporting Council Ordinance (Cap 588) (i.e. the FRCO) to oversee the following Specified Functions:
- (a) dealing with applications and other matters relating to the registration of PIE auditors;
 - (b) establishing and maintaining the PIE auditors register;
 - (c) setting CPD requirements for registered PIE auditors; and
 - (d) setting standards on professional ethics, and auditing and assurance practices, for registered PIE auditors.

1.2 Background and objective of our assessment

[The regulatory regime for PIE auditors in Hong Kong and the power of the FRC in overseeing the HKICPA's performance](#)

- 1.2.1 In January 2018, the HKSAR Government introduced the Financial Reporting Council (Amendment) Bill 2018 to enhance the independence of the regulatory regime for PIE auditors in Hong Kong. Upon the commencement of the Financial Reporting Council (Amendment) Ordinance 2019 on 1 October 2019, the FRC has become the independent auditor oversight body to:
- (a) regulate auditors of listed entities through a registration and recognition mechanism, and through inspection, investigation and disciplinary sanction;
 - (b) oversee the HKICPA's performance of the Specified Functions;
 - (c) monitor, through enquiries, the compliance by listed entities of regulatory requirements for financial reports; and

- (d) with respect to each of the inspections, investigations or enquiries, to decide on and carry out the appropriate actions in accordance with the FRCO.
- 1.2.2 Under section 10(1A) of the FRCO, the FRC may, for overseeing the HKICPA's performance of the Specified Functions:
- (a) request the HKICPA to provide information and periodic reports on the HKICPA's performance of a Specified Function;
 - (b) conduct assessment of the HKICPA's performance of a Specified Function; and
 - (c) if satisfied that it is in the public interest to do so, give written directions to the HKICPA on the performance of a Specified Function.

Statement of Protocol on Oversight Arrangements

- 1.2.3 On 27 September 2019, the FRC entered into a Statement of Protocol on Oversight Arrangements with the HKICPA to set out the oversight arrangements to be put in place between the FRC and the HKICPA.
- 1.2.4 Pursuant to the Statement of Protocol on Oversight Arrangements, the FRC and the HKICPA agreed that:
- (a) representative(s) from the FRC would sit on the relevant committees of the HKICPA responsible for the performance of the Specified Functions (i.e. the RPC, the EC and the AASC) as an observer;
 - (b) the HKICPA would provide the FRC with:
 - (i) the information on the applicable due process in relation to the Specified Functions and the annual work plan each year;
 - (ii) the terms of reference and composition of the relevant committees of the HKICPA each year;
 - (iii) quarterly activity reports containing information that would enable the FRC to understand the activities of the HKICPA in relation to the Specified Functions, with all relevant supporting materials including agendas and approved minutes of meetings of the relevant committees of the HKICPA and/or the HKICPA Council; and
 - (iv) any other information, documents, or reports in the HKICPA's possession that the FRC may reasonably require for the performance of the oversight function; and

- (c) the FRC would conduct regular assessments of the HKICPA's performance of the Specified Functions, and where appropriate, make recommendations. The HKICPA would provide a written response including any follow-up actions to the FRC regarding the recommendations.

1.2.5 A report on the key findings and recommendations of the FRC's assessment regarding the HKICPA's performance of the Specified Functions will be published on a regular basis and be made available on the websites of the FRC and the HKICPA.

1.3 How we conducted the assessment

1.3.1 In conducting the assessment, the FRC performed the following procedures:

- (a) observed and reviewed minutes of the meetings of the HKICPA committees responsible for the performance of the Specified Functions (i.e. the RPC, the EC and the AASC) during the Assessment Period;
- (b) reviewed the two quarterly reports provided by the HKICPA on the performance of the Specified Functions for the periods from 1 October 2019 to 31 December 2019 and from 1 January 2020 to 31 March 2020, respectively;
- (c) conducted an on-site assessment from 27 April 2020 to 15 May 2020 of the performance of the HKICPA in relation to the Specified Functions during the Assessment Period, including:
 - examining the internal documents, written policies and procedures of the HKICPA; and
 - interviewing selected members of the committees and staff members of the HKICPA.

1.4 Summary of findings and recommendations

1.4.1 A summary of our findings and recommendations based on our assessment is set out below, in the order of importance. Details of findings and recommendations are set out in Section 2 to Section 4 of this Report.

General

Selection of members of the HKICPA committees responsible for the performance of the Specified Functions

[Paragraphs 2.3.5-2.3.9; 3.3.4-3.3.6; 4.3.3-4.3.5]

1.4.2 The HKICPA designates a committee for the performance of each Specified Function (i.e. the RPC for registration of PIE auditors; the EC for setting CPD requirements and the standards on professional ethics; and the AASC for setting the standards on auditing and assurance practices). The HKICPA has issued general internal guidance for the appointment of committee members. However, the FRC noted that such guidance does not set out the specific knowledge and skills expected from committee members in discharging their duties concerning the performance of the Specified Functions. The documentation on the selection and approval of appointment does not indicate that the HKICPA conducted a formal evaluation of the contribution of committee members apart from reviewing the attendance records, when reappointing them to the committees.

1.4.3 The HKICPA should develop a skills matrix specific to the Specified Functions to ensure the committee members being selected possess the appropriate knowledge and skills in discharging their duties and to foster diversity of thought. Gender and other aspects of diversity enable the committees to better understand the industry and stakeholders. The HKICPA should also put in place policies and criteria to evaluate contribution of the committee members, in addition to their attendance of past meetings, when considering reappointment.

Regular review of terms of reference for the committees responsible for the performance of the Specified Functions, and communication amongst committee members

[Paragraphs 3.3.1-3.3.3]

1.4.4 The existing terms of reference for the EC as adopted since June 2014 do not reflect the committee's power and responsibility in setting CPD requirements for certified public accountants which has been delegated from the HKICPA Council since 2009. Two of the three committee members interviewed by the FRC were not aware of the EC's power and responsibility in setting CPD requirements for certified public accountants.

1.4.5 The HKICPA should regularly review the terms of reference for the committees responsible for the performance of the Specified Functions to ensure the roles and responsibilities of the committees are fully reflected in the respective terms of reference, enabling the committee members to fully understand their responsibilities.

Registration of PIE auditors

Development of additional policies and guidelines regarding the determination of conditions for PIE auditor registration
[Paragraphs 2.3.18-2.3.21]

- 1.4.6 Pursuant to section 20S of the FRCO, the HKICPA Council may impose any condition in relation to the registration of a local PIE auditor that the HKICPA Council considers appropriate.
- 1.4.7 The FRC noted that the HKICPA has developed policies during the Assessment Period for imposing CPD requirements as a condition to registration. The HKICPA should develop additional policies and guidelines regarding other types of conditions to promote proportionality, clarity, consistency and transparency in decision making; and to ensure that all applicants are aware from the outset of the approach which might be taken when determining what conditions to impose.

Setting of CPD requirements for registered PIE auditors

Prescription of specific CPD requirements for registered PIE auditors
[Paragraphs 3.3.15; 3.3.19]

- 1.4.8 The existing CPD requirements prescribed by the HKICPA are set out in Statement 1.500 “Continuing Professional Development” which applies to all certified public accountants, including registered PIE auditors. Considering the professional competence and capabilities that are expected from a registered PIE auditor may be different from other certified public accountants, the HKICPA should consider prescribing specific CPD requirements for registered PIE auditors to ensure they have the knowledge and skills for discharging their duties in performing PIE engagements. The HKICPA should also consider providing a CPD course on the new auditor regime, to facilitate the registered PIE auditors to understand the relevant implications to their work.

