

# Further Reform and Sustainable Development of the Accounting Profession

30 March 2022

# Agenda

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



# Discipline

30 March 2022

# Discipline Regulatory Philosophy



**Promote** public confidence



**Uphold** proper standards  
of conduct



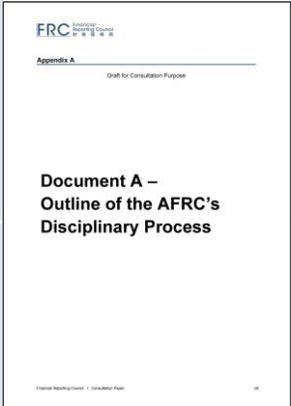
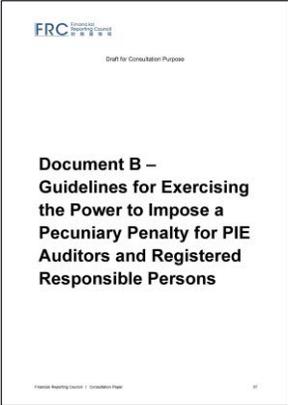
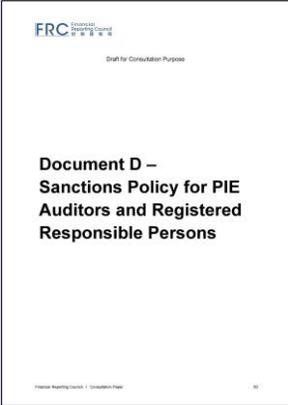
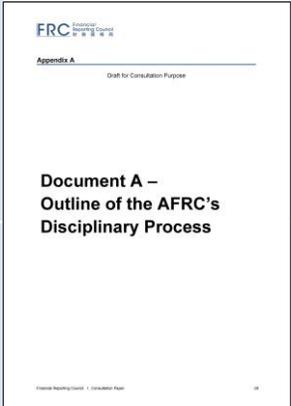
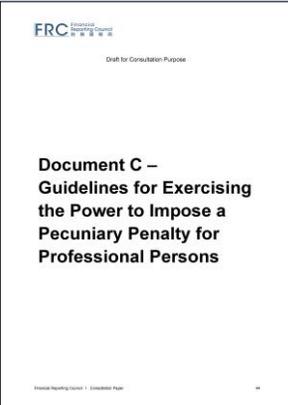
**Protect** public from  
misconduct



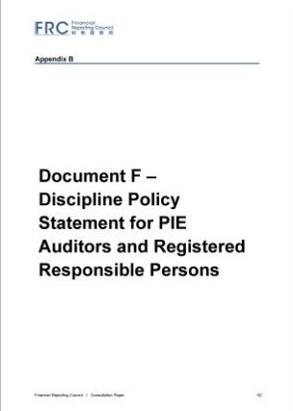
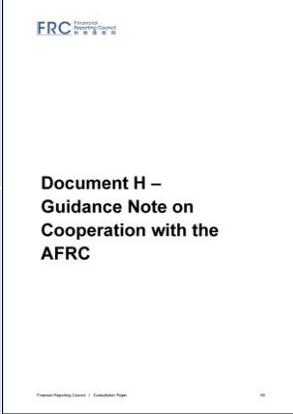
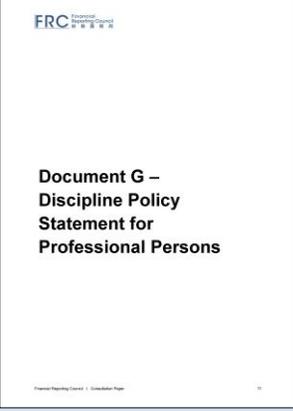
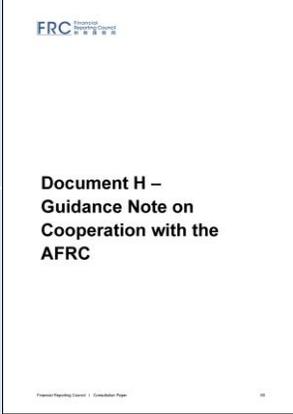
**Deter** regulatees from  
committing misconduct



