



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

16 December 2021

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 share with the public our report on our second assessment of the statutory functions performed by the Hong Kong Institute of Certified Public Accountants (HKICPA) that are within the remit of our oversight function under the FRC Ordinance (Specified Functions).



The Specified Functions comprise:

- (a) **Registration** — for local auditors of listed entities (PIE);
- (b) **Standards** — setting Standards on Professional Ethics, and Auditing and Assurance Practices for PIE auditors; and
- (c) **CPD** — setting requirements for PIE auditors to carry out continuing professional development activities.

These functions are critical elements of the overall system for regulating the auditors of listed entities.

We take a substantive approach to assessing the performance of the Specified Functions. It is our duty to make recommendations and ultimately to give directions on the Specified Functions if we are satisfied that it is in the public interest to do so.

This year, we evaluated the HKICPA's policies and procedures for the performance of the Specified Functions in addition to assessing performance against those policies and procedures, and also evaluated the follow-up actions taken by the HKICPA in response to our recommendations from our first assessment.

Our findings and recommendations

Four of our nine recommendations from last year (one relating to governance of the Specified Functions, one to Registration and two to Standards) were satisfactorily followed up by HKICPA designing and implementing appropriate policies and procedures.

Policies and procedures had also been developed by HKICPA to address four of the remaining recommendations (one relating to governance, two to CPD and one to Standards) but we found that there was room for improvement in terms of their effectiveness. There was also no follow-up actions had been taken for the other recommendation from last year (relating to CPD).

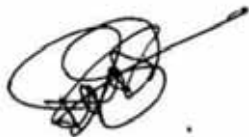
Accordingly, it has been necessary for us to make additional recommendations in the current assessment to re-address five of our recommendations from last year. We have also made three recommendations relating to Registration based on new findings from our second assessment.

We communicated all of our findings and recommendations to the HKICPA and considered their responses, including their intended follow-up actions. We believe that it is in the public interest for the HKICPA to take appropriate follow-up actions to address our recommendations and will continue to evaluate the effectiveness of the follow up actions taken.

We will aim to review changes to policies and procedures developed by HKICPA to address our recommendations when they are proposed and will monitor the implementation and impact of such changes on the performance of the Specified Functions during the next onsite assessment after they are implemented.

We will continue communicating with the HKICPA to ensure satisfactory resolution of the issues identified.

We welcome the constructive engagement by the HKICPA that we experienced in our second assessment, and acknowledge the HKICPA's cooperation in facilitating our work.



Marek Grabowski
Chief Executive Officer

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Section 1 OVERVIEW

1.1 Introduction

1.1.1 This Report summarises the key findings and recommendations of our second assessment (the 2021 Assessment) of the performance of the Hong Kong Institute of Certified Public Accountants (HKICPA) of the functions set out in paragraph 1.2.1 (i.e. the Specified Functions), which covers the period from 1 April 2020 to 31 March 2021 (i.e. the Assessment Year).

1.2 Objectives of our assessment

1.2.1 We have 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 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 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.

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 relevant 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)) as an observer;
- (b) The HKICPA will provide us 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 will enable us 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 we may reasonably require for the performance of the oversight function; and
- (c) We will conduct regular assessment of the 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 We will publish a report, available on the websites of the FRC and the HKICPA, with the key findings and recommendations of our assessment regarding the HKICPA's performance of the Specified Functions on an annual basis.

1.3 Scope of our assessment

1.3.1 We assessed the HKICPA's policies and procedures regarding the performance of the Specified functions. In addition, we evaluated the follow-up actions taken by the HKICPA on our recommendations in the 2020 Assessment.

1.4 How we conducted the assessment

1.4.1 In conducting the 2021 Assessment, we performed the following procedures:

- (a) Observed and reviewed minutes of 19 meetings of the HKICPA committees responsible for the performance of the Specified Functions (i.e. RPC, EC and AASC) during the Assessment Year;
- (b) Reviewed the 4 quarterly reports provided by the HKICPA on the performance of the Specified Functions during the Assessment Year;
- (c) Conducted an on-site assessment from 10 June 2021 to 29 July 2021 to evaluate HKICPA's performance of the Specified Functions during the Assessment Year, in which we:
 - Examined the relevant internal documents, written policies and procedures of the HKICPA; and
 - Interviewed the chairpersons of the committees and staff members of the HKICPA involved in the performance of the Specified Functions.