Ensure the CPD requirements for registered PIE auditors are reflected completely in the professional standards
[Paragraphs 3.3.12-3.3.14; 3.3.16-3.3.18]

- 1.4.9 The HKICPA did not include the requirements set out in IES 8 “Professional Competence for Engagement Partners Responsible for Audits of Financial Statements (Revised)”, issued by the IAESB in December 2014 with an effective date of 1 July 2016, in any subsequent version of Statement 1.500.

- 1.4.10 Under IES 8, the HKICPA needs to require certified public accountants performing the role of an audit engagement partner to develop and maintain professional competence that is demonstrated by the achievement of learning outcomes in 15 competence areas categorized under technical competence, professional skills, and professional values, ethics and attitudes.
- 1.4.11 The HKICPA considered that the requirements in IES 8 need not be reflected as requirements in Statement 1.500 as the requirements have already been covered by other professional standards and the HKICPA practice review team had already been assessing the competence of the auditors. Instead, the HKICPA issued a Financial Reporting and Auditing Alert in June 2016, which does not form part of CPD requirements, informing certified public accountants that the HKICPA would adopt IES 8 effective from 1 July 2016.
- 1.4.12 The HKICPA should ensure the professional standards include all the CPD requirements for registered PIE auditors. This helps ensure the registered PIE auditors are made aware of the requirements and effective regulatory actions can be taken as needed. Accordingly, the HKICPA should revise Statement 1.500 to include the requirements as set out in IES 8.
- [Ensure the CPD requirements for registered PIE auditors are updated in a timely manner](#)
[Paragraphs 3.3.9-3.3.11]
- 1.4.13 As a member body of the IFAC, the HKICPA adopts and implements the IESs issued by the IAESB. Statement 1.500 draws on the CPD requirements as prescribed in IES 7 “Continued Professional Development” by the IAESB.
- 1.4.14 In response to the revisions to IES 7 issued by the IAESB in December 2018, the HKICPA provided the revised Statement 1.500 for approval by the EC at its meeting on 18 October 2019, which was 10 months after the IAESB had issued the revisions to IES 7. The revisions to IES 7 did not require a change to the HKICPA’s CPD requirements for certified public accountants, and the amendments to Statement 1.500 were made to align the wording in the Statement 1.500 with the revised IES 7. The EC was not notified of the issuance of the revised IES 7 nor the forthcoming change in Statement 1.500 until the meeting on 18 October 2019.
- 1.4.15 To ensure any additional standard-setting activity and other local requirements or guidance can be considered by the EC in a timely manner, the HKICPA should put in place controls to ensure the committee can consider any changes in international standards relating to CPD issued by the IAESB promptly even if the HKICPA does not expect a change in local CPD requirements.

Setting of Standards on Professional Ethics, and Auditing and Assurance Practices for registered PIE auditors

Regular review of policy documents
[Paragraphs 4.3.8-4.3.9]

- 1.4.16 The Amended Preface published by the HKICPA, which sets out the HKICPA's processes in setting the standards of auditing and assurance practices, did not (until July 2020) reflect the fact that the HKICPA's Executive Committee had taken over the responsibility for overseeing the HKICPA's standard-setting functions since the discontinuance of the HKICPA's Standards and Quality Accountability Board in 2017. The HKICPA updated the Amended Preface to reflect the above change only in July 2020.
- 1.4.17 The HKICPA should develop a policy for its policy documents to be reviewed and updated regularly, to ensure the general public has access to accurate information for public oversight and scrutiny.

Ensure local constituents are consulted on requirements proposed by the IESBA and the IAASB
[Paragraphs 4.3.10-4.3.15]

- 1.4.18 Under the HKICPA's established due process in the adoption of the IESBA and IAASB pronouncements, the HKICPA issues invitations to comment on the proposed IESBA and IAASB pronouncements for comment by local stakeholders. This is to ensure views from local stakeholders can be duly considered in the standard-setting process.
- 1.4.19 The HKICPA issued the invitations to comment within ten days upon the issuance of the consultative documents by the IESBA and the IAASB during the Assessment Period, except for the IESBA's consultative document on "Proposed Revision to the Code Addressing the Objectivity of Engagement Quality Reviewers". The HKICPA neither issued an invitation to comment nor performed any local consultation activity regarding this consultative document because of an oversight by staff members of the HKICPA.
- 1.4.20 The HKICPA should put in place controls to ensure invitations to comment are issued and the need to conduct any local standard-setting initiatives is considered in response to all consultative documents issued by the IESBA and the IAASB in order that views from our local stakeholders can be duly considered in the standard-setting process.

Ensure post-implementation reviews are performed on the Standards of Professional Ethics, and Auditing and Assurance Practices and the CPD requirements

[Paragraphs 3.3.20-3.3.21; 4.3.19-4.3.20]

- 1.4.21 The FRC noted that the HKICPA does not have policies and procedures in place to proactively review the standards of professional ethics, and auditing and assurance practices, and the CPD requirements for registered PIE auditors after such requirements have been issued for a certain period of time (i.e. post-implementation review). The HKICPA should put in place policies and procedures to ensure post-implementation reviews are performed regularly, to ensure the relevant standards and CPD requirements are still fit for purpose.

Section 2

The assessment of the HKICPA's performance in relation to the registration of PIE auditors

2.1 Requirements under the FRCO

- 2.1.1 Under section 9(b) of the FRCO, the FRC oversees the HKICPA's performance of the function of dealing with applications and other matters relating to the registration of local PIE auditors; and establishing and maintaining the PIE auditors register.
- 2.1.2 Division 2 of Part 3 of the FRCO provides for a registration mechanism for PIE auditors. In particular, it requires local auditors (i.e. Hong Kong auditors) to register with the HKICPA as registered PIE auditors if they intend to undertake or carry out PIE engagements.
- 2.1.3 Under section 20ZX of the FRCO, the HKICPA Registrar is responsible for establishing and maintaining a PIE auditors register for public inspection.

2.2 HKICPA's policies and procedures

- 2.2.1 Under section 52(1)(b) of the PAO, the HKICPA Council delegated its authority in relation to the approval or rejection of applications for registration and renewal of local PIE auditors under Part 3 of the FRCO (effective from 1 October 2019) to the following individuals:
- (a) Straightforward applications: The head of Admission Department of the HKICPA, who is accountable to the HKICPA Council and the HKICPA Registrar.
 - (b) Non-straightforward applications: The HKICPA Registrar (in consultation with the RPC as deemed necessary).

Further information regarding the HKICPA policies for the determination of straightforward and non-straightforward applications is included in paragraphs 2.3.15 to 2.3.16.

- 2.2.2 The RPC is a statutory committee established under the HKICPA Council, which provides recommendations to the HKICPA Council on the acceptance or rejection of non-straightforward applications for registration and renewal of local PIE auditors.
- 2.2.3 The Admission Department of the HKICPA is responsible for, inter alia, handling the registration of local PIE auditors, and establishing and maintaining the PIE auditors register.

2.3 FRC's areas of assessment and recommendations

2.3.1 There were 61 applications for the registration of local PIE auditors during the Assessment Period. The FRC's assessment covered the HKICPA's performance in relation to the registration of local PIE auditors during the Assessment Period.