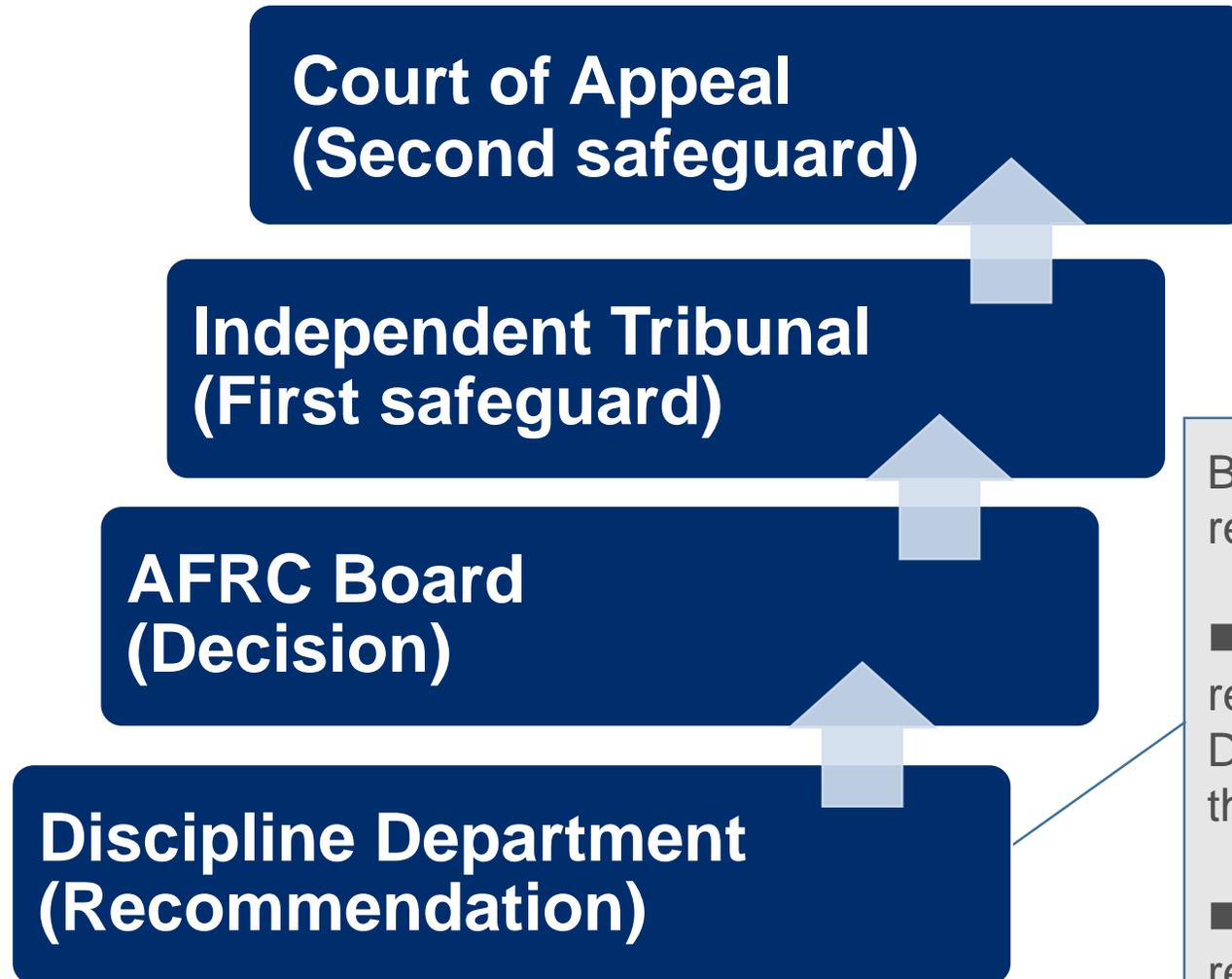
# Consultation Documents

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



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

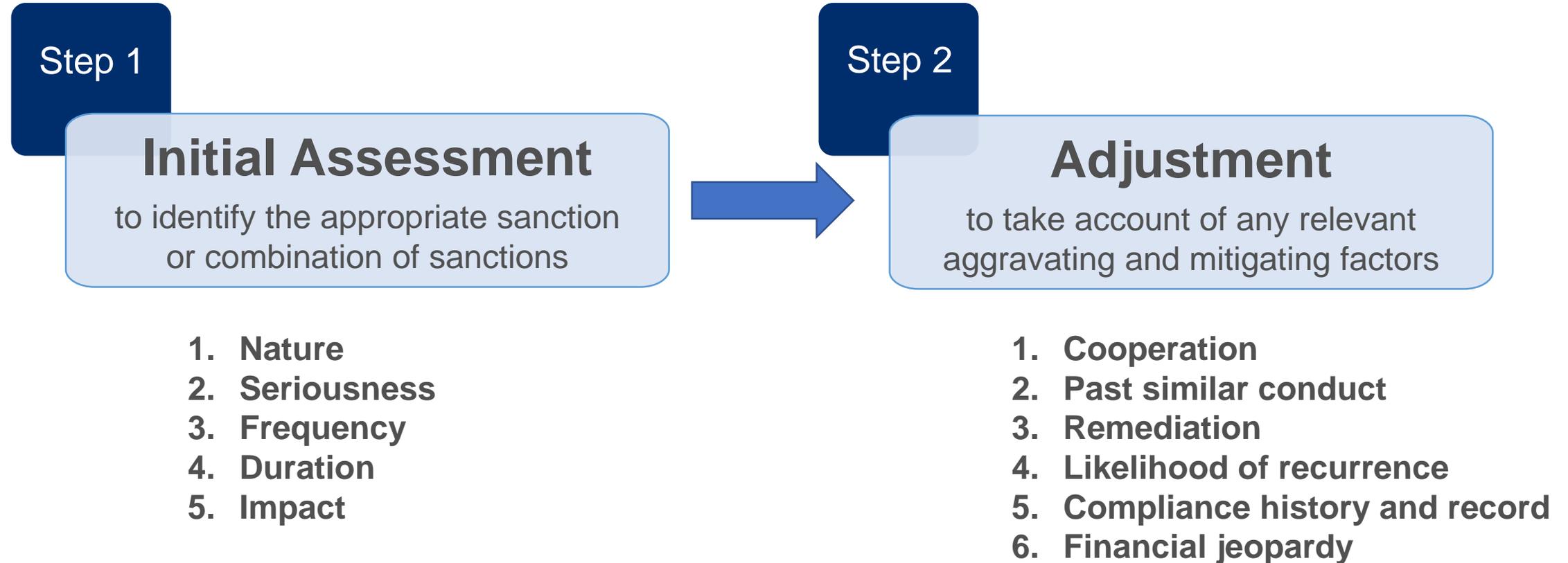
PIE Auditors and Registered Responsible Persons	Professional Persons
<ul style="list-style-type: none"><li>■ Remedial action</li><li>■ Reprimand (private / public)</li><li>■ Pecuniary penalty (not exceeding HK\$10m or 3 x profit / loss, whichever is higher)</li><li>■ Registration or recognition<ul style="list-style-type: 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

- 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

30 March 2022

Financial Reporting Council

# 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:
  - ❖ No findings
  - ❖ Findings (other points to note)
  - ❖ Significant findings

## Follow up actions

- Under Section 20ZZE of Part 3AA of the AFRCO:
  - ❖ Decide no follow-up action is required
  - ❖ Require the practice unit to take a measure or corrective action
  - ❖ Carry out a further inspection
  - ❖ Initiate an investigation
  - ❖ Refer to the Department of Discipline

# Preparedness for an Effective Inspection

- Set the right tone at the top
- Ensure proper record keeping for the firm's system of quality control and assembly of final audit file
- Prepare for questions on the background and significant risks of the engagements selected for inspection
- 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
- Seek clarification if unclear and be responsive to comments
- Take immediate and robust remediation actions to address audit quality concerns in the areas identified in our inspection