1.5 Summary of our findings and recommendations

1.5.1 A summary of our findings and recommendations based on our assessment is set out below. Details of findings and recommendations are set out in Section 2 to Section 4 of this Report. Where these findings mainly or partly result from follow up of our recommendations from the 2020 Assessment, they have been annotated "2020FU". However, they include more detailed considerations based on HKICPA's initial follow-up or subsequent discussions.

Registration of PIE auditors

Finding 1: Criteria for determining the composition of the RPC were not specified in the HKICPA's documentation (2020FU)

[Paragraphs 2.3.12 to 2.3.15]

1.5.2 In response to our findings in the 2020 Assessment in relation to the skills and knowledge expected of members of the RPC, the HKICPA Council approved on 24 August 2021 a table of skills, knowledge, and experience for RPC members. However, by then, the 2021 committee selection and appointment process for the RPC had already been completed. We noted that during that earlier process, the HKICPA Management did not specify the criteria for determining the composition of the RPC, including the proportion of representatives from small, medium to large practices; and the skills, knowledge and working experience expected from an RPC member, as required in the HKICPA's documentation called "Committee Composition Criteria" which was applicable at the time. Several of those attributes of the composition of the RPC that were specified by the HKICPA Management were not sufficiently precise and measurable for the purpose of evaluating whether potential RPC members possessed the desired skills, knowledge and working experience. Moreover, the "Committee Composition Criteria" envisage that the RPC comprises only certified public accountants (CPAs). Inappropriate composition of the RPC would affect the effectiveness of the RPC in providing advice on the matters relating to the registration of local PIE auditors.

1.5.3 The HKICPA should:

- (a) **Specify attributes that are relevant for members of the RPC, taking into account the overall objectives and activities of the RPC as set out in the terms of reference, which should be subject to approval by the Council;**
- (b) **Develop, for each of those attributes, sufficiently precise and measurable criteria to evaluate whether potential RPC members possess the desired skills, knowledge and working experience; and**
- (c) **Specify that at least some RPC members should be individuals who are not CPAs (any ratio of CPAs to lay members is currently permitted leaving it open to have 100% CPA members) to increase diversity of views in the public interest and mitigate any self-interest threat that a composition consisting only of CPA members may bring.**

HKICPA's response: Further development of criteria to determine the composition of RPC (and other committees) has been ongoing since the publication of the 2020 Assessment report. The FRC's finding recognises that the 2021 Assessment looked at an interim stage of development. The recommendations under paragraphs 1.5.3(b) and (c) will be taken into consideration in finalising the process for 2022 committee appointments.

Finding 2: Performance of chairperson and members of the RPC was not evaluated based on the performance evaluation criteria set by the HKICPA (2020FU)

[Paragraphs 2.3.16 to 2.3.19]

1.5.4 In relation to our finding on the conduct of performance evaluation of committee members in the 2020 Assessment, the HKICPA Council approved a new evaluation policy on 24 August 2021. However, by then, the 2020 performance evaluation process had already been completed. We noted that during that earlier process in 2020, the performance of the chairperson and members of the RPC was not evaluated based on the factors specified in the HKICPA's "Expectations on the Performance of Committee Members" applicable at the material time.

1.5.5 The HKICPA should perform a rigorous performance evaluation of the RPC members to assess whether the composition of RPC is fit for its purpose. The HKICPA should also develop written guidelines and provide training relating to the performance evaluation process.

HKICPA's response: All committee members appointed for 2022 will be fully briefed on the new performance evaluation process approved by the Governance Committee and the Council in June and August 2021 respectively and shared with the FRC. The recommendations under paragraph 2.3.18 were included in the new process. For committees with roles that are of public interest, specific requirement set out in paragraph 2.3.19 could be added to make feedback from committee chairs and members mandatory.