2.3.2 The registration of a registered PIE auditor does not expire until 31 December of the year in which the registration takes effect, and for those registered within the transitional period, i.e. 1 October to 31 December 2019, their registration remains valid until 31 December 2020. Therefore, the FRC's assessment did not cover renewals of registered PIE auditors as there were no applications for renewal made to the HKICPA during the Assessment Period.

Terms of reference for the RPC

2.3.3 By reviewing the terms of reference for the RPC set out in Appendix A of this Report, the FRC was satisfied that the terms of reference reflected the committee's power and responsibility in the approval or rejection of applications for the registration of local PIE auditors, which has been delegated by the HKICPA Council to the RPC since 1 October 2019.

2.3.4 The FRC was satisfied that the RPC members were aware of their roles and responsibilities under Part 3 of the FRCO in relation to the approval and rejection of applications for the registration of local PIE auditors, based on the interviews with three RPC members including the chairperson.

Composition of the RPC and selection of the RPC members

2.3.5 Sections 20 and 26 of the Professional Accountants By-laws (Cap 50A) provide that the RPC shall be composed of at least five certified public accountants, of whom a majority shall be the elected members of the HKICPA Council. The composition of the RPC during the Assessment Period was in compliance with the requirements as the committee had nine members who were certified public accountants including five elected members of the HKICPA Council (refer to Appendix B for the composition of the RPC for the years 2019 and 2020).

2.3.6 The RPC comprised practising and non-practising members from big to medium and small sized audit firms and professional accountants in business. Such composition was intended to ensure that members of the committee can provide balanced views and perspectives in the discharge of their delegated functions.

2.3.7 The FRC noted that the HKICPA performed the following procedures in the selection and appointment of the RPC members:

- (a) The HKICPA issued an open invitation to interested individuals for joining the RPC. The candidates were requested to and did provide the following information for the HKICPA's consideration:
- professional qualification;
 - academic qualification;
 - record of criminal conviction or disciplinary proceedings by the HKICPA, other professional or regulatory bodies;
 - work experience;
 - previous involvement with the HKICPA;
 - appointments or offices held in other professional organizations; and
 - potential contribution to the committee.
- (b) The Nomination Committee of the HKICPA reviewed the proposed composition prepared by the HKICPA management. Apart from the information in paragraph 2.3.7(a), the HKICPA also considered existing committee members' attendance record when reappointing them to the RPC.
- (c) The HKICPA Council approved the proposed committee composition recommended by the Nomination Committee.

2.3.8 The HKICPA has issued general internal guidance for the appointment of committee members. However, the FRC noted that such guidance did not set out the specific knowledge and skills expected from the RPC members in discharging their duties in relation to the registration of local PIE auditors. The documentation on the selection and approval of appointment did not indicate that the HKICPA had conducted a formal evaluation of the contribution of RPC members apart from reviewing the attendance record, when reappointing them to the committee.

Recommendation

2.3.9 The HKICPA should develop a skills matrix specific to the registration of local PIE auditors to ensure that RPC members possess the appropriate knowledge and skills to discharge their duties, and to foster diversity of thought. Gender and other aspects of diversity enable the RPC to better understand the industry and stakeholders. The HKICPA should also put in place policies and criteria to evaluate the contribution of RPC members, in addition to their attendance of past meetings, when considering reappointment.

Policies and procedures in relation to the registration of PIE auditors

2.3.10 The HKICPA has developed policies and procedures to facilitate the handling of the registration of local PIE auditors (including dealing with applications, and establishing and maintaining the PIE auditors registers).

2.3.11 The FRC assessed the following:

- the HKICPA's policies and procedures in handling the registration of local PIE auditors in light of Part 3, Divisions 2 and 4 of the FRCO; and
- the information provided in the PIE auditors register in accordance with section 20ZX of the FRCO.

Assessment of the HKICPA's policies and procedures in handling registration of local PIE auditors

2.3.12 The HKICPA's policies and procedures in handling the registration of local PIE auditors are summarized as below:

- (a) initial screening of the application form and the fit and proper declaration forms of the proposed responsible persons submitted by the applicant;
- (b) determination of a straightforward and a non-straightforward application;
- (c) "fit and proper" assessment under section 20H(2) of the FRCO;
- (d) for the straightforward application, preparation and submission of the approval letter to the head of Admission Department for approval;
- (e) for the non-straightforward application, preparation and submission of the recommendation to the RPC for consideration and determination of conditions in relation to the registration of a local PIE auditor or its responsible persons, where appropriate; and
- (f) maintaining the PIE auditors register in accordance with section 20ZX of the FRCO.

2.3.13 The FRC reviewed six applications (including four straightforward applications and two non-straightforward applications) out of 61 applications handled by the HKICPA during the Assessment Period, and was satisfied that the selected applications were handled by the HKICPA in accordance with the policies and procedures as set out in paragraph 2.3.12.

2.3.14 The FRC also reviewed the following HKICPA policies and procedures in light of the requirements under Part 3, Divisions 2 and 4 of the FRCO:

- (a) determination of straightforward and non-straightforward applications; and
- (b) imposing conditions in relation to the registration of local PIE auditors.

Determination of straightforward and non-straightforward applications

2.3.15 Under the HKICPA policies, an application is a non-straightforward application if any “fit and proper” issue is identified during the HKICPA’s review of the application. The FRC reviewed the HKICPA’s policies, and was satisfied that the HKICPA’s criteria to determine a straightforward and non-straightforward applications were consistent with the requirements under section 20H(2) of the FRCO.

2.3.16 Section 20Q of the FRCO stipulates that in assessing whether a person is fit and proper to be a certified public accountant, the HKICPA Council must have regard to the following:

- (a) the person’s professional qualification, knowledge, skills and experience;
- (b) the person’s reputation, character, reliability and integrity;
- (c) the person’s financial status and solvency;
- (d) whether any disciplinary action has been taken against the person by the FRC or the HKICPA; and
- (e) whether the person has been convicted of any offence in Hong Kong or elsewhere.

2.3.17 The FRC reviewed the HKICPA’s criteria for the “fit and proper” assessment, and was satisfied that such criteria were developed in light of the requirements under section 20Q of the FRCO.

Imposing conditions in relation to the registration of local PIE auditors

2.3.18 Under section 20S of the FRCO, the HKICPA Council may impose any condition in relation to the registration of a local PIE auditor that the HKICPA Council considers appropriate at the time it grants an application for the registration or renewal of a local PIE auditor, or at any other time when the registration is valid.

2.3.19 From 1 October 2019 to 31 March 2020, the HKICPA imposed conditions on three registered responsible persons with “fit and proper” issues. The three registered responsible persons were required to complete CPD training within a specified period of time. The determination of conditions imposed was considered at the meeting of the RPC on 2 December 2019.

2.3.20 Subsequent to the meeting of the RPC on 2 December 2019, the HKICPA developed the policies and guidelines for imposing CPD requirements as a condition in relation to the registration of local PIE auditors.

Recommendation

2.3.21 While the FRC noted that the HKICPA developed policies and procedures for imposing CPD requirement as a condition to registration, there is no information on whether other types of conditions would be imposed on registration. To promote proportionality, clarity, consistency and transparency in decision making; and to ensure that all applicants are aware from the outset of the approach which might be taken when determining what conditions to impose, the HKICPA should develop a complete set of policies and procedures to facilitate the RPC to determine the conditions that could be imposed in relation to registration of PIE auditors. Such policies and procedure should cover the types of conditions to be imposed; the factors to be considered in determining the conditions to be imposed; the quantum and timing of conditions to be imposed; and procedures for imposing conditions.

