

2022 Oversight Report on HKICPA's Performance of the Specified Functions

Policy, Registration and Oversight

November 2022



About the AFRC

The Accounting and Financial Reporting Council is an independent body established under the Accounting and Financial Reporting Council Ordinance. As an independent regulator, the AFRC spearheads and leads the accounting profession to constantly raise the level of quality of professional accountants and thus protects the public interest.

For more information about the statutory functions of the AFRC, please visit www.afrc.org.hk.

Contact information

Email: general@afrc.org.hk

Phone: +852 2810 6321

Foreword

This is the third report from the Accounting and Financial Reporting Council (AFRC) on the assessment of the statutory functions performed by the Hong Kong Institute of Certified Public Accountants (HKICPA) that are within the remit of AFRC's oversight function under the pre-amended Accounting and Financial Reporting Council Ordinance¹ (Specified Functions²).

The Specified Functions comprise:

- (a) registration of local auditors of public interest entities (PIEs);
- (b) setting Standards on Professional Ethics, and Auditing and Assurance Practices for local PIE auditors; and
- (c) setting continuing professional development (CPD) requirements for local PIE auditors.

A high quality of financial reporting and audit is an integral element to the effective functioning of Hong Kong's capital markets, and the accounting profession is crucial in ensuring trust and confidence in the system. As the main professional accounting body in Hong Kong, the HKICPA plays an important role in upholding and raising the standards of the profession. In discharging its oversight functions of the HKICPA, the AFRC aims to provide guidance and recommendations on the Specified Functions that will ensure a high degree of transparency, accountability, and integrity, all of which will ultimately contribute towards protecting the public interest and Hong Kong's status as an international financial centre.

This year, the AFRC continues to assess HKICPA's performance on the Specified Functions through a holistic review and evaluation of the design and implementation of its policies and procedures. Furthermore, since this is the third year in which the AFRC has undertaken the assessment, focus has also been placed on follow-up actions by the HKICPA in response to previous recommendations.

¹ On 1 October 2022, the Financial Reporting Council Ordinance, as amended by the Financial Reporting Council (Amendment) Ordinance 2021, was renamed as the Accounting and Financial Reporting Council Ordinance (AFRCO).

² The relevant period for the 2022 assessment was 1 April 2021 to 31 March 2022, before the AFRCO became effective on 1 October 2022. Accordingly, the 2022 assessment encompasses the Specified Functions that were in force before 1 October 2022.

Findings and recommendations

Four of the eight recommendations from last year (two relating to governance of the Specified Functions and two related to setting Standards) were satisfactorily followed up by the HKICPA.

For the remaining four recommendations from last year (one relating to governance, one relating to setting CPD requirements and two relating to CPD compliance audit), the HKICPA has been making considerable progress in the follow-up actions. The HKICPA confirmed that progress on implementation of actions is in accordance with the timeline provided to the AFRC. The AFRC will continue to monitor the status and assess the delivery in the next assessment.

The AFRC has also identified two new findings (one relating to governance and one relating to standard setting) during the third assessment.

Pursuant to the AFRCO, on 1 October 2022, the Specified Function relating to the registration of local PIE auditors was transferred to the AFRC. The improvement areas identified in relation to this function are not included in this report and have been incorporated by AFRC when assuming these new responsibilities.

The AFRC communicated all of the findings and recommendations to the HKICPA and considered their responses, including their intended follow-up actions. The AFRC will continue to communicate with the HKICPA to ensure satisfactory resolution of the issues identified.

Looking ahead

With the commencement of the AFRCO on 1 October 2022, AFRC's broader responsibilities to oversee HKICPA's performance of its statutory functions will cover the following:

- (a) ascertaining the qualification for registration as certified public accountants (CPAs) by conducting examinations;
- (b) registering CPAs;
- (c) arranging for mutual or reciprocal recognition of accountants;
- (d) setting CPD requirements for CPAs;
- (e) issuing or specifying standards on professional ethics, and accounting, auditing and assurance practices for CPAs; and
- (f) providing training for qualifying as, and the CPD of, CPAs.

The AFRC signed the Revised Statement of Protocol on Oversight Arrangement with the HKICPA on 16 August 2022 which marks the beginning of a new chapter for the oversight relationship between the AFRC and the HKICPA. The AFRC is committed to working with the HKICPA in raising the standards of accounting profession and contributing to its sustainable development.

In closing, we would like to acknowledge HKICPA's efforts in facilitating the oversight assessment. It is AFRC's intention to continue to apply a constructive, consistent and forward-looking approach to our oversight responsibilities. Further, by engaging in frequent dialogue, the effectiveness and impact of the joint efforts between the AFRC and the HKICPA can be maximised. We look forward to building upon these principles with the HKICPA to achieve the desired outcomes.

Department of Policy, Registration and Oversight

Table of contents

	Page
Foreword	
Section 1 Overview	1
1.1 Introduction	1
1.2 Scope of our assessment under the FRCO	1
1.3 How we conducted the assessment	3
1.4 Summary of our findings and recommendations from the 2022 Assessment	4
1.5 Summary of evaluation results of HKICPA's follow-up from the 2021 Assessment	7
Section 2 Assessment of HKICPA's performance in relation to nomination, selection and appointment of Specified Committees' members	10
2.1 Scope and approach of our assessment	10
2.2 Evaluation results of HKICPA's follow-up from the 2021 Assessment	10
2.3 Our findings and recommendations from the 2022 Assessment	13
Section 3 Assessment of HKICPA's performance in relation to setting CPD requirements for registered PIE auditors and compliance audit on CPD requirements	15
3.1 Scope and approach of our assessment	15
3.2 Evaluation results of HKICPA's follow-up from the 2021 Assessment	15

Section 4	Assessment of HKICPA's performance in relation to setting Standards on Professional Ethics, and Auditing and Assurance Practices for registered PIE auditors	18
4.1	Scope and approach of our assessment	18
4.2	Evaluation results of HKICPA's follow-up from the 2021 Assessment	18
4.3	Our findings and recommendations from the 2022 Assessment	19
Section 5	Acknowledgement	22
Annexes		23
Annex 1	Responsibilities of the HKICPA in relation to the Specified Functions and its related governance arrangements under the PAO	23
Annex 2	HKICPA's policies and procedures in carrying out the Specified Functions	26
Annex 3	Abbreviations	32

Section 1

Overview

1.1 Introduction

- 1.1.1 This Report summarises the key findings and recommendations of our assessment (2022 Assessment) of HKICPA's performance of the functions set out in paragraph 1.2.1 (the Specified Functions). The 2022 Assessment covers the period from 1 April 2021 to 31 March 2022 (the Assessment Year).