Finding 3: No orientation was provided to new RPC members

[Paragraphs 2.3.20 to 2.3.22]

1.5.6 There were 13 RPC members appointed for the year 2021 and 6 of them were new members. Although the new RPC members were given the terms of reference and work plan of the RPC as an agenda item at the first committee meeting in 2021, no orientation was provided to these new members to introduce to them the terms of reference of the RPC and their roles and responsibilities; the policies and procedures and legal requirements for the registration of members, firms and local PIE auditors; and the expectations on their performance.

1.5.7 The HKICPA should put in place policies to ensure that a structured induction is arranged for new RPC members before its first meeting.

HKICPA's response: As well as making terms of reference and work plan agenda items for the first meeting of the year, it is the HKICPA's standard practice to provide RPC members with full explanatory supporting materials including relevant policies and procedures for all requests for decision by RPC on individual cases and other matters. The HKICPA will arrange an induction session for any new RPC members to be appointed for 2022.

Finding 4: CPD compliance audit was performed after the renewal of HKICPA membership which may lead to unqualified persons being registered [Paragraphs 2.5.8 to 2.5.10]

1.5.8 In accordance with section 28(2)(c) of the Professional Accounts Ordinance (Cap 50) (PAO), HKICPA members, including those who are responsible persons of registered PIE auditors, are required to comply with CPD requirements for annual renewal of their membership. However, the HKICPA only required their members to declare the compliance of CPD requirements for the renewal of membership in December 2019. The compliance audit on CPD requirements was performed in April 2020 to September 2020, after the renewal. The delay in performing the compliance audit may result in unqualified persons being registered.

1.5.9 The HKICPA should carry out the compliance audit on CPD requirements, which is performed on a sample basis, by the time they process the applications for renewal of registration of local PIE auditors in December. For example, the HKICPA may select and notify the responsible persons of PIE auditors for the compliance audit and request the necessary information when the HKICPA communicate with them on their renewal applications.

HKICPA's response: Declaration of compliance with CPD requirements at the time of membership renewal has been in place for many years. The HKICPA consider it reasonable to assume that professional accountants make honest and accurate declaration. To undertake a vetting process using only a sample of members would provide no more comfort on accuracy of declarations than the current process and the impact on timing and resource implications during the annual renewal process could be substantial. The HKICPA would further engage with FRC on how to address this recommendation. The change in the process would need to go through due process of member engagement and consideration by HKICPA Council before implementation.

Finding 5: The HKICPA did not sufficiently check underlying documents to verify the completion of CPD activities including attendance and hours
[Paragraphs 2.5.11 to 2.5.14]

- 1.5.10 For the 39 samples of responsible persons of registered PIE auditors whom the HKICPA audited for compliance with CPD requirements, seven of them participated in CPD activities organised by the HKICPA. For CPD activities not organised by the HKICPA, the staff of HKICPA did not request the responsible persons to provide documentation to support attendance or completion of CPD activities for checking. Eight responsible persons, who met the CPD requirements through the CPD activities offered by their employers, provided their attendance records voluntarily when submitting “CPD Record Forms”. Although the HKICPA explained that they had verified the attendance of the responsible persons’ reported CPD activities organised by the HKICPA, there was no evidence that the HKICPA had undertaken such procedures. In addition, the HKICPA’s written record did not indicate whether the HKICPA’s procedures had been performed.
- 1.5.11 The HKICPA should perform checks on the underlying documents to evaluate whether the reported CPD activities were undertaken, irrespective of the providers of the CPD activities, including checks to confirm the reported time spent. Moreover, in the case of registered responsible persons, the HKICPA should evaluate whether the CPD activities undertaken by registered PIE auditors are relevant to maintaining their professional competence to perform their role as PIE auditors competently. The HKICPA should also strengthen the documentation of the procedures performed, the relevant evidence obtained and the conclusions reached for the compliance audit on CPD requirements.**

HKICPA’s response: The extent of detailed checking to verify CPD activities has been based on an initial assessment of the information provided whereby the reviewer will request additional information for cases where there are doubts on the suitability of the provider or relevance of the content. However, the HKICPA accept that documentation of the verification carried out can be improved and will keep more evidence for responsible persons that are selected in the CPD audit. The HKICPA will enhance their processes for addressing this recommendation.