Assessment of the PIE auditors register

2.3.22 Under section 20ZX of the FRCO, the HKICPA Registrar must establish and maintain a register of PIE auditors which must contain, in relation to each registered PIE auditor, the following information:

- (a) the full name of the auditor and each registered responsible person of the auditor;
- (b) the business address of the auditor;
- (c) the conditions imposed by the HKICPA in relation to the registration of the auditor (including any condition relating to the registered responsible persons of the auditor), if any;
- (d) the day on which the registration of the auditor expires, if applicable;
- (e) a record of the sanctions imposed or actions taken under Division 2 or 3 of Part 3B (except a private reprimand) in relation to the auditor, or any registered responsible person of the auditor, within the last five years, if any; and
- (f) any other particulars that the HKICPA Registrar considers appropriate.

2.3.23 Section 20ZX of the FRCO also requires the register to contain similar information as set out in paragraph 2.3.22 for each recognized PIE auditor (i.e. non-Hong Kong auditors recognized by the FRC under Division 3 of Part 3 of the FRCO).

2.3.24 The HKICPA maintains registers of registered PIE auditors and recognized PIE auditors on its website and at its service counter. As at 31 March 2020, there were 61 registered PIE auditors and 36 recognized PIE auditors. The FRC reviewed the two registers as at 31 March 2020 and was satisfied that the registers were maintained in accordance with section 20ZX of the FRCO.

Section 3

The assessment of the HKICPA's performance in relation to the setting of CPD requirements for registered PIE auditors

3.1 Requirements under the FRCO and the PAO

- 3.1.1 Under section 9(b) of the FRCO, the FRC oversees the HKICPA's performance of the function of setting CPD requirements for registered PIE auditors.
- 3.1.2 Compliance with CPD requirements is a condition for renewal of registration as a certified public accountant and/or renewal of a practising certificate by the HKICPA under sections 28(2)(c) and 30(8) of the PAO.
- 3.1.3 The CPD requirements prescribed by the HKICPA are set out in Statement 1.500 "Continuing Professional Development" which applies to all certified public accountants, including registered PIE auditors.

3.2 HKICPA's policies and procedures

- 3.2.1 Since 2009, the HKICPA Council has delegated the power and responsibility for the setting of CPD requirements for certified public accountants to the EC.
- 3.2.2 As a member body of the IFAC, the HKICPA is required under SMO 2 "International Education Standards for Professional Accountants and other Pronouncements issued by the IAESB" to adopt and implement the IESs issued by the IAESB. The IESs establish requirements for: (a) entry to professional accounting education programs; (b) initial professional development of aspiring professional accountants; and (c) CPD of professional accountants.
- 3.2.3 Statement 1.500 draws on the CPD requirements as prescribed in IES 7 "Continuing Professional Development" by the IAESB. Under paragraph 8 of Statement 1.500, all certified public accountants are required to undertake CPD to contribute to the development and maintenance of professional competence that is appropriate to their work and professional responsibilities.
- 3.2.4 Under paragraph 9 of Statement 1.500, all certified public accountants, except those exempted from complying with the CPD requirements, are required to:
 - (a) complete at least 120 hours of relevant professional development activity in each rolling three-year period, of which 60 hours shall be verifiable;
 - (b) complete at least 20 hours of relevant professional development activity in each year; and

- (c) measure learning activities to meet the above requirements.

3.3 FRC's areas of assessment and recommendations

Terms of reference for the EC concerning the setting of CPD requirements for registered PIE auditors

- 3.3.1 The FRC reviewed the terms of reference for the EC, as set out in Appendix A of this Report, concerning the setting of CPD requirements for registered PIE auditors. The FRC noted that the existing terms of reference for the EC as adopted since June 2014 do not reflect the committee's power and responsibility in setting CPD requirements for certified public accountants which have been delegated by the HKICPA Council since 2009.
- 3.3.2 The FRC interviewed three EC members, including the chairperson of the committee, as part of the assessment procedures. Two out of the three EC members whom the FRC interviewed were not aware of the committee's power and responsibility in setting CPD requirements for certified public accountants.

Recommendation

- 3.3.3 The FRC considers the completeness and accuracy of the committee's terms of reference are essential to ensure committee members are fully aware of their responsibilities, which underpin the effectiveness in the performance of the Specified Functions by the HKICPA. The HKICPA should update the terms of reference for the EC, and regularly review the terms of reference for the committees responsible for the performance of the Specified Functions to ensure the roles and responsibilities are fully reflected in the relevant documents to enable committee members to be fully aware of their responsibilities.

Composition of the EC and selection of the EC members

- 3.3.4 The FRC noted that the procedures undertaken by the HKICPA in the selection and appointment of the EC members are substantially similar to that of the RPC, which are set out in paragraph 2.3.7 of this Report.
- 3.3.5 The HKICPA has issued general internal guidance for the appointment of committee members. However, the FRC noted that such guidance does not set out the specific knowledge and skills expected from the EC members in discharging their duties concerning the setting of CPD requirements for registered PIE auditors. The documentation on the selection and approval of appointment did not indicate that the HKICPA had performed a formal evaluation of the contribution of EC members apart from reviewing the attendance record, when reappointing them to the committee.

Recommendation

- 3.3.6 The HKICPA should develop a skills matrix specific to the setting of CPD requirements for registered PIE auditors to ensure the EC members possess the appropriate knowledge and skills to discharge their duties, and to foster diversity of thought. Gender and other aspects of diversity enable the EC to better understand the industry and stakeholders. The HKICPA should also put in place policies and criteria to evaluate the contribution of the EC members, in addition to their attendance of past meetings, when considering reappointment.

Policies and procedures in setting CPD requirements for registered PIE auditors

- 3.3.7 The HKICPA does not have written policies and procedures concerning the setting of CPD requirements, although the HKICPA provides Statement 1.500 to the EC for review and approval before issuance.
- 3.3.8 The FRC assessed the following:
- (a) the timeliness in updating CPD requirements for registered PIE auditors;
 - (b) the completeness of CPD requirements in the professional standards; and
 - (c) the policies and procedures regarding the performance of post-implementation review of CPD requirements for registered PIE auditors.

Assessment of the timeliness in updating CPD requirements for registered PIE auditors

- 3.3.9 In response to the revisions to IES 7 “Continued Professional Development” issued by the IAESB in December 2018, the HKICPA provided the revised Statement 1.500 for approval by the EC at its meeting on 18 October 2019, which was ten months after the IAESB had issued the revisions to IES 7. The EC was not notified of the issuance of the revised IES 7 by IAESB or the forthcoming change in Statement 1.500 before the 18 October 2019 meeting.
- 3.3.10 The revisions to IES 7 did not require a change to the HKICPA’s CPD requirements for certified public accountants, and the amendments to Statement 1.500 were made to align the wording in the Statement with the revised IES 7.

Recommendation

- 3.3.11 The HKICPA should put in place controls to ensure the EC can consider in a timely manner any changes in international standards relating to CPD issued by IAESB, even if the HKICPA does not expect a change in CPD requirements. This ensures any additional standard-setting activity and other local requirements or guidance can be promptly considered by the EC.