1.2 Scope of our assessment under the FRCO

- 1.2.1 We have a statutory duty under section 9(b) of the Financial Reporting Council Ordinance (Cap. 588) (the FRCO) to oversee the following Specified Functions:
- (a) Dealing with applications and other matters relating to the registration of Public Interest Entity (PIE) auditors;
 - (b) Establishing and maintaining the PIE auditors register;
 - (c) Setting continuing professional development (CPD) requirements for registered PIE auditors; and
 - (d) Setting Standards on Professional Ethics, and Auditing and Assurance Practices, for registered PIE auditors.
- 1.2.2 Under section 10(1A) of the FRCO, in order to oversee the HKICPA's performance of the Specified Functions, we may:
- (a) Request the HKICPA to provide information and periodic reports on their performance of a Specified Function;
 - (b) Conduct assessment of 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.

- 1.2.3 The Statement of Protocol on Oversight Arrangements between the Financial Reporting Council (FRC) and the HKICPA dated 27 September 2019 set out the oversight arrangements as follows:
- (a) Our representative(s) will sit on the committees responsible for the performance of the Specified Functions (i.e. Registration and Practising Committee (RPC), Ethics Committee (EC) and Auditing and Assurance Standards Committee (AASC), collectively named as “Specified Committees”) as an observer;
 - (b) The HKICPA will provide us with:
 - Information on the applicable due process in relation to the Specified Functions and the annual work plan each year;
 - The terms of reference and composition of the Specified Committees each year;
 - Quarterly activity reports containing information that will enable us to understand the activities of the HKICPA in relation to the Specified Functions, with relevant supporting materials including agendas and approved minutes of meetings of the Specified Committees of the HKICPA and/or the HKICPA Council; and
 - Any other information, documents, or reports in HKICPA’s possession that we may reasonably require for the performance of the oversight function; and
 - (c) We will conduct regular assessment of HKICPA’s performance of the Specified Functions, and where appropriate, make recommendations. The HKICPA will provide us with a written response including any follow-up actions regarding our recommendations.
- 1.2.4 Upon the AFRCO taking effect on 1 October 2022, the functions performed by the HKICPA set out in paragraph 1.2.1 (a) and (b) (functions relating to the registration of PIE auditors) have been taken over by the AFRC.
- 1.2.5 Our 2022 Assessment continued to cover all Specified Functions during the Assessment Year, including registration of PIE auditors. We communicated all of our findings to the HKICPA for their immediate remediation. We have also considered all relevant findings in the lead up to our assumption of new responsibilities under the AFRCO.
- 1.2.6 We will publish a report with the key findings and recommendations of our assessment regarding HKICPA’s performance of the Specified Functions on a periodic basis.

1.3 How we conducted the assessment

1.3.1 We evaluated the follow-up actions taken by the HKICPA on our recommendations arising from the assessment covering the period from 1 April 2020 to 31 March 2021 (2021 Assessment). In addition, we assessed HKICPA's policies and procedures regarding the performance of the Specified Functions in the Assessment Year.

1.3.2 In conducting the 2022 Assessment, we performed the following procedures:

- (a) Reviewed the process of nomination, appointment and selection of members for the Specified Committees and the related HKICPA documentation;
- (b) Observed and reviewed meeting papers and minutes of 19 meetings of the Specified Committees during the Assessment Year;
- (c) Reviewed the quarterly reports (four in total) submitted by the HKICPA on the performance of the Specified Functions during the Assessment Year;
- (d) Conducted an on-site assessment from 17 June 2022 to 29 July 2022 to evaluate HKICPA's performance of the Specified Functions during the Assessment Year. The procedures that we performed include:
 - examining the relevant internal documents, written policies and procedures including Standard Operating Procedures (SOPs);
 - reviewing a sample of PIE auditor applications (including new and renewal applications) and the register of PIE auditors;
 - reviewing a sample of CPD compliance audit performed during the Assessment Year on a sampled number of responsible persons of registered PIE auditors;
 - reviewing a sample of submissions, and the related supporting documents, prepared by HKICPA during the Assessment Year on the consultative documents issued by IAASB and IESBA that are relevant in carrying out PIE engagements;
 - reviewing a sample of new or revised Standards on Professional Ethics, and Auditing and Assurance Practices for registered PIE auditors issued by the HKICPA during the Assessment Year, and the related supporting documents; and

- interviewing the chairpersons of the Specified Committees and staff members of the HKICPA involved in the performance of the Specified Functions.

1.4 Summary of our findings and recommendations from the 2022 Assessment

- 1.4.1 A summary of our findings and recommendations based on our 2022 Assessment is set out below. Details of findings and recommendations are set out in Section 2 to Section 4 of this Report.

Nomination, selection and appointment of Specified Committee Members

Finding 1: Insufficient information provided to the Nomination Committee in the selection and re-appointment of committee members

(Paragraphs 2.3.1 to 2.3.4)

- 1.4.2 We noted that when feedback providers and the HKICPA Management have divergent opinions on the performance and re-appointment of a committee member, the summary information presented to the Nomination Committee and the HKICPA Council only included the final recommendation of the Specified Committee's director-in-charge, with no mention of diverging views.
- 1.4.3 **In the information submitted to the Nomination Committee and the HKICPA Council, the HKICPA should summarise all pertinent feedback, in particular if the views on whether to re-appoint a committee member are not unanimous. When there are divergent views, the director-in-charge should also include the basis for the final recommendation.**

HKICPA's response

Extracts of the performance feedback from the committee chair and views of the management on the nomination of a committee member are both provided in the summary submitted to the Nomination Committee to facilitate deliberation. In future we will ensure consistency in providing extracted information and, in the rare event that divergent views arise, there will be clear explanation of how these have been reconciled to further support the consideration of appointments by the Nomination Committee.

Setting Standards on Professional Ethics, and Auditing and Assurance Practices for registered PIE auditors in Hong Kong

Finding 2: The SOP for standards setting does not cover all major standard-setting related activities

(Paragraphs 4.3.1 to 4.3.6)

- 1.4.4 We noted that the HKICPA did not have a SOP in place to cover implementation support activities for new or revised standards. This may impair the adequacy and appropriateness of the types of supporting activities and stakeholders may have unmet needs. The proposed supporting activities were also not presented with sufficient detail nor included in the work plan for effective monitoring. This may result in insufficient or untimely support for the proper implementation of new and revised standards.
- 1.4.5 We also noted the HKICPA did not have a SOP for the post-implementation review. This could lead to inconsistencies in the post-implementation review process and a failure to identify the standards and requirements that should be subject to review.
- 1.4.6 **The HKICPA should enhance their SOP to cover implementation support activities for new and revised standards and post-implementation review of standards/requirements.**

Implementation support activities for new and revised standards

The SOP should cover:

- (a) Criteria for assessing the extent of implementation support activities. The criteria should include, inter alia, the complexity and significance of the standard(s) and the needs of the stakeholders;**
- (b) Detailed plans and deliverables of the implementation support activities to enable the AASC/EC to assess their adequacy and appropriateness;**
- (c) The inclusion of the agreed implementation support activities in the work plan for ongoing monitoring; and**
- (d) An evaluation mechanism on the outcome of the implementation support activities.**

Post-implementation review of standards/requirements

The SOP should cover:

- (a) Criteria and threshold for identifying “significant, contentious or complex” issues, in a consistent manner;**
- (b) Detailed procedures of post-implementation review covering data collection, performance of analysis, execution of post-implementation review and determination of the appropriate follow-up actions;**
- (c) The inclusion of the post-implementation review activities in the work plan for ongoing monitoring; and**
- (d) An evaluation mechanism on the outcome of the follow-up actions of the post-implementation review.**

HKICPA’s response

In respect of the implementation support activities, we will submit a revised SOP to the AASC/EC for approval at their first meeting in 2023. The SOP will be revised to:

- (a) require submission of nature, timing and extent of implementation support activities on any major new/revised standard to the AASC/EC for approval at the time of presenting the final amendment/standard to the committees for endorsement for issue; and*
- (b) include the determination criteria for the committees.*

We will include high priority projects as identified in the post-implementation review in the committees’ work plans in 2023 for monitoring.