Setting CPD requirements

Finding 6: No prescription of specific CPD requirements for registered PIE auditors (2020FU)

[Paragraphs 3.4.11 to 3.4.13]

- 1.5.12 The HKICPA had not addressed our finding in the 2020 Assessment in relation to prescription of specific CPD requirements for registered PIE auditors. The HKICPA had not concluded whether it should prescribe specific CPD requirements for registered PIE auditors.
- 1.5.13 The HKICPA should prescribe specific CPD requirements for registered PIE auditors to ensure PIE auditors have the knowledge and skills for discharging their duties in performing PIE engagements. The HKICPA may make reference to paragraph 11 of Statement 1.500 in prescribing specific CPD requirements for PIE auditors, which prescribes minimum relevant verifiable hours of CPD for Specialist Designates, but should also consider specifying particular topics to be covered in general or from time to time. We will continue to follow up with the HKICPA in this respect.**

HKICPA's response: There has been ongoing discussion on this finding. The HKICPA will develop a work plan with timelines on how to address FRC's recommendation and will consider whether the example of additional CPD requirements for Specialist Designates will be of relevance. The HKICPA believes that FRC's input will be essential to develop specific CPD requirements for registered PIE auditors.

Updating CPD requirements and the Standards on Professional Ethics, and Auditing and Assurance Practices for registered PIE auditors

Finding 7: Deficiencies in design and performance of policies and procedures relating to the update of CPD requirements and Standards on Professional Ethics, and Auditing and Assurance Practices (2020FU)

[Paragraphs 3.4.14 to 3.4.16; and 4.5.14 to 4.5.17]

1.5.14 We noted the following three instances which indicated that the design and performance of policies and procedures relating to updating CPD requirements and Standards on Professional Ethics, and Auditing and Assurance Practices were deficient:

- (a) The revised Statement 1.500 issued by the HKICPA in March 2021 omitted the learning outcome expected from an audit engagement partner relating to the competence area of “business environment” in IES 8;
- (b) The revised requirements regarding “Conforming Amendments to the IAASB International Standards as a Result of the Revised IESBA Code” were issued by the HKICPA 8 days later than the effective date, when the International Auditing and Assurance Standards Board (IAASB) had issued the revised standard for over 3 months; and
- (c) The published Code of Ethics for Professional Accountants (i.e. the version revised in June 2021) also contained the old code (i.e. the version revised in July 2020).

1.5.15 The HKICPA should conduct a comprehensive review of the standard operating procedures (SOP) on setting CPD requirements, auditing and ethics standards to adopt procedural enhancements and tighten the internal controls to avoid a recurrence in the future and to ensure the timely issue of accurate standards/requirements.

HKICPA’s response: For the finding in paragraph 1.5.14(a), the HKICPA will take necessary steps including strengthening the process for final approval of changes to Statement 1.500. For findings set out in paragraphs 1.5.14(b) and (c), the HKICPA have implemented enhancements to SOPs to avoid recurrence of the administrative oversight.

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

Finding 8: Ineffective policy for post-implementation review of standards/requirements (2020FU)

[Paragraphs 4.5.11 to 4.5.13]

- 1.5.16 In response to our finding in the 2020 Assessment, the HKICPA developed a new policy to conduct post-implementation reviews of major new standards and amendments that are significant, contentious or complex, after those standards and amendments have been applied for a few years. The HKICPA would also participate in post-implementation review coordinated by the IAASB and IESBA.
- 1.5.17 The HKICPA should set out in their policy the frequency of post-implementation reviews, the means to collect evidence and the criteria for determining “significant, contentious or complex” standards for evaluation.**

HKICPA’s response: The HKICPA had engaged with stakeholders through various channels, including members events and committee/panel meetings to understand implementation issues of standards/requirements. The HKICPA will submit a revised draft policy as well as a paper explaining their practices on conducting post-implementation review of standards to their committees for consideration.