Assessment of the completeness of requirements in the professional standards

- 3.3.12 The FRC reviewed the revised Statement 1.500, and noted that the Statement did not include the requirements set out in IES 8 “Professional Competence for Engagement Partners Responsible for Audits of Financial Statements (Revised)” issued by the IAESB in December 2014 with an effective date of 1 July 2016.
- 3.3.13 Under paragraph 8 of IES 8, the HKICPA needs to require certified public accountants performing the role of an audit engagement partner to develop and maintain professional competence that is demonstrated by the achievement of learning outcomes in 15 competence areas categorized under technical competence, professional skills, and professional values, ethics and attitudes. Such requirements in IES 8 were not reflected in any version of the Statement 1.500 subsequent to the effective date. Instead, the HKICPA issued a Financial Reporting and Auditing Alert in June 2016, which does not form part of the CPD requirements, informing certified public accountants that the HKICPA would adopt IES 8 effective from 1 July 2016. The HKICPA also posted the following information on its website for its members’ reference: (i) IES 8 and its basis of conclusion; (ii) an assessment form developed by the HKICPA to facilitate the certified public accountants’ documentation on compliance with IES 8; and (iii) other reference materials issued by the IAESB.
- 3.3.14 The HKICPA considered the requirements in IES 8 need not be reflected in Statement 1.500 as competencies of audit engagement partners have already been covered by 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” and HKSA 220 “Quality Control for an Audit of Financial Statements” and assessments of such competence have already been undertaken as part of the HKICPA practice review programme. As stated in the Financial Reporting and Auditing Alert, the HKICPA practice review team assesses how firms have addressed their responsibilities under IES 8.
- 3.3.15 The FRC also noted that the CPD requirements prescribed by the HKICPA apply to all certified public accountants, including registered PIE auditors.

Recommendation

- 3.3.16 Audit engagement partners operate in an environment of significant change. Pressure for change may come from many sources, including, but not limited to: (i) increased regulation; (ii) developments in financial and non-financial reporting; (iii) emerging technologies; (iv) increasing use of business analytics; and (v) business complexity. Change requires audit engagement partners to maintain and further develop professional competence throughout their careers. Including the requirements in IES 8 as CPD requirements for PIE auditors is of particular importance as it enhances the work of audit engagement partners, contributes to audit quality and protects public interest.
- 3.3.17 Although the HKICPA might have intended to consider the competencies of audit engagement partners as part of the HKICPA's practice review programme, the HKICPA can no longer perform this task in relation to the competence of engagement partners of registered PIE auditors because inspection of PIE engagements is conducted by the FRC under the new auditor regulatory regime commencing on 1 October 2019.
- 3.3.18 The FRC considers that it is essential for the HKICPA to include all the CPD requirements applicable to registered PIE auditors in the relevant professional standards, so that the registered PIE auditors are made aware of the requirements and effective regulatory actions can be taken as needed. Accordingly, the HKICPA should revise Statement 1.500 to include the requirements as set out in IES 8.
- 3.3.19 The quality of audit on PIE engagements is crucial to market confidence and the effective functioning of capital markets. The professional competence and capabilities that are expected from a registered PIE auditor may be different from other certified public accountants. The HKICPA should consider prescribing specific CPD requirements for registered PIE auditors, to ensure they have the knowledge and skills for discharging their duties in performing PIE engagements. The FRC also noted that the HKICPA does not offer any CPD courses covering the new auditor regulatory regime commencing from 1 October 2019, out of the over 550 CPD courses being offered by the HKICPA. It is recommended that the HKICPA consider providing a CPD course on the new auditor regulatory regime, as it is essential for the registered PIE auditors to understand the new regime for understanding the relevant implications to their work.

Assessment of policies and procedures regarding post-implementation review of CPD requirements for registered PIE auditors

- 3.3.20 The FRC noted that the HKICPA does not have policies and procedures in place to proactively review the CPD requirements for registered PIE auditors after such requirements have been issued for a certain period of time (i.e. post-implementation review).

Recommendation

- 3.3.21 The FRC considers that the HKICPA should put in place policies and procedures to ensure post-implementation reviews of CPD requirements for registered PIE auditors are performed regularly. This helps the HKICPA to identify the need to revise the CPD requirements to ensure registered PIE auditors are equipped with the necessary skills to enhance audit quality, and to comply with emerging accounting, auditing and regulatory requirements.

Section 4

The assessment of the HKICPA's performance in relation to the setting of standards on professional ethics, and auditing and assurance practices for registered PIE auditors

4.1 Requirements under the FRCO and the PAO

- 4.1.1 Under section 9(b) of the FRCO, the FRC oversees the HKICPA's performance of the setting of standards on professional ethics, and auditing and assurance practices for registered PIE auditors.
- 4.1.2 A registered PIE auditor is required to observe, maintain or apply the standards on professional ethics, and auditing and assurance practices. Under section 18A of the PAO, the HKICPA Council is empowered to issue or specify such standards and statements which are required to be observed, maintained or applied by certified public accountants, including registered PIE auditors.
- 4.1.3 The Code of Ethics for Professional Accountants issued by the HKICPA sets out the ethical requirements for all certified public accountants, including registered PIE auditors (i.e. the Standards on Professional Ethics).
- 4.1.4 The standards on auditing and assurance practices¹ issued by the HKICPA include:
- Hong Kong Standards on Quality Control;
 - Hong Kong Framework for Assurance Engagements;
 - HKSAs;
 - Hong Kong Standards on Review Engagements;
 - Hong Kong Standards on Assurance Engagements;
 - Hong Kong Standards on Investment Circular Reporting Engagements;
 - Hong Kong Standards on Related Services; and
 - Practice Notes and Auditing Guidelines, which are locally developed by the HKICPA.

The above pronouncements are collectively referred to as the Standards on Auditing and Assurance Practices.

4.2 HKICPA's policies and procedures

- 4.2.1 The HKICPA Council has delegated the power and responsibility for setting the Standards on Professional Ethics to the EC, and the power and responsibility for setting the Standards on Auditing and Assurance Practices to the AASC.

¹ Please refer to paragraphs 12-24 of the Amended Preface for the information regarding the purpose and authority attaching to the standards.

- 4.2.2 As a member body of IFAC, the HKICPA is required under SMO 4 “IESBA Code of Ethics for Professional Accountants” and SMO 3 “International Standards and Other Pronouncements Issued by the IAASB” to adopt and implement the international standards issued by the IESBA and the IAASB.
- 4.2.3 Paragraph 4 of the preface to the Code of Ethics for Professional Accountants states that “*The Institute has determined to adopt the IESBA Code of Ethics for Professional Accountants issued by the IFAC International Ethics Standards Board of Accountants (IESBA) as the ethical requirements for its members.*” Similarly, the Amended Preface also indicates that it is the HKICPA’s policy to achieve convergence of the Standards on Auditing and Assurance with international standards issued by the IAASB.
- 4.2.4 While the HKICPA has a policy to achieve convergence, the HKICPA issues Practice Notes to provide interpretative guidance and practical assistance to certified public accountants in implementing the Standards on Auditing and Assurance Practices. A certified public accountant who has failed to consider or apply the guidance included in a relevant Practice Note is expected to explain how the basic principles and essential procedures in the Standards on Auditing and Assurance Practices addressed by the Practice Note have been complied with.
- 4.2.5 The Standard Setting Department of the HKICPA supports the setting of Standards on Professional Ethics, and Auditing and Assurance Practices by the EC and the AASC.