# Investigation

30 March 2022

# Investigation – Expanded Functions

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

# Investigation - Professional Persons

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

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

# Powers of investigator

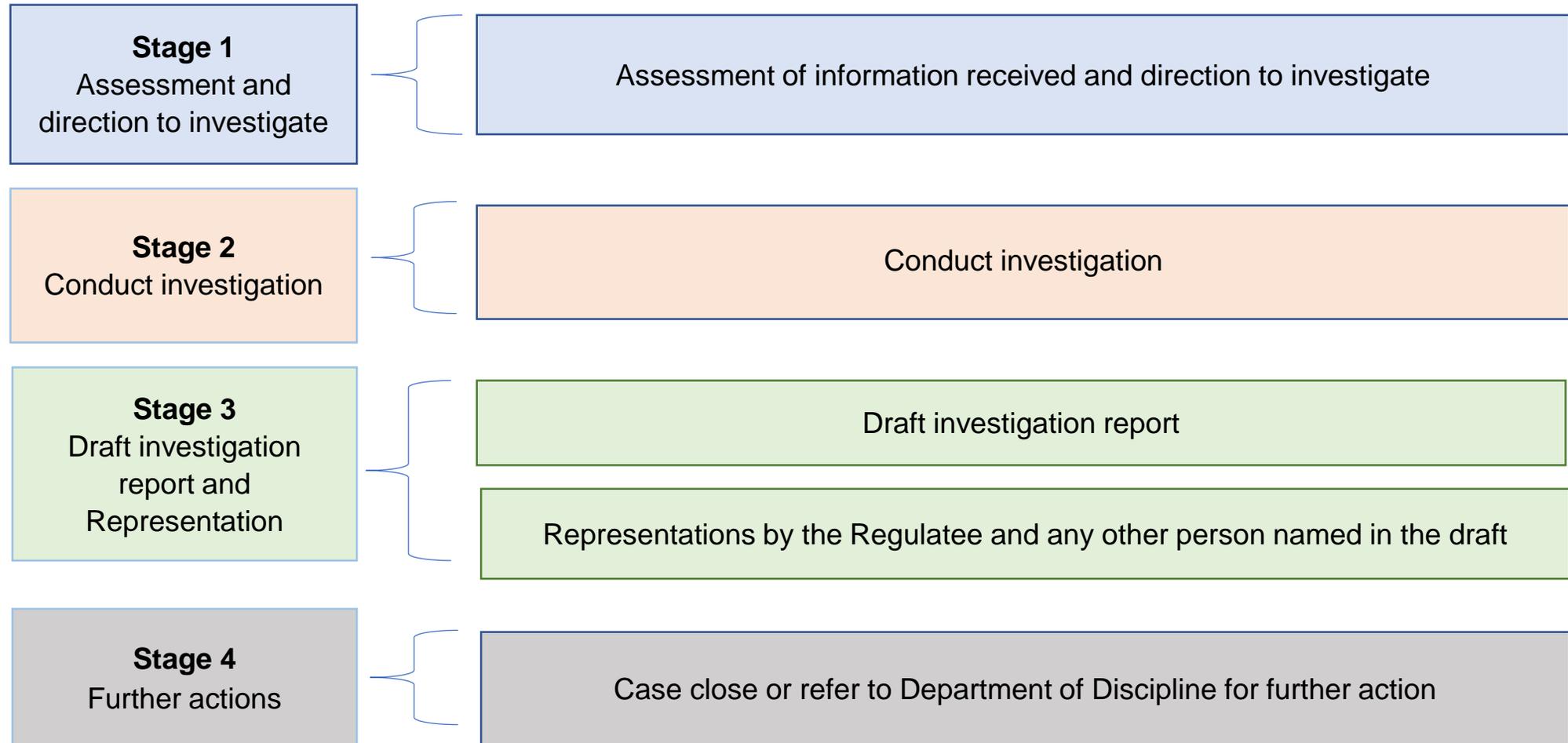
## ■ Issue certain requirements to **specified persons**:

- A professional person
- An employee or former employee of a professional person and a student registered with the HKICPA
- An employee or former employee of a practice unit if the investigation relates to a practice unit
- The employer or former employer of a CPA if the investigation relates to a CPA

# Requirements to Specified Persons

- Produce any document relevant to the investigation
- Give explanation or further particulars in relation to a record or document produced
- Give the investigator all assistance in connection with the investigation

# Investigation process





# Registration and Licensing

30 March 2022

# Registration and Licensing

- The FRC’s registration power will be expanded to include all types of practice units, PIE auditors, and the issuance of practising certificates to Certified Public Accountants.