Follow up from 2020 Assessment

- 1.5.18 In response to our findings and recommendations in the 2020 Assessment, the HKICPA had set up the “Task Force on the FRC Assessment on HKICPA” to oversee the follow-up actions taken by the HKICPA in addressing our recommendations. The Task Force comprises the HKICPA’s President and two Vice-Presidents, Chairpersons of the committees responsible for the Specified Functions.

1.5.19 The actions taken by HKICPA to address our findings in the 2020 Assessment and our evaluation of those actions are as follows:

Governance related

Findings in the 2020 Assessment	Progress made by the HKICPA
(a) Skills and knowledge expected from committee members were not specified and no formal evaluation on the committee members was conducted.	The HKICPA had developed policies to address our findings. However, new recommendations are made in Findings 1 and 2. [Paragraphs 2.3.10 to 2.3.19]
(b) The terms of reference of EC was not accurate.	The HKICPA had revised the terms of reference of EC and developed policies to address our findings. We were satisfied with the changes made and will review their operation in our next onsite assessment. [Paragraphs 3.3.6 to 3.3.7]

Registration of PIE auditors

Finding in the 2020 Assessment	Progress made by the HKICPA
(c) The HKICPA did not have policies and procedures of imposing conditions other than CPD requirements for registering PIE auditors.	The HKICPA had developed policies and procedures to address our findings. We were satisfied with the changes made and will review their operation in our next onsite assessment. [Paragraphs 2.4.7 to 2.4.8]

Setting CPD requirements

Findings in the 2020 Assessment	Progress made by the HKICPA
<p>(d) The HKICPA did not include the IES 8 requirements in the CPD requirements for registered PIE auditors.</p>	<p>The HKICPA had amended the relevant standard.</p> <p>We were not satisfied with the follow-up actions. New recommendations are made in Finding 7.</p> <p>[Paragraphs 3.4.8; 3.4.14 to 3.4.16]</p>
<p>(e) The HKICPA did not update the CPD requirements for registered PIE auditors in a timely manner.</p>	<p>The HKICPA had developed policies and procedures to address our findings.</p> <p>We were not satisfied with the follow-up actions. New recommendations are made in Finding 7.</p> <p>[Paragraphs 3.4.9; 3.4.14 to 3.4.16]</p>
<p>(f) There was no prescription of specific CPD requirements for registered PIE auditors.</p>	<p>The HKICPA had not concluded whether it should prescribe specific CPD requirements for registered PIE auditors.</p> <p>We were disappointed that there were no follow-up actions. New recommendations are made in Finding 6.</p> <p>[Paragraphs 3.4.10 to 3.4.13]</p>

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

Findings in the 2020 Assessment	Progress made by the HKICPA
<p>(g) The HKICPA did not reflect the procedures for setting the auditing standards accurately in the Amended Preface.</p>	<p>The HKICPA had updated the Amended Preface and developed a procedure to address our findings.</p> <p>We were satisfied with the changes made and will review their operation in our next onsite assessment.</p> <p>[Paragraph 4.5.9]</p>
<p>(h) The HKICPA did not issue an invitation to comment nor performed any local consultation on a proposed ethical requirement of IESBA.</p>	<p>The HKICPA had developed procedures to address our findings.</p> <p>We were satisfied with the changes made and will review their operation in our next onsite assessment.</p> <p>[Paragraph 4.5.10]</p>
<p>(i) The HKICPA did not have a policy in place to conduct post-implementation reviews.</p>	<p>The HKICPA had developed a policy to conduct post-implementation reviews.</p> <p>We were not satisfied with the follow-up actions. New recommendations are made in Finding 8.</p> <p>[Paragraph 4.5.11 to 4.5.13]</p>

Section 2 ASSESSMENT OF THE HKICPA'S PERFORMANCE IN RELATION TO REGISTRATION OF PIE AUDITORS

2.1 Requirements under the FRCO

- 2.1.1 Under section 9(b) of the FRCO, we oversee the HKICPA's performance of the function of dealing with applications and other matters relating to registration of 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. 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 the PIE auditors register for public inspection.