In respect of the post-implementation review of standards/requirements, the revised policy was approved by the AASC/EC in February/March of 2022 respectively and we are conducting the related data analysis for the first time this year. We see the data analysis as the next phase after the development and approval of the policy and will give this comprehensive and time-consuming exercise the necessary attention to fully complete the actions planned to address the 2021 recommendation.

The proposals on how data will be collected and assessed were agreed by the AASC/EC at the meetings noted above. Development and fine-tuning of the detailed methodology for the different phases of the post-implementation review is happening as our work progresses. The committees will be kept informed of any meaningful progress and the committees will be consulted on significant or highly judgmental issues as needed. The detailed methodology will be submitted to the committees for approval by the end of 2022, where such will be documented in the SOP once approved as appropriate and effective by the committees.

1.5 Summary of evaluation results of HKICPA's follow up from the 2021 Assessment

- 1.5.1 In response to our findings and recommendations in the 2021 Assessment, the actions taken by HKICPA and our evaluation of those actions are as follows:

Registration of PIE auditors and compliance audit on CPD requirements

Findings in the 2021 Assessment	Status of HKICPA's follow-up actions	Our assessment
1) Criteria for determining the composition of the RPC were not specified in HKICPA's documentation.	Completed. The HKICPA specified the criteria for the relevant attributes for determining the composition of each Specified Committee. Paragraphs 2.2.2 to 2.2.3	Satisfied.
2) Performance of chairperson and members of the RPC was not evaluated based on the performance evaluation criteria set by the HKICPA.	In progress. The HKICPA developed a new policy and a new set of procedures for performance evaluation of the members of all Specified Committees. The new process was conducted in 2021 on a voluntary basis as a trial run. Further enhancements will be made to the performance evaluation form in 2022. Paragraphs 2.2.4 to 2.2.10	We will assess the completed follow-up actions in next year's assessment.

Findings in the 2021 Assessment	Status of HKICPA's follow-up actions	Our assessment
3) No orientation was provided to new RPC members.	<p>Completed.</p> <p>The HKICPA held induction sessions for new members appointed for 2022 Specified Committees and will continue the practice going forward.</p> <p>Paragraphs 2.2.12 to 2.2.14</p>	Satisfied.
4) CPD compliance audit was performed after the renewal of HKICPA membership which may lead to unqualified persons being allowed to register.	<p>In progress.</p> <p>The HKICPA had completed a survey to understand the practices of global accounting bodies in CPD compliance audit.</p> <p>The HKICPA plans to bring forward the commencement of CPD compliance audit to every December starting from the CPD cycle beginning 1 December 2022.</p> <p>Paragraphs 3.2.8 to 3.2.9</p>	We will assess the completed follow-up actions in next year's assessment.
5) The HKICPA did not sufficiently check underlying documents to verify the completion of CPD activities including attendance and hours.	<p>In progress.</p> <p>The HKICPA had amended the CPD Record Form and will begin performing full checks on underlying documents for CPD compliance audit in relation to 2023 membership renewal.</p> <p>Paragraphs 3.2.11 to 3.2.12</p>	We will assess the completed follow-up actions in next year's assessment.

Setting CPD requirements for registered PIE auditors

Findings in the 2021 Assessment	Status of HKICPA's follow-up actions	Our assessment
6) No prescription of specific CPD requirements for registered PIE auditors.	In progress. The HKICPA has approved a plan to prescribe CPD requirements to be effective from 1 December 2023. Paragraphs 3.2.3 to 3.2.6	We will assess the progress of follow-up actions in next year's assessment.

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

Findings in the 2021 Assessment	Status of HKICPA's follow-up actions	Our assessment
7) Deficiencies in design and performance of policies and procedures in relation to update of CPD requirements and Standards on Professional Ethics, and Auditing and Assurance Practice.	Completed. The HKICPA has revised the SOP for standard setting to enhance the procedures and tighten the internal controls. Paragraphs 3.2.2 and 4.2.2	Satisfied.
8) Ineffective policy for post-implementation review of standards/ requirements.	Completed. The HKICPA has revised the policy for post-implementation reviews to address our findings. Paragraph 4.2.3	Satisfied.

1.5.2 For the four recommendations where follow-up actions remain in progress, the HKICPA confirmed that progress on implementation of the actions will proceed in accordance with the timeline provided to the AFRC. We will continue to monitor the status and assess the delivery in the next assessment.

Section 2

Assessment of HKICPA's performance in relation to nomination, selection and appointment of Specified Committees' members

2.1 Scope and approach of our assessment

- 2.1.1 We take a holistic approach to our assessment, which includes considering not only the policies, processes and procedures of each Specified Functions established by the HKICPA and how they are implemented, but also the related governance arrangements, as summarised in paragraphs A1.1 to A1.7 of Annex 1. Our focus is on whether these matters ensure the effective performance of the Specified Functions.
- 2.1.2 Hence, our assessment includes the evaluation of HKICPA's policies and procedures, as summarised in paragraph A2.1 of Annex 2, relating to the nomination, selection and appointment of members of each Specified Committee (including the RPC, AASC and EC).
- 2.1.3 In conducting our assessment, we also evaluated HKICPA's follow-up actions in response to our recommendations in the 2021 Assessment.

2.2 Evaluation results of HKICPA's follow-up from the 2021 Assessment

- 2.2.1 In the 2021 Assessment, we identified the following findings in relation to nomination, selection and appointment of committee members:
- (a) Criteria for determining the composition of a Specified Committee were not specified in HKICPA's documentation;
 - (b) Performance of the chairperson and members of a Specified Committee was not evaluated based on the performance evaluation criteria set by the HKICPA; and
 - (c) No orientation was provided to new members of a Specified Committee.

2.2.2 In response to our findings set out in paragraph 2.2.1(a) regarding no specific criteria for determining the composition of a Specified Committee, the HKICPA has since prescribed the composition of each Specified Committee to allow provision of broader and independent views and specified the attributes that are relevant for members of the Specified Committee. For examples, specified criteria for the RPC include:

- (a) % of CPA vs lay member: At least 10% lay member;
- (b) % of CPA (Practising) vs CPA (Non-practising): At least 50% of CPA (Practising); and
- (c) Proportion of representatives from small, medium to large practices: 50:50 for small and medium practices and large practices.