Registration Power	Current arrangement		New arrangement	
	HKICPA	FRC	HKICPA	AFRC
<ul style="list-style-type: none"> <li>▪ Registration of Certified Public Accountants (<b>CPAs</b>)</li> </ul>	✓		✓	
<ul style="list-style-type: none"> <li>▪ Registration of firms and corporate practices</li> </ul>	✓			✓
<ul style="list-style-type: none"> <li>▪ Registration of PIE auditors</li> </ul>	✓			✓
<ul style="list-style-type: none"> <li>▪ Issuing practising certificates to CPAs</li> </ul>	✓			✓

# Philosophy and Approach

- To assure audit quality, registration and licensing is a critical step to ensure the professional ethics, integrity and competency of the auditing profession.
- The AFRC, as an independent auditor regulator, undertakes the registration and licensing of auditors from a professional body, will foster independent and impartial regulation of auditors, thereby enhancing the quality of auditors.
- The registration and licensing criteria under the AFRC will be largely the same. The AFRC will:
  - Conduct a rigorous assessment for registration and renewal applications; and
  - Implement measures to monitor auditor's ongoing compliance with registration requirements.

# Registration and Renewal of Firms and Corporate Practices

■ The table below shows the key registration and renewal criteria and the key differences.

Key registration/renewal criteria	Firms		Corporate Practices	
	HKICPA	AFRC	HKICPA	AFRC
<ul style="list-style-type: none"> <li>▪ Firm / company name (the Name)               <ul style="list-style-type: none"> <li>➢ Not the same as the Name that is already registered</li> <li>➢ Not so nearly resemble the Name that is already registered</li> <li>➢ Not misleading, offensive or otherwise contrary to the public interest</li> </ul> </li> </ul>	✓	✓	✓	✓
<ul style="list-style-type: none"> <li>▪ Composition of partners of firm / directors of corporate practices               <ul style="list-style-type: none"> <li>➢ All partners / directors are CPA</li> <li>➢ At least a proportion* of partners / directors are CPA (practising)</li> </ul> </li> </ul>	✓ (*proportion is specified by HKICPA)	✓ (*proportion is specified by AFRC)	✓ (*proportion is specified by HKICPA)	✓ (*proportion is specified by AFRC)
<ul style="list-style-type: none"> <li>▪ Articles of Association for a corporate practice include:               <ul style="list-style-type: none"> <li>➢ Provisions in relation to composition of directors</li> <li>➢ Other specified provisions</li> </ul> </li> </ul>	Not Applicable	Not Applicable	✓ (all provisions are set by HKICPA)	✓ (Composition requirements are set out in the AFRCO; other provisions are set by HKICPA)
<ul style="list-style-type: none"> <li>▪ Professional indemnity requirements for a corporate practice</li> </ul>	Not Applicable	Not Applicable	✓ (requirements are set by HKICPA)	✓ (requirements are set by HKICPA)

# Registration and renewal of PIE Auditors

■ The table below shows the key registration and renewal criteria.

Key registration/renewal criteria	HKICPA	AFRC
<ul style="list-style-type: none"> <li>▪ Where the applicant is:               <ul style="list-style-type: none"> <li>➢ CPA (practising) – the applicant is a fit and proper person to be a CPA</li> <li>➢ Firm of CPAs (practising) – each partner of the applicant is a fit and proper person to be a CPA</li> <li>➢ Corporate practice – each director the applicant is a fit and proper person to be a CPA</li> </ul> </li> </ul>	✓	✓
<ul style="list-style-type: none"> <li>▪ Quality control system responsible person is:               <ul style="list-style-type: none"> <li>➢ CEO; or</li> <li>➢ A member of the managing board of partners</li> </ul> </li> </ul>	✓	✓
<ul style="list-style-type: none"> <li>▪ Each responsible person is a fit and proper person to be a CPA.</li> </ul>	✓	✓

# Issuance and Renewal of Practising Certificates

■ The table below shows the key registration and renewal criteria.