4.3 FRC’s areas of assessment and recommendations

Terms of reference for the EC and the AASC

- 4.3.1 After reviewing the terms of reference for the EC and the AASC, as set out in Appendix A of this Report, the FRC was satisfied that the terms of reference reflected the committees’ powers and responsibilities concerning the adoption of the Standards of Professional Ethics, and Auditing and Assurance Practices.
- 4.3.2 The FRC was satisfied that the members of the EC and the AASC were aware of their roles and responsibilities in relation to the setting of Standards on Professional Ethics, and Auditing and Assurance Practices for registered PIE auditors, based on the interviews with three members from each of the EC and the AASC including the chairpersons.

Composition of the EC and the AASC and selection of members of the committees

- 4.3.3 The FRC noted that the procedures undertaken by the HKICPA in the selection and appointment of members of the EC and the AASC are substantially similar to that of the RPC, which are set out in paragraph 2.3.7 of this Report.
- 4.3.4 The HKICPA has issued general internal guidance for the appointment of committee members. However, the FRC noted that such guidance does not set out the specific knowledge and skills expected from members of the EC and the AASC in discharging their duties concerning the setting of Standards on Professional Ethics, and Auditing and Assurance Practices for registered PIE auditors. The documentation on the selection and approval of appointment did not indicate that the HKICPA had conducted a formal evaluation of the contribution of members of the EC and the AASC apart from reviewing the attendance record, when reappointing them to the committees.

Recommendation

- 4.3.5 The HKICPA should develop a skills matrix specific to the setting of Standards on Professional Ethics, and Auditing and Assurance Practices for registered PIE auditors, to ensure the members of the EC and the AASC possess the appropriate knowledge and skills to discharge their duties and to foster diversity of thought. Gender and other aspects of diversity enable the EC and the AASC to better understand the industry and stakeholders. The HKICPA should also put in place policies and criteria to evaluate the contribution of the members of the committees, in addition to their attendance of past meetings, when considering reappointment.

Policies and procedures in setting the Standards of Professional Ethics, and Auditing and Assurance Practices for registered PIE auditors

- 4.3.6 The HKICPA's processes in setting the Standards of Professional Ethics, and Auditing and Assurance Practices are set out in the following documentation:
- Amended Preface; and
 - "Ethics Committee – Due Process for the Adoption of International Ethics Standards Board for Accountants (IESBA) pronouncements" document.
- 4.3.7 The FRC assessed the following:
- (a) the completeness of the policy documents describing the processes in setting the Standards of Professional Ethics, and Auditing and Assurance Practices;
 - (b) the policies and procedures in handling consultative documents issued by the IESBA and the IAASB during the Assessment Period;

- (c) the policies and procedures in adopting the Standards of Professional Ethics, and Auditing and Assurance Practices for registered PIE auditors, based on the pronouncements issued by the IESBA and the IAASB, during the Assessment Period;
- (d) the policies and procedures in developing and issuing Practice Notes during the Assessment Period; and
- (e) the policies and procedures regarding the performance of post-implementation review of the Standards of Professional Ethics, and Auditing and Assurance Practices during the Assessment Period.

Assessment of the completeness of the policy documents describing the processes in setting the Standards of Professional Ethics, and Auditing and Assurance Practices

- 4.3.8 The HKICPA's Executive Committee has taken over the responsibility of overseeing the HKICPA's standard-setting functions since the discontinuance of the HKICPA's Standards and Quality Accountability Board in 2017. However, the FRC noted that the Amended Preface had not been updated to reflect the change until the revised Amended Preface was issued in July 2020.

Recommendation

- 4.3.9 The HKICPA should develop a policy for its policy documents to be reviewed and updated regularly, to ensure the general public has access to accurate information regarding the HKICPA's standard-setting process to facilitate public oversight and scrutiny.

Assessment of the policies and procedures regarding the handling of consultative documents issued by the IESBA and the IAASB during the Assessment Period

- 4.3.10 As part of the development cycle of each standard, the IESBA and the IAASB issue consultative documents to solicit comments from the public. Each consultative document is accompanied by an explanatory memorandum that highlights the objective(s) of and the significant proposals contained in the draft standards. Comments made by the respondents to a consultative document are a matter of public record and are posted on the respective websites of the IESBA and the IAASB after the end of the exposure period².
- 4.3.11 Under the HKICPA's established due process, the HKICPA issues invitations to comment in respect of the consultative documents issued by the IESBA and the IAASB to solicit comments from local stakeholders on proposed

² Refer to the "IFAC's standards-setting public interest activity committees – due process and working procedures" issued in March 2020 for further information on the due processes adopted by the IESBA and the IAASB.

requirements. The HKICPA also submits comment letters to the IESBA and the IAASB concerning the consultative documents to ensure that the comments of local stakeholders are considered.

- 4.3.12 Six consultative documents were issued by the IESBA and the IAASB or due for comment during the Assessment Period.
- 4.3.13 The HKICPA issued invitations to comment within ten days upon issuance of the consultative documents by the IESBA and the IAASB during the Assessment Period, except for the IESBA's consultative document on "Proposed Revision to the Code Addressing the Objectivity of Engagement Quality Reviewers". The HKICPA neither issued an invitation to comment nor performed any local consultation activity regarding this consultative document, because of an oversight by staff members of the HKICPA.
- 4.3.14 The HKICPA informed all certified public accountants of the issuance of the IESBA's consultative document in the February 2020 issue of Techwatch. However, the HKICPA did not solicit comments on this consultative document. The FRC noted that the EC had not been involved to approve or ratify the non-issuance of the invitation to comment on the consultative document, or been informed of the matter.

Recommendation

- 4.3.15 In a constantly changing audit and business environment, the development of timely and quality standards that respond to an accelerating pace of change are crucial for enhancing audit quality and user confidence. The HKICPA should closely monitor the standard-setting initiatives of the IESBA and the IAASB, including but not limited to the issuance of any consultative documents, to ensure any necessary local standard-setting initiatives can be promptly considered and performed. The HKICPA should also put in place controls to ensure invitations to comment are issued in response to all consultative documents issued by the IESBA and the IAASB under the established due process so that views from our local stakeholders can be duly considered in the standard-setting process.

Assessment of the policies and procedures regarding the adoption of requirements during the Assessment Period

- 4.3.16 The IAASB issued ISA 315 (Revised) "Identifying and Addressing the Risk of Material Misstatement" on 19 December 2019, which was the only international standard issued by the IAASB during the Assessment Period. The IESBA had not issued any international standard during the Assessment Period.
- 4.3.17 In response to the issuance of ISA 315 (Revised) by the IAASB, the FRC was satisfied that the HKICPA had issued the revised standard in a timely manner considering:

- the AASC approved the revised HKSA 315 (Revised), which was converged with ISA 315 (Revised), on 12 March 2020 (i.e. the first committee meeting that took place after the issuance of the ISA 315 (Revised) on 19 December 2019); and
- HKSA 315 (Revised) was issued on 31 March 2020 with the same effective date as ISA 315 (Revised), which will be effective for audits of financial statements for periods beginning on or after 15 December 2021.

Assessment of the policies and procedures regarding the development and issuance of Practice Notes during the Assessment Period

- 4.3.18 The HKICPA did not issue any consultative documents on proposed Practice Notes or issue any Practice Notes in respect of the audit of PIEs during the Assessment Period.

Assessment of the policies and procedures regarding the performance of post-implementation review of the Standards of Professional Ethics, and Auditing and Assurance Practices during the Assessment Period

- 4.3.19 The FRC noted that the HKICPA does not have policies and procedures in place to proactively review the Standards on Professional Ethics, and Auditing and Assurance Practices after such requirements have been issued for a certain period of time (i.e. post-implementation review).