2.2.3 The abovementioned attributes were approved by the HKICPA Council on 13 January 2022. We consider the above criteria as specified by the HKICPA to be sufficiently precise and measurable to allow the HKICPA to select appropriate committee members who possess the desired skills, knowledge and working experience for the effective functioning of the Specified Committees.

2.2.4 In response to our findings set out in paragraph 2.2.1(b) relating to the performance of chairperson and members of a Specified Committee not being evaluated against the criteria set by the HKICPA, the HKICPA approved on 24 August 2021 a new policy that sets out the procedures and criteria for the performance evaluation of members of all Specified Committees. The new policy has been implemented in 2022 on a trial basis and it covers:

- (a) Frequency of the performance evaluation;
- (b) Performance evaluation criteria;
- (c) Performance evaluation methods;
- (d) Process for communicating the results and by whom and if necessary developing an action plan; and
- (e) Maintenance of confidentiality.

2.2.5 We noted that the HKICPA is still in progress in addressing this recommendation. The HKICPA has started to apply the approved policy to evaluate the performance of the Specified Committees' members in 2021 and the feedback collected would be considered in deciding their re-appointment for 2022.

- 2.2.6 We recommended that the HKICPA make the performance evaluation mandatory in our 2021 Assessment. We noted that the performance evaluation was a trial run on a voluntary basis in 2021 since the requirement was not communicated to the committee members when they were appointed. As a result, a mandatory performance evaluation could not be conducted.
- 2.2.7 We noted that the HKICPA Management had communicated such requirements in the appointment letters for committee members in 2022. Therefore, for 2022 performance evaluation will be a mandatory for all members of Specified Committees. We will assess its operation in our next onsite assessment.
- 2.2.8 The current performance evaluation form contains six binary (yes/no) questions on the individual's performance and a question on whether the individual is recommended for re-appointment.
- 2.2.9 The use of a set of binary questions in the performance evaluation form may not enable the collection of sufficient feedback to allow differentiation of the performance among committee members. Consequently, the HKICPA is changing the performance evaluation process from a binary to a three-tier (above, meet and below expectation) system in selecting committee members.
- 2.2.10 In addition, we understand the HKICPA will also incorporate the definition for "expected skills and/or knowledge", which is one of the criteria for selecting committee members as highlighted in paragraphs A2.1(a) and A2.1(b) of Annex 2, into the performance evaluation form.
- 2.2.11 A clear connection between the questions contained in the evaluation form and the "expected skills and/or knowledge" could provide guidance to the feedback provider/director-in-charge to evaluate the skills and knowledge of the nominees. We will review the revised design and its operation in our next on-site assessment.
- 2.2.12 In response to our findings set out in paragraph 2.2.1(c) in relation to the fact that no orientation was provided to new members of a Specified Committee, the HKICPA had conducted an induction session for new committee members appointed for 2022 before the first committee meeting. The HKICPA will continue the practice going forward.
- 2.2.13 The induction materials prepared by the HKICPA covered the following,
- (a) Roles and responsibilities of the Specified Committee and the responsible HKICPA department;
 - (b) Terms of reference of the Specified Committee;
 - (c) Work plan of the Specified Committee of 2021;

- (d) Relevant requirements under the FRCO and/or the PAO (e.g. the requirements for registration as local PIE auditors);
- (e) Administrative procedures of the Specified Committee (including timing of distribution of agenda and papers); and
- (f) Confidentiality obligations as a committee member.

2.2.14 In addition, the proposed work plan for 2022 and the performance expectations for participation and contribution as a committee member were discussed and endorsed in the first 2022 committee meeting.

2.2.15 We consider the induction session and materials arranged for the new committee members to be sufficient in allowing them to understand their roles and responsibilities; the expectations on their performance as members; the policies and procedure; and relevant legal requirements for the functions responsible for the committee.

2.3 Our findings and recommendations from the 2022 Assessment

Finding 1: Insufficient information provided to the Nomination Committee in the selection and re-appointment of committee members

2.3.1 The director-in-charge of the Specified Committee prepares the proposed composition with a summary of key considerations. The information would be submitted to the Nomination Committee for endorsement, and then the HKICPA Council for approval under the procedures described in paragraph A2.1(e) of Annex 2.

2.3.2 We noted that when feedback providers and the HKICPA Management have divergent opinions on the performance and re-appointment of a committee member, the summary information presented to the Nomination Committee and the HKICPA Council only included the final recommendation of the Specified Committee's director-in-charge, with no mention of diverging views.

2.3.3 Such practice limits the utility of the information made available to the Nomination Committee and the HKICPA Council in making an informed decision when selecting and re-appointing committee members.

Our recommendation

2.3.4 In the information submitted to the Nomination Committee and the HKICPA Council, the HKICPA should summarise all pertinent feedback, in particular if the views on whether to re-appoint a committee member are not unanimous. When there are divergent views, the director-in-charge should also include the basis for the final recommendation.

HKICPA's response

Extracts of the performance feedback from the committee chair and views of the management on the nomination of a committee member are both provided in the summary submitted to the Nomination Committee to facilitate deliberation. In future we will ensure consistency in providing extracted information and, in the rare event that divergent views arise, there will be clear explanation of how these have been reconciled to further support the consideration of appointments by the Nomination Committee.

Section 3

Assessment of HKICPA's performance in relation to setting CPD requirements for registered PIE auditors and compliance audit on CPD requirements

3.1 Scope and approach of our assessment

3.1.1 Our oversight assessment covers HKICPA's performance in relation to the following responsibilities, details of which are summarised in A1.8 to A1.10 of Annex 1:

- (a) Setting CPD requirements for registered PIE auditors; and
- (b) Compliance audit on CPD requirements for the responsible persons of registered PIE auditors.

3.1.2 Our assessment includes an evaluation of HKICPA's policies and procedures, as summarised in paragraphs A2.2 to A2.8 of Annex 2. In addition, we evaluated HKICPA's follow-up actions in response to our recommendations in the 2021 Assessment.

3.2 Evaluation results of HKICPA's follow-up from 2021 Assessment

Setting CPD requirements for registered PIE auditors

3.2.1 In the 2021 Assessment, we identified the following findings in relation to setting CPD requirements for registered PIE auditors:

- (a) Deficiencies in the design and performance of policies and procedures relating to setting CPD requirements; and
- (b) A lack of specific CPD requirements for registered PIE auditors to ensure they have the knowledge and skills to discharge their duties in performing PIE engagements (finding in 2020 Assessment).