Key issuance/renewal criteria	HKICPA	AFRC
<ul style="list-style-type: none"> <li>Specific amount of full time approved accounting experience</li> </ul>	<p style="text-align: center;">✓ (accounting experience approved as sufficient practical experience by the HKICPA)</p>	<p style="text-align: center;">✓ (accounting experience approved as sufficient practical experience by the HKICPA)</p>
<ul style="list-style-type: none"> <li>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</li> </ul>	<p style="text-align: center;">✓ (requirements are set by the HKICPA)</p>	<p style="text-align: center;">✓ (requirements are set by the HKICPA)</p>
<ul style="list-style-type: none"> <li>Continuing professional development (CPD) requirements</li> </ul>	<p style="text-align: center;">✓ (requirements are set by the HKICPA)</p>	<p style="text-align: center;">✓ (requirements are set by the HKICPA)</p>
<ul style="list-style-type: none"> <li>Ordinarily resident in Hong Kong</li> </ul>	<p style="text-align: center;">✓</p>	<p style="text-align: center;">✓</p>
<ul style="list-style-type: none"> <li>Satisfies the fit and proper requirement to be a CPA</li> </ul>	<p style="text-align: center;">✓</p>	<p style="text-align: center;">✓</p>
<ul style="list-style-type: none"> <li>Is not bankrupt or has not entered into a voluntary arrangement with his/her creditors</li> </ul>	<p style="text-align: center;">✓</p>	<p style="text-align: center;">✓</p>
<ul style="list-style-type: none"> <li>Is not subject to a disciplinary order imposed by the HKICPA's Disciplinary Committee or a sanction imposed by the AFRC</li> </ul>	<p style="text-align: center;">✓</p>	<p style="text-align: center;">✓</p>
<ul style="list-style-type: none"> <li>Intends to practice as a CPA (practising)</li> </ul>	<p style="text-align: center;">✓</p>	<p style="text-align: center;">✓</p>

# Arrangements Starting from the Commencement of the AFRCO

- The AFRC will register firms, corporate practices, PIE auditors and issue the practising certificate to CPA (practising) starting from the commencement date of the AFRCO
- All renewal applications in 2022 will be submitted to the AFRC for approval
- Fees for new registration and renewal applications in 2022:

Type of applications	Fee for new application in 2022	Fee for renewal in 2022
Practising certificates, firms and corporate practices	The Government has committed to exempting these fees in the first year of the new regime.	
Registered PIE auditors	\$250	\$200

- Renewal applications in 2022 will be processed with the following application periods:

Type of renewal applications	Planned application period	Typical processing time
Practising certificates, firms and corporate practices	November to 15 December 2022*	Within 30 business days
Registered PIE auditors	1 October to 16 November 2022*	Within 30 business days

*\* If a renewal application has been made but the application is not finally determined before the expiry of the current registration, the current registration remains in force until the renewal application is approved/refused by the AFRC.*

# Arrangements Starting from the Commencement of the AFRCO

- Additional information will be required from applicants through the renewal applications in 2022, including:
  - Personal identification information
  - CPA certificates issued by the HKICPA or other accountancy bodies (for Registered EQCR who is not a HKICPA member)
  - Business registration certificate
  - Certificate of incorporation and articles of association (for corporate practices)
  - Fit and proper declarations
  
- Revised application forms and practice guides will be available on the FRC's website in the third quarter of 2022.

# Arrangements Starting from the Commencement of the AFRCO

## ■ Funding arrangement

- The AFRC will collect the relevant application fees which are currently payable to the HKICPA. However, the Government has committed to exempting these fees in the first year of implementation of the new regime.
  - Thereafter, the AFRC will start collecting the fees which will initially be set at a level no higher than that currently collected by the HKICPA
- The unspent balance of the seed capital will help cover the expenses arising from the expanded functions of the FRC.
- The FRC has provided for a levy mechanism (i.e. the collection of levies from PIE auditors, PIEs, and sellers and purchasers of securities) for funding FRC's functions under the PIE auditor regulatory regime.
  - Such levies arrangement and rate will not be affected by the expanded functions of the FRC.

**Thank You**