2.2 Objectives of our assessment

- 2.2.1 The objectives of our assessment are to evaluate the HKICPA's policies and procedures relating to the following aspects of the registration process for local PIE auditors:
- (a) Nomination, selection and appointment of the RPC members;
 - (b) New and renewal applications for registration of local PIE auditors, including maintenance of the PIE auditors register; and
 - (c) Compliance audit on CPD requirements for the responsible persons of registered PIE auditors.

2.3 Nomination, selection and appointment of the RPC members

HKICPA's policies and procedures

- 2.3.1 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:
- Straightforward applications: The Head of the Membership and Admission Department (M&AD), who is accountable to the HKICPA Council and the HKICPA Registrar.

- Non-straightforward applications: The HKICPA Registrar (in consultation with the RPC).

Further information regarding HKICPA's policies and procedures for determining whether an application is straightforward or non-straightforward is included in paragraph 2.4.2(b).

2.3.2 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 RPC¹, 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 it is necessary examine and/or make inquiries on the acceptance 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.

Details of the of the RPC's role in oversight of management in registration of PIE auditors are included in paragraph 2.4.2(d).

2.3.3 Sections 20 and 26 of the Professional Accountants By-laws (Cap 50A) provide that the RPC shall be composed of at least 5 CPAs, of whom a majority shall be elected members of the HKICPA Council.

2.3.4 The number of RPC members increased from 9 in year 2020 to 13 on 1 March 2021, of which 8 members (2020: 5 members) are elected members of the HKICPA Council². According to the meeting minutes of HKICPA Council, the increase in the number of RPC members was to increase participation by elected HKICPA Council members to provide the appropriate support and governance, and to include representatives with different industry knowledge.

2.3.5 The RPC comprises 9 practising members (2020: 7 members) from big to medium and small sized audit firms and 4 non-practising members (2020: 2 members) who are professional accountants in business. Such composition is intended to ensure that the RPC members provide balanced views and perspectives in discharging their delegated functions.

1 Refer to the HKICPA's website for the updated terms of reference and composition of the RPC (http://app1.hkicpa.org.hk/about_us/committee_info.php?committee_id=33&year=2021).

2 See footnote 1.

2.3.6 The HKICPA's procedures for the nomination, selection and appointment of the RPC members are set out in their Internal Procedural Documentation for the Nomination Process, which are summarised below.

(a) The HKICPA issue an open invitation to all HKICPA members for joining the RPC. The candidates are requested to provide the following information for the HKICPA's consideration:

- Professional qualifications;
- Academic qualifications;
- 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 Head of the M&AD determines the criteria for the composition of the RPC based on the HKICPA's "Committee Composition Criteria" as follows:

- State statutory requirement, if any;
- Percentage of CPA versus lay member;
- Percentage of CPA (Practising) vs CPA (Non-practising);
- Proportion of representatives from small, medium to large practices;
- Expected skills and/or knowledge;
- Level of work experience; and
- Experience in the HKICPA committee.

- (c) For re-appointment of existing RPC members, the Head of the M&AD evaluates the performance of the RPC members based on the HKICPA's "Expectations on the Performance of Committee Members" as follows:
- At least 50% of meetings attended by the member during the year;
 - Contribution in meetings including active participation and taking initiative on projects;
 - Quality of work supported by research and technical excellence;
 - Cooperation with others including demonstration of good listening skill, considerate attitude and awareness of individual differences;
 - Communication skills including ability to present ideas and convey messages in a clear and coherent manner; and
 - Commitment to the public interest.
- (d) The Head of M&AD prepares the proposed composition of the RPC. The Nomination Committee of the HKICPA reviews such proposed composition based on the information as set out in paragraphs 2.3.6(a) to (c) and makes a recommendation to the HKICPA Council.
- (e) The HKICPA Council approve the proposed committee composition recommended by the Nomination Committee.
- (f) The M&AD sends the appointment letters to the nominated RPC members. The nominated RPC members accept the appointment by returning the signed appointment letters.
- (g) The terms of reference of the RPC are required to be reviewed and amended, if necessary at the first meeting of the RPC in each year.