- 3.2.2 In response to our finding as set out in paragraph 3.2.1(a), the HKICPA has revised the SOP for standard setting which was endorsed by EC on 16 March 2022. It sets out that the Membership and Admission Department (M&AD) is responsible for monitoring changes in international standards in relation to CPD requirements issued by International Federation of Accountants (IFAC) and for informing the Standard Setting Department (SSD) of such changes. The project staff will update the CPD requirements and submit to a deputy director of SSD for review to ensure changes to the International Education Standards (IESs) are adopted properly. A fatal flaw review will also be performed by another staff member who is not involved in the update of CPD requirements before finalisation.
- 3.2.3 In response to our finding as set out in paragraph 3.2.1(b), the HKICPA has changed the delegation of the power and responsibility for setting CPD requirements from the EC to the RPC starting from April 2022, as members of the RPC have more relevant experience and expertise.
- 3.2.4 The HKICPA has developed a work plan for the development of CPD requirements which was discussed and approved in the RPC meeting on 11 May 2022. According to the approved work plan, the *revised Statement 1,500 Continuing Professional Development* (Statement 1,500) will be effective from 1 December 2023.
- 3.2.5 At the time of assessment, the HKICPA is performing research on the potential types of additional CPD requirements to be prescribed for registered PIE auditors and planning for engagement with key stakeholders.
- 3.2.6 We will continue to follow up on the prescription of CPD requirements and assess its effectiveness in our next assessment.

Compliance audit on CPD requirements of registered PIE auditors

- 3.2.7 In the 2021 Assessment, we identified the following findings in relation to the CPD compliance audit for the responsible persons of registered PIE auditors:
- (a) CPD compliance audit was performed after the renewal of HKICPA membership which might lead to unqualified persons being registered; and
 - (b) HKICPA did not sufficiently check underlying documents to verify the claims, including attendance and hours, made by members.

- 3.2.8 In relation to our prior year's finding highlighted in paragraph 3.2.7(a), the HKICPA had initiated a survey on all member bodies of the Global Accounting Alliance³ in January 2022 to understand their practices relating to CPD compliance audit.
- 3.2.9 We understand the HKICPA will revise the timing of the CPD compliance audit. The performance of compliance audit will be brought forward from mid-year to the first quarter of the year. The HKICPA also plans to select and notify the responsible persons of PIE auditors of the compliance audit and request the necessary information during the renewal application process (i.e. in December) starting from the CPD cycle commencing 1 December 2022, and will submit the work plan to the RPC for approval.
- 3.2.10 We consider that the proposed changes address our findings and will assess the operation of the revised procedures in our next assessment.
- 3.2.11 In response to the finding highlighted in paragraph 3.2.7(b), the HKICPA developed a review checklist to guide the verification and documentation of CPD audit results. For the samples of responsible persons of registered PIE auditors whom we tested, the documentation of the verification procedures was improved.
- 3.2.12 We also noted that, to address our finding raised in 2021, the M&AD had proposed that checks on the underlying documents for all CPD compliance audits to be undertaken and to amend the CPD Record Form to include an explanation as to why the CPD activities undertaken are relevant to their professional development. The RPC considered and approved such proposal at its meeting on 11 May 2022. The HKICPA will apply the revised process moving forward.
- 3.2.13 We consider that the proposed revision is reasonable and will facilitate HKICPA's verification of the relevancy of the reported CPD activities. We will review its application in our next onsite assessment.

3 The Global Accounting Alliance is a forum of 10 of the world's leading professional accountancy bodies whose members practice in major capital markets around the world. The list of its member bodies can be found on its website. (<https://www.globalaccountingalliance.com/about.html>)

Section 4

Assessment of HKICPA's performance in relation to setting Standards on Professional Ethics, and Auditing and Assurance Practices for registered PIE auditors

4.1 Scope and approach of our assessment

- 4.1.1 Our oversight assessment covers HKICPA's performance in relation to the responsibilities of setting Standards on Professional Ethics, and Auditing and Assurance Practices for registered PIE auditors, details of which are summarised in A1.11 to A1.13 of Annex 1.
- 4.1.2 Our assessment includes the evaluation of HKICPA's policies and procedures, as summarised in paragraphs A2.9 to A2.11 of Annex 2. In addition, we evaluated HKICPA's follow-up actions in response to our recommendations in the 2021 Assessment.

4.2 Evaluation results of HKICPA's follow-up from 2021 Assessment

- 4.2.1 In the 2021 Assessment, we identified the following findings in relation to setting the Standards on Professional Ethics, and Auditing and Assurance Practices for registered PIE auditors:
- (a) Deficiencies in design and performance of policies and procedures relating to setting Standards on Professional Ethics, and Auditing and Assurance Practices; and
 - (b) Ineffective policy for post-implementation review of standards/requirements
- 4.2.2 In response to our finding on deficiencies in design and performance of policies and procedures relating to standards setting sets out in paragraph 4.2.1(a), the HKICPA has revised the SOP for standards setting which was endorsed by the AASC on 28 February 2022 and the EC on 16 March 2022. The revised SOP sets out the specific responsibilities of the SSD, the means and frequency for monitoring publications of international pronouncements and consultation documents, the time limits for publications of international pronouncements and consultation documents and their procedures. This will enhance the accuracy of the standards. We were satisfied with the implementation of the follow-up action and will review its operation in our next onsite assessment.

- 4.2.3 Regarding our finding on the policy for post-implementation review as set out in paragraph 4.2.1(b), the HKICPA updated it in May 2022. The revised policy includes a new mechanism to conduct an analysis every three years to identify the standards that should undergo a post-implementation review. The analysis is based on qualitative and quantitative data. It also states the data to be collected for evaluating “significant, contentious or complex” issues, including:
- (a) The number of technical enquiries on a specific standard;
 - (b) The nature and depth of the technical enquiries;
 - (c) The issues identified from discussions at the AASC, with advisory panels or through outreach with stakeholders; and
 - (d) The areas of concern identified in reports issued by regulators.
- 4.2.4 We were satisfied with the implementation of the follow-up action and will review their operation in our next onsite assessment.

4.3 Our findings and recommendations from the 2022 Assessment

Finding 2: The SOP of standards setting does not cover all major standard-setting related activities

- 4.3.1 According to the “IAASB Framework for Activities”, standard-setter’s work *“does not stop once a new or revised standard is issued, instead, it has a responsibility to help with facilitating that the changes from new and revised standard(s) are consistently and properly implemented. An implementation support plan should be established shortly after the finalisation of a new or revised standard(s)”*⁴.
- 4.3.2 We noted that when presenting a new or revised standard for review and approval by the AASC/EC, the explanatory paper prepared by the SSD usually covers briefly the proposed implementation support activities such as “articles will be issued in Tech News” or “training to be provided”. We noted that the HKICPA did not have a SOP in place to govern the planning and monitoring of implementation support activities for new or revised standard. This may impair the adequacy and appropriateness of the types of supporting activities and stakeholders may have unmet needs. Also, there is a lack of details on the proposed supporting activities such as the number, format or timing of activities.
- 4.3.3 The implementation support activities are not included in the work plan which may result in the delay in delivering important support activities. Although some of the implementation support activities may not be handled by the AASC/EC, as trainings may be led by the Professional Development Committee, the AASC/EC should monitor the progress to ensure they are completed in a timely and efficient manner.