Recommendation

- 4.3.20 The FRC considers that the HKICPA should put in place policies and procedures to ensure post-implementation reviews on the Standards on Professional Ethics, and Auditing and Assurance Practices are performed regularly in order to understand whether the requirements are being consistently understood and implemented, and to identify the need to enhance the requirements to improve audit quality. Such a review will also help the HKICPA to identify any implementation issue that is specific to Hong Kong, and where necessary consider the need to revise the requirements or issue further guidance.

Section 5

Way forward

- 5.1 This is the FRC's first assessment of the HKICPA's performance of the Specified Functions, covering the 6-month period from the commencement of the new auditor regulatory regime on 1 October 2019 to 31 March 2020. The next assessment is expected to cover a full-year period from 1 April 2020 to 31 March 2021.
- 5.2 The FRC will continue to perform its oversight function to ensure the HKICPA performs the Specified Functions effectively.
- 5.3 Due to the transitional arrangement of the new auditor regulatory regime, there were no applications for the renewal of the registration of PIE auditors during the Assessment Period. In the year ahead, the FRC will assess the HKICPA's performance in handling renewal applications, including but not limited to the monitoring of compliance with CPD requirements by registered PIE auditors and the actions taken by the HKICPA in considering renewal applications.
- 5.4 The FRC will place additional focus on overseeing the HKICPA's own internal control mechanism and procedures regarding the performance of the Specified Functions.
- 5.5 The FRC will also assess the follow-up actions taken by the HKICPA on the FRC's recommendations to ensure satisfactory resolution of the issues identified.

Section 6

Acknowledgement

- 6.1 When preparing this Report, the FRC would like to record its appreciation of the assistance given to the FRC in the assessment process by the HKICPA.

Abbreviations

AASC	Auditing and Assurance Standards Committee
Amended Preface	Amended Preface to the Hong Kong Quality Control, Auditing, Review, Other Assurance and Related Services Pronouncements
Assessment Period	The period from 1 October 2019 to 31 March 2020
CPD	Continuing professional development
EC	Ethics Committee
FRC	Financial Reporting Council
FRCO	Financial Reporting Council Ordinance (Cap 588)
HKICPA	Hong Kong Institute of Certified Public Accountants
HKICPA Council	Council of the HKICPA established by section 10(1) of the PAO
HKICPA Registrar	Registrar appointed under section 21 of the PAO
HKSA	Hong Kong Standard on Auditing
IAASB	International Auditing and Assurance Standards Board
IAESB	International Accounting Education Standards Board
IES	International Education Standard
IESBA	International Ethics Standards Board for Accountants
IFAC	International Federation of Accountants
ISA	International Standard on Auditing
Listing Rules	The Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited; or the Rules Governing the Listing of Securities on the GEM of the Stock Exchange of Hong Kong Limited, approved by the Securities and Futures Commission under section 24 of the Securities and Futures Ordinance (Cap 571), and as in force at the material time.
PAO	Professional Accountants Ordinance (Cap 50)

Public interest entity (PIE)	Has the same meaning as in section 3(1) of the FRCO, i.e. any listed entity except a listed corporation whose listed securities do not include shares or stocks.
PIE auditor	Has the same meaning as in section 3A of the FRCO, i.e. an auditor who undertakes a PIE engagement (who, before doing so, is required to be registered or recognized as a PIE auditor under the FRCO).
PIE engagement	Has the same meaning as in Part 1 of Schedule 1A of the FRCO, i.e. any of the following types of engagement carried out by an auditor: <ul style="list-style-type: none"> (a) 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; (b) a specified report 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; or (c) an accountant's report required under the Listing Rules to be included in a circular issued by a PIE for a reverse takeover or a very substantial acquisition.
RPC	Registration and Practising Committee
SMO	Statement of Membership Obligation

Appendices

A Terms of reference for the committees of the HKICPA responsible for the performance of the Specified Functions

- A1 RPC
- A2 EC
- A3 AASC

B Composition of the committees of the HKICPA responsible for the performance of the Specified Functions for the years 2019 and 2020

- B1 RPC
- B2 EC
- B3 AASC

Appendix A

Terms of reference for the committees of the HKICPA responsible for the performance of the Specified Functions

A1 – Terms of reference for the RPC

REGISTRATION AND PRACTISING COMMITTEE TERMS AND REFERENCE

At its 461st meeting on 17 March 2009, the Council of the Hong Kong Institute of Certified Public Accountants delegated its authorities in the Professional Accountants Ordinance in relation to approval or rejection of registration and practising related applications as follows:

- (i) Straightforward applications which have satisfied all requirements: Head of Admission Department (in line with criteria set by the Registration and Practising Committee);
- (ii) Others: Registrar (in consultation with the Committee as deemed necessary).

The Registration and Practising Committee will hold its meetings as and when necessary to consider matters that the Registrar would like to seek its advice. The terms of reference of the Committee remain unchanged as follows:-

1. Constitution

- 1.1 The Registration and Practising Committee shall comprise of not less than five (5) certified public accountants appointed by the Council of the Hong Kong Institute of Certified Public Accountants (the "**Council**").
- 1.2 Each of the certified public accountants appointed to the Registration and Practising Committee shall hold office until he or she resigns or is removed from office by the Council.
- 1.3 A majority of the certified public accountants appointed to the Registration and Practising Committee shall be elected members within the meaning of section 2 of the Professional Accountants Ordinance (the "**Ordinance**"), i.e., members of the Council elected under section 10(2)(c) of the Ordinance.

2. Functions

The Registration and Practising Committee shall:-

- 2.1 act as the "**registration committee**" appointed under by-law 20 of the Professional Accountants By-laws (the "**By-Laws**") to:-

- (a) examine the qualifications of the applicant for registration under sections 25, 28A(1) and (2), 28B and 28D(4) of the Ordinance; and
- (b) advise the Council as to whether the applicant should be registered or whether the application should be rejected,

provided that the Council shall not be bound to accept the advice of the registration committee;

2.2 act as the "**practising committee**" appointed under by-law 26 of the By- Laws to:-

- (a) advise the Council on applications by certified public accountants for practising certificates;
- (b) make such inquiries as it may consider necessary to ascertain whether a certified public accountant applying for a practising certificate has had the experience required by section 29A of the Ordinance and is otherwise eligible to hold a practising certificate; and
- (c) advise the Council as to the acceptance or rejection of the application of such accountant,

provided that the Council shall not be bound to accept the advice of the practising committee;

2.3 advise the Council on:-

- (a) such other matters (apart from those provided for in by-laws 20 and 26) relating to registration of certified public accountants and practising certificates initiated by the Committee or delegated by the Council from time to time;
- (b) the acceptance or rejection of applications for specialist designations; and
- (c) the acceptance or rejection of applications for registration as public interest entity auditors under the Financial Reporting Council Ordinance (Cap. 588),

provided that the Council shall not be bound to accept any advice of the Committee.

3. Meetings of the Registration and Practising Committee

- 3.1 By-law 21 shall apply to meetings of the Registration and Practising Committee acting as the registration committee.
- 3.2 By-law 27 shall apply to meetings of the Registration and Practising Committee acting as the practising committee.