⁴ International Auditing and Assurance Standards Board (IAASB), “IAASB Framework for Activities”, 4 May 2021, <https://www.ifac.org/system/files/publications/files/IAASB-Framework-for-Activities.pdf>.

- 4.3.4 The AASC/EC approved the revised policy for post-implementation review in February/March 2022, which sets out the criteria for identifying “significant, contentious or complex” issues in a consistent manner. Pursuant to the revised policy for post-implementation review, the HKICPA plans to conduct a data analysis in late 2022 to assess whether a post-implementation review is necessary for each of the standards, codes and guidelines in its inventory. The analysis will help identify whether a standard has significant, contentious or complex issues in accordance with the approved criteria. The HKICPA will include high priority projects as identified in the post-implementation review in the committees’ work plans in 2023 for monitoring.
- 4.3.5 It was also noted that the HKICPA does not have a SOP for the post-implementation review to ensure the consistent performance of procedures. Developing one would allow proper identification of standards/requirements that should be subject to review.

Our recommendations

- 4.3.6 The HKICPA should enhance their SOP to cover implementation support activities for new or revised standards and post-implementation review of standards/requirements:

Implementation support activities for new or revised standards

The SOP should cover:

- (a) Criteria for assessing the extent of implementation support activities. The criteria should include, inter alia, the complexity and significance of the standard(s) and the needs of the stakeholders;
- (b) Detailed plans and deliverables of the implementation support activities to enable the AASC/EC to assess their adequacy and appropriateness;
- (c) The inclusion of the agreed implementation support activities in the work plan for ongoing monitoring; and
- (d) An evaluation mechanism on the outcome of the implementation support activities.

Post-implementation review of standards/requirements

The SOP should cover:

- (a) Criteria and threshold for identifying “significant, contentious or complex” issues, in a consistent manner;

- (b) Detailed procedures of post-implementation review covering data collection, performance of analysis, execution of post-implementation review and determination of the appropriate follow-up actions;
- (c) The inclusion of the post-implementation review activities in the work plan for ongoing monitoring; and
- (d) An evaluation mechanism on the outcome of the follow-up actions of the post-implementation review.

HKICPA's response:

In respect of the implementation support activities, we will submit a revised SOP to the AASC/EC for approval at their first meeting in 2023. The SOP will be revised to:

- (a) *require submission of nature, timing and extent of implementation support activities on any major new/revise standard to the AASC/EC for approval at the time of presenting the final amendment/standard to the committees for endorsement for issue; and*
- (b) *include the determination criteria for the committees. Although the international standard setting bodies, including the International Accounting Standards Board, IAASB and IESBA, have not issued criteria specific to the determination of implementation support activities, we have made reference to their criteria such as "whether to take on a project on board" and "how to prioritize a project" in developing our criteria.*

In respect of the post-implementation review of standards/requirements, the revised policy was approved by the AASC/EC in February/March of 2022 respectively and we are conducting the related data analysis for the first time this year. We see the data analysis as the next phase of the exercise that started with the development and approval of the policy and will give this comprehensive and time consuming exercise the necessary attention to fully complete the actions planned to address the 2021 recommendation.

The proposals on how data will be collected and assessed were agreed by the AASC/EC at the meetings noted above. Development and fine-tuning of the detailed methodology for the different phases of the post-implementation review is happening as our work progresses. The committees will be kept informed of any meaningful progress and the committees will be consulted on significant or highly judgmental issues as needed. The detailed methodology will be submitted to the committees for approval by the end of 2022, where such will be documented in the SOP once approved as appropriate and effective by the committees.

Section 5

Acknowledgement

- 5.1 When preparing this Report, we would like to record its appreciation of HKICPA's cooperation in conducting the 2022 Assessment.

Annex 1

Responsibilities of the HKICPA in relation to the Specified Functions and its related governance arrangements under the PAO

Nomination, selection and appointment of Specified Committees' members

- A1.1 Under section 18(1)(m) of the PAO, the HKICPA Council “may appoint committees to assist or advise the Council in the exercise of its powers and delegate to such committees such of its power as it may ... determine”. The RPC is a statutory committee established under the HKICPA Council and acts as the “Registration Committee” and “Practising Committee” appointed under sections 20 and 26 of Professional Accountants By-Laws (Cap 50A). In accordance with the terms of reference of the RPC⁵, the roles of the RPC that are relevant to registration of PIE auditors are to:
- (a) Advise the HKICPA Council and where the RPC considers necessary, examine and/or make inquiries on the approval or rejection of applications for registration as registered PIE auditors under the FRCO; and
 - (b) Develop, revise and issue publications and guidelines on registration matters.
- A1.2 Under section 52(1)(b) of the PAO, the HKICPA Council has delegated its authority to approve or reject new and renewal applications for registration of local PIE auditors under Part 3 of the FRCO to the following individuals:
- (a) Straightforward applications: The Head of the Membership and Admission Department (M&AD), who is accountable to the HKICPA Council and the HKICPA Registrar.
 - (b) Non-straightforward applications: The HKICPA Registrar (in consultation with the RPC).

⁵ HKICPA, “Registration and Practising Committee – Terms of Reference 2021”, 2021, http://app1.hkicpa.org.hk/about_us/committee_info.php?committee_id=33&year=2021.

- A1.3 Under section 52(1)(a) of the PAO, the HKICPA Council has delegated its power and responsibility in adopting standards and guidelines on CPD requirements for registered PIE auditors to the EC. The HKICPA Council approved on 21 April 2022 to change the delegation of the power and responsibility for setting CPD requirements and making necessary changes to *Statement 1.500 Continuing Professional Development* to RPC. The M&AD supports the standard setting work of the RPC.
- A1.4 The terms of reference of the RPC⁶ were revised to include the responsibility “to prescribe the Continuing Professional Development requirements of the Institute and monitor compliance by members for annual membership renewal; and develop, review and issue *Statement 1.500 Continuing Professional Development* after consultation with other committees, such as the Professional Development Committee and Standard Setting Committees.”
- A1.5 The HKICPA Council has delegated the power and responsibility for setting the Standards on Professional Ethics to the EC, and those for setting the Standards on Auditing and Assurance Practices to the AASC. The relevant terms of reference of the EC and AASC are extracted in paragraph A1.6 and A1.7 respectively. The SSD supports the standard setting work of the EC and AASC.
- A1.6 The terms of reference of the EC⁷ set out their roles and responsibilities which include:
- (a) The adoption of standards and guidelines on ethics for professional accountants; and
 - (b) The development and preparation of comments on the IESBA and other consultative documents relating to ethics for professional accountants.
- A1.7 The terms of reference of the AASC⁸ set out their roles and responsibilities which include:
- (a) The adoption of new and revised standards on auditing and assurance;
 - (b) The development and issuance of 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; and
 - (c) The development and preparation of comments on IAASB and other consultative documents relating to auditing and assurance matters, including responding to requests for comments or information on auditing and assurance matters from other standard setting or regulatory bodies.

6 HKICPA, “Registration and Practising Committee – Terms of Reference 2022”, 2022, http://app1.hkicpa.org.hk/about_us/committee_info.php?committee_id=33&year=2022.

7 HKICPA, “Ethics Committee – Terms of Reference 2022”, 2022, http://app1.hkicpa.org.hk/about_us/committee_info.php?committee_id=34&year=2022.

8 HKICPA, “Auditing and Assurance Standards Committee – Terms of Reference 2022”, 2022, http://app1.hkicpa.org.hk/about_us/committee_info.php?committee_id=40&year=2022.

Setting CPD requirements for registered PIE auditors and compliance audit on CPD requirements

- A1.8 Under section 28(2) of the PAO, the HKICPA Council is empowered to prescribe the requirements for CPD for CPAs, including registered PIE auditors.
- A1.9 Compliance with CPD requirements is a condition for the renewal of registration as a CPA and/or issuance and renewal of a practising certificate by the HKICPA.
- A1.10 The CPD requirements prescribed by the HKICPA are set out in *Statement 1.500 Continuing Professional Development*, which apply to all CPAs.

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

- A1.11 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 CPAs, including registered PIE auditors.
- A1.12 In this regard, the HKICPA has issued the Code of Ethics for Professional Accountants to set out the ethical requirements for all CPAs, including PIE auditors (i.e. the Standards on Professional Ethics).
- A1.13 The HKICPA has also issued the Standards on Auditing and Assurance Practices including:
- (a) Hong Kong Standards on Quality Control;
 - (b) Hong Kong Framework for Assurance Engagements;
 - (c) Hong Kong Standards on Auditing;
 - (d) Hong Kong Standards on Review Engagements;
 - (e) Hong Kong Standards on Assurance Engagements;
 - (f) Hong Kong Standards on Investment Circular Reporting Engagements;
 - (g) Hong Kong Standards on Related Services; and
 - (h) Practice Notes and Auditing Guidelines, which are locally developed by the HKICPA.

Annex 2

HKICPA's policies and procedures in carrying out the Specified Functions

Nomination, selection and appointment of Specified Committees' members

A2.1 HKICPA's procedures for the nomination, selection and appointment of committee members are set out in its Internal Procedural Documentation for the Nomination Process, which are summarised below.

- (a) The director-in-charge of the Specified Committee determines the criteria for the composition of the committee based on HKICPA's "Committee Composition Criteria" which include "expected skills and/or knowledge". As an example, the "expected skills and/or knowledge" for the RPC include:
 - Familiarity with issues pertaining to registration, practising and regulatory issues and related services; and
 - Public accounting experience in Hong Kong or in other international markets, or in specific sectors.
- (b) Each year, the HKICPA issues an open invitation to all HKICPA members to apply to be a member of the Specified Committees and sends specific invitations to lay members. The candidates are requested to provide details of their qualifications, and a self-assessment on how their skills, knowledge and experience are relevant and may potentially contribute to the "expected skills and/or knowledge" of the committee;

- (c) To be re-appointed, existing committee members need to complete a self-evaluation. Additional feedback will be provided by the chairpersons of the relevant committees and collected by the respective HKICPA departments (i.e. M&AD for RPC; SSD for EC and AASC). The performance evaluation form contains questions of whether the chairperson recommends the member to be re-appointed as well as six binary (yes/no) questions based on HKICPA's "Expectations on the Performance of Committee Members".
- (d) For the re-appointment of committee chairpersons, feedback on the chairpersons' performance is provided by committee members and collected by the M&AD and the SSD. Similarly, the performance evaluation form contains questions as to whether the chairperson is recommended for re-appointment. There are six additional binary questions based on the "Expectations on the performance of Committee Chairs".
- (e) The director-in-charge of the committee prepares the proposed composition of the respective committee with a summary of key considerations and submits to the Nomination Committee of the HKICPA. The proposed composition is prepared based on the information as set out in paragraphs A2.1(b) to (d) and the HKICPA management's comments on the performance of the members and the chairpersons. The Nomination Committee of the HKICPA reviews such proposed composition and makes a recommendation to the HKICPA Council.
- (f) The HKICPA Council approves the proposed committee composition recommended by the Nomination Committee.

Setting CPD requirements for registered PIE auditors and compliance audit on CPD requirements

A2.2 The HKICPA adopts and implements the IESs issued by IFAC. The IESs establish requirements for:

- (a) Entry to professional accounting education programmes;
- (b) Initial professional development of aspiring professional accountants; and
- (c) CPD of professional accountants.

- A2.3 In accordance with sections 28(2)(c) and 30(8) of the PAO, when HKICPA members, including those who are responsible persons of registered PIE auditors, apply for renewal of their annual membership and/or issuance of a practising certificate, they must comply with the CPD requirements prescribed by the HKICPA.
- A2.4 The revised *Statement 1.500 Continuing Professional Development* (Statement 1.500) issued in March 2021 prescribes the CPD requirements. Pursuant to paragraph 9 of Statement 1.500, all HKICPA members are required to undertake relevant CPD that will allow member to develop and maintain a level of professional competence that is commensurate with their role as a professional accountant.
- A2.5 Paragraphs 10 and 16 of Statement 1.500 require that all HKICPA members, except those exempted from complying with CPD requirements, are required to:
- (a) Complete at least 120 hours of relevant professional development activities in each rolling three-year reporting period, of which 60 hours shall be verifiable (i.e. supported by evidence for the specific number of hours of CPD activity that has been undertaken);
 - (b) Complete at least 20 hours of relevant professional development activity in each year;
 - (c) Measure learning activities to meet the above requirements (including evaluation of the adequacy and relevancy of CPD activities); and
 - (d) Maintain records and documentary evidence sufficient to support their attendance or completion of CPD activities for a minimum of five years, and produce such records and documentary evidence when they are selected for an audit conducted by the HKICPA. Records of CPD activities include details of the provider of the programme, learning objectives, course outlines and timetables, instructional materials, case studies and certificates of completion.

According to paragraph 12 of Statement 1.500, each reporting period commences from 1 December and ends on 30 November.

A2.6 The HKICPA renews the membership of their members in December. As part of the renewal process, HKICPA members are required to declare their compliance with CPD requirements. The HKICPA conducts an audit from April to September of the following year, after the renewal. This allows the HKICPA to assess the accuracy of their members' declarations regarding the compliance with the CPD requirements on a sample basis.

A2.7 HKICPA's procedures in conducting the compliance audit on CPD requirements are set out in their SOP for the compliance audit on CPD requirements. The RPC reviewed HKICPA's procedures in conducting the compliance audit on CPD requirements at its meeting on 3 May 2021.

A2.8 The procedures are summarised below.