March 2019

A2 – Terms of reference for the EC

ETHICS COMMITTEE TERMS AND REFERENCE

1. To adopt, in accordance with the due process approved by Council, standards and guidelines on ethics for professional accountants, taking into consideration the need to maintain convergence, as far as practicable, with pronouncements issued by the International Ethics Board for Accountants (IESBA) of International Federation of Accountants.
2. To develop and issue publications and discussion papers to provide information and/or guidance to members or to stimulate debate on important ethical issues for professional accountants.
3. To be the main Committee responsible for gathering and communicating information relating to ethics for professional accountants between the stakeholders in Hong Kong and the IESBA.
4. To develop and prepare comments on the IESBA and other consultative documents relating to ethics for professional accountants.
5. To assist in the promotion of the members' and the public's awareness of ethics for professional accountants in Hong Kong.
6. To utilize the expertise and knowledge of the Committee to identify current and developing issues that may be suitable topics for CPD and educational events and/or research and other thought leadership projects. The Committee will advise the Executive Committee of potential topics for selection and prioritization of work to be undertaken.

19 June 2014

A3 – Terms of reference for the AASC

AUDITING AND ASSURANCE STANDARDS COMMITTEE TERMS AND REFERENCE

1. To adopt, in accordance with the due process approved by the Council, new and revised standards on auditing and assurance, taking into consideration the need to achieve convergence, as far as practicable, with the pronouncements issued by the International Auditing and Assurance Standards Board (IAASB) of International Federation of Accountants.
2. To develop and issue Statements of Investment Circular Reporting Standards which set out standards for reporting accountants in the conduct of engagements involving investment circulars intended to be issued in connection with securities transactions.
3. To develop and issue Practice Notes, Auditing Bulletins, Technical Bulletins, Circulars and Discussion Papers to provide information and/or guidance to members or to stimulate debate on important auditing and assurance issues.
4. To be the main Committee responsible for gathering and communicating information relating to auditing and assurance between the stakeholders in Hong Kong and the IAASB.
5. To develop and prepare comments on the IAASB and other consultative documents relating to auditing and assurance matters.
6. To utilize the expertise and knowledge of the Committee to identify current and developing issues that may be suitable topics for CPD and educational events and/or research and other thought leadership projects. The Committee will advise the Executive Committee of potential topics for selection and prioritization of work to be undertaken.

27 May 2014

Appendix B

Composition of the committees of the HKICPA responsible for the performance of the Specified Functions for the years 2019 and 2020

B1 – Composition of the RPC

HONG KONG INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS
Committee Membership Details for the Year 2019
Registration and Practising Committee

Committee Member	Title
1. Mr. LAW Fu Yuen, Patrick	Chairman
2. Mr. THAM, Seng Yum, Ronald	Deputy Chairman
3. Mr. Raymond CHENG	Member
4. Ms. FONG Wan Huen, Loretta	Member
5. Miss LEE, Po Chi	Member
6. Miss Rosalind Suk Yee LEE	Member
7. Mr. LEONG, Jonathan Russell	Member
8. Mr. Roy LEUNG	Member
9. Mr. TONG, Piu	Member

HONG KONG INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS
Committee Membership Details for the Year 2020
Registration and Practising Committee

Committee Member	Title
1. Mr. THAM, Seng Yum, Ronald	Chairman
2. Mr. Roy LEUNG	Deputy Chairman
3. Mr. AU Chun Hing, Edward	Member
4. Mr. Raymond CHENG	Member
5. Ms. FONG Wan Huen, Loretta	Member
6. Mr. LAI, Wan Fung, Jacky	Member
7. Miss Rosalind Suk Yee LEE	Member
8. Mr. LEONG, Jonathan Russell	Member
9. Mr. TONG, Piu	Member

B2 – Composition of the EC

**HONG KONG INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS
Committee Membership Details for the Year 2019
Ethics Committee**

Committee Member	Title
1. Mr. Johnson KONG	Chairman
2. Ms. HO, Wing Suen, Piera	Deputy Chairman
3. Mr. CHENG, Kwang Wei, Alex	Member
4. Ms. CHUNG Lai Tuen, Lily	Member
5. Mr. FAN Chun Wah, Andrew	Member
6. Mr. FULLGRABE Dennis	Member
7. Mr. HEPBURN, Allan Ritchie	Member
8. Ms. LAI, Wai Shan	Member
9. Ms. LAU Wing Ling, Anna	Member
10. Ms. LAU, Wai Yin, Susanna	Member
11. Mr. MA, Chun Fung, Horace	Member
12. Mr. POON, Chi Li	Member
13. Dr. SO Shiu Tsung, Thomas	Member
14. Mr. TONG, Chi Chiu, Alec	Member

HONG KONG INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS
Committee Membership Details for the Year 2020
Ethics Committee

Committee Member	Title
1. Ms. HO, Wing Suen, Piera	Chairman
2. Mr. CHAN, Stephen Siu Lun	Member
3. Mr. CHENG, Kwang Wei, Alex	Member
4. Mr. FULLGRABE Dennis	Member
5. Mr. HEPBURN, Allan Ritchie	Member
6. Ms. LAI, Wai Shan	Member
7. Ms. LAM, Anna	Member
8. Mr. MA, Chun Fung, Horace	Member
9. Mr. POON, Chi Li	Member
10. Ms. TANG, Hoi Lin, Helen	Member
11. Mr. TONG, Chi Chiu, Alec	Member
12. Ms. WONG, Hau Yan, Careen	Member
13. Mr. WONG Kam Pui, Wilfred	Member

B3 – Composition of the AASC

HONG KONG INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

Committee Membership Details for the Year 2019 Auditing and Assurance Standards Committee

Committee Member	Title
1. Mr. LAU, Kwok Yin, Paul	Chairman
2. Ms. FONG Wan Huen, Loretta	Deputy Chairman
3. Mr. BROADLEY, Derek Thomas	Member
4. Mr. CHAN, Hiu Fun, Ivan	Member
5. Dr. CHAN, Koon Hung	Member
6. Mr. CHAN, Kwan Ho, Edmond	Member
7. Ms. CHAN, Shui Lan, Hildy	Member
8. Mr. HEBDITCH, Paul Donald	Member
9. Miss HSIANG, Yuet Ming	Member
10. Ms. LAU, Wai Yin, Susanna	Member
11. Mr. STEVENSON, James Gary	Member
12. Miss WONG, Sze Wai, Basilia	Member
13. Mr. WONG, Yue Ting, Thomas	Member
14. Mr. ONG, Wei Dong	Member

**HONG KONG INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS
Committee Membership Details for the Year 2020
Auditing and Assurance Standards Committee**

Committee Member	Title
1. Mr. LAU, Kwok Yin, Paul	Chairman
2. Ms. FONG Wan Huen, Loretta	Deputy Chairman
3. Mr. BROADLEY, Derek Thomas	Member
4. Mr. CHAN, Hiu Fun, Ivan	Member
5. Dr. CHAN, Koon Hung	Member
6. Mr. CHAN, Kwan Ho, Edmond	Member
7. Ms. CHAN, Shui Lan, Hildy	Member
8. Mr. HEBDITCH, Paul Donald	Member
9. Miss HSIANG, Yuet Ming	Member
10. Ms. LAU, Wai Yin, Susanna	Member
11. Mr. STEVENSON, James Gary	Member
12. Miss WONG, Sze Wai, Basilia	Member
13. Mr. WONG, Yue Ting, Thomas	Member
14. Mr. ONG, Wei Dong	Member