(a) Timing of the compliance audit

The M&AD usually starts the compliance audit in April and completes in September of each year after the annual renewal exercise is completed. In view of the pandemic, a special six-month extension was provided to all members such that they had until 31 May 2021 to fulfil the CPD requirements. Consequently, the 2020 CPD compliance audit for 2021 membership renewal commenced in June 2021 and was completed in November 2021.

(b) Selection of samples

The HKICPA members who have declared compliance with the CPD requirements and renewed their HKICPA membership are selected randomly for audit. In selecting the sample, HKICPA adopts a risk-based approach. More samples are selected from those associated with higher risk of non-compliance of CPD requirements, such as the HKICPA members who previously failed to comply with CPD requirements.

(c) Communication with the selected HKICPA members

The HKICPA members who are selected for the compliance audit will receive notifications from the HKICPA requesting them to complete and return the "CPD Record Form" to the HKICPA. The "CPD Record Form" requires the following details of the CPD activities completed in the three-year reporting period (for example 1 December 2017 to 30 November 2018, 1 December 2018 to 30 November 2019 and 1 December 2019 to 30 November 2020):

- Nature of the CPD activities;

- Organizer of the CPD activities;
- Date of attending the CPD activities; and
- Number of CPD hours obtained.

(d) Assessment of compliance with Statement 1.500

Paragraph 18 of Statement 1.500 states that the HKICPA members who are selected for the audit are requested to provide documentation to support attendance or completion of the CPD activities as stated in their CPD records. In accordance with HKICPA's procedures, the M&AD checks:

- Whether the CPD activities undertaken are relevant to the development and maintenance of professional competence; and
- Whether the CPD activities are completed or attended by the selected HKICPA members.

The HKICPA considers a compliance audit on CPD requirements a pass if an HKICPA member "*reported with sufficient CPD hours with activities qualified as CPD that appear to be relevant to the member's job(s)*".

(e) Outcomes and follow-up actions

The HKICPA members who do not have sufficient CPD hours for the three-year reporting period are required to make up for the shortfall of CPD hours within a specified time. If the members are unable to do so by the deadline, the M&AD will reject their applications for the renewal of HKICPA membership in December (i.e. for the year following the year for which they made the false declaration of compliance).

(f) Completion of the compliance audit and reporting to the RPC

The M&AD completed the 2020 CPD compliance audit in November 2021 and reported the results of the compliance audit to the RPC on 22 November 2021.

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

A2.9 As stated in the Auditing Preface and Ethics Preface, it is HKICPA's policy to achieve convergence of the Standards on Professional Ethics and the Standards on Auditing and Assurance Practices with the respective pronouncements issued by the IESBA and IAASB.

A2.10 HKICPA's procedures for setting the Standards on Professional Ethics, and Auditing and Assurance Practices are set out in the following policy documents:

- (a) The SOP for standards setting which was reviewed by the EC/AASC on 11 May 2022/28 February 2022;
- (b) Auditing Preface including the due process to adopt IAASB authoritative pronouncements and due process for the development of local practice notes; and
- (c) Preface and due process for adoption of IESBA pronouncements and due process for the development of local ethics standards included in the Ethics Preface.

A2.11 The HKICPA reviews and updates the policy documents describing the processes in setting the Standards on Professional Ethics, and Auditing and Assurance Practices on an annual basis.

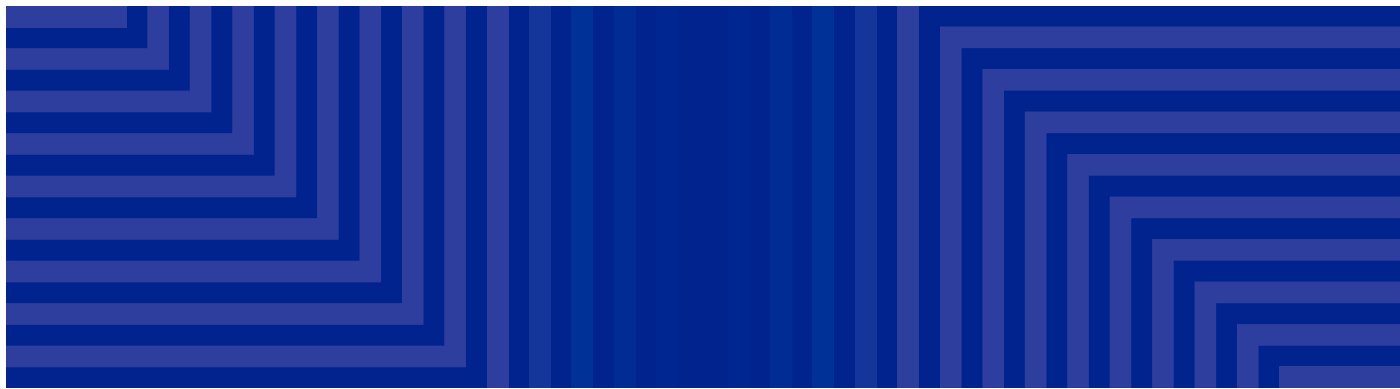
Annex 3

Abbreviations

AASC	Auditing and Assurance Standards Committee
AFRC	Accounting and Financial Reporting Council
AFRCO	FRCO as amended by the Financial Reporting Council (Amendment) Ordinance 2021
Auditing Preface	Preface to the Hong Kong Quality Control, Auditing, Review, Other Assurance and Related Services Pronouncements
Assessment Period	The period from 1 April 2021 to 31 March 2022
CPA	Certified public accountant
CPD	Continuing professional development
EC	Ethics Committee
Ethics Preface	Preface included in the Code of Ethics for Professional Accountants
FRC	Financial Reporting Council
FRCO	Financial Reporting Council Ordinance (Cap. 588)
HKICPA	Hong Kong Institute of Certified Public Accountants
HKICPA Council	Council of HKICPA established by section 10(1) of the PAO
HKICPA Registrar	Registrar appointed under section 21 of the PAO
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
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.
M&AD	Membership and Admission Department
PAO	Professional Accountants Ordinance (Cap. 50)
Public interest entity (PIE)	Has the same meaning as in section 3(1) of the FRCO, i.e. a listed corporation the listed securities of which comprise at least shares or stocks, or a listed collective investment scheme.
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 for the preparation of: <ul style="list-style-type: none"> (a) an auditor's report on a PIE's financial statements/annual accounts required by section 379 of the Companies Ordinance (Cap. 622), the Listing Rules or any relevant code; (b) a specified report required to be included in a listing document for the listing of a corporation's shares or stocks or for the listing of a 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
SOP	Standard operating procedures
Specified Committee	RPC, AASC and EC
SSD	Standard Setting Department

Contacts



If you have any enquiries or comments, please feel free to contact us.

Accounting and Financial Reporting Council
24/F, Hopewell Centre, 183 Queen's Road East,
Hong Kong

T: +852 2810 6321

F: +852 2810 6320

E: general@afrc.org.hk

W: afrc.org.hk

Copyright © 2022 Accounting and Financial Reporting Council