Our assessment

2.3.7 In conducting our assessment, we evaluated the HKICPA's follow-up actions in response to our recommendations in the 2020 Assessment. In addition, we evaluated the appropriateness of the HKICPA's policies and procedures regarding nomination, selection and appointment of the RPC members set out in the HKICPA's Internal Procedural Documentation for the Nomination Process.

Evaluation of HKICPA's follow-up actions

2.3.8 In the 2020 Assessment, we identified that the skills and knowledge expected from an RPC member were not specified in the HKICPA's policies and procedures. In addition, the HKICPA did not conduct a formal evaluation of the contribution of the RPC members apart from reviewing the attendance records, when reappointing them to the RPC. In the Assessment Year, we evaluated the follow-up actions taken by the HKICPA as set out in paragraphs 2.3.10 to 2.3.11 to ensure satisfactory resolution of the issues identified.

Evaluation of HKICPA's policies and procedures in place in the Assessment Year

2.3.9 To evaluate the HKICPA's policies and procedures regarding nomination, selection and appointment of the RPC members, we performed the following procedures:

- (a) Observed and reviewed minutes of 5 meetings of the RPC during the Assessment Year;
- (b) Interviewed the chairperson of the RPC, the HKICPA Registrar and the Head of the M&AD to understand the HKICPA's policies and procedures;
- (c) Reviewed the revised "Guidance on Nomination of Committee Members" which was approved by the HKICPA Council at its meeting on 30 December 2020; and
- (d) Reviewed the process of nomination, appointment and selection of 3 RPC members and the related HKICPA documentation.

Our findings and recommendations

Evaluation of HKICPA's follow-up actions

2.3.10 In response to our findings in relation to skills and knowledge expected from an RPC member, the HKICPA developed a draft table of skills, knowledge and experience for the RPC members. We found that the draft table is consistent with the "skills and experience" criteria applied by the nominating committee of the International Federation of Accountants (IFAC) for IAASB and IESBA. It was reviewed by the Governance Committee of the HKICPA at its meeting on 10 August 2021 and the HKICPA Council considered and approved it at its meeting on 24 August 2021. The HKICPA will apply the approved table of skills, knowledge and experience for the appointment of RPC members for 2022. We consider that the approved table is reasonable and will review its application in our next onsite assessment.

- 2.3.11 As regards the HKICPA’s follow-up actions in relation to the performance evaluation of RPC members, the HKICPA have developed a draft policy with reference to the practices of IFAC and certain other professional bodies to evaluate the performance of committee members. Under such draft policy:
- (a) Committee chairpersons and members will be invited to provide self-evaluations of their performance and to provide feedback on the overall effectiveness of the committees;
 - (b) Committee chairpersons will be invited to provide feedback on the performance of members and vice versa; and
 - (c) The HKICPA Chief Executive and/or the director-in-charge of the committee (i.e. the Head of the M&AD in the case of the RPC) may provide feedback on the performance of the chairpersons, members and/or the committee as a whole.

The HKICPA have developed feedback forms for documenting the evaluation. Performance evaluations of committee chairpersons and members being considered for re-appointment will be submitted to the Nomination Committee for consideration during the nomination process. Such policy was reviewed by the Governance Committee of the HKICPA at its meeting on 10 August 2021 and the HKICPA Council considered and approved such policy at its meeting on 24 August 2021. The HKICPA will apply the approved policy to evaluate the performance of the RPC members for their re-appointment for 2022.

Evaluation of HKICPA’s policies and procedures in place in the Assessment Year

Finding 1: Criteria for determining the composition of the RPC were not specified in HKICPA’s documentation (2020FU)

- 2.3.12 We noted that the HKICPA Management failed to specify criteria for determining the composition of the RPC for some attributes in the “Committee Composition Criteria”. The relevant “Committee Composition Criteria” as applied by the HKICPA Management are extracted below:
- (a) *“State statutory requirement, if any: Pursuant to By-laws 20 and 26 [sections 20 and 26 of the Professional Accountants By-laws (Cap 50A)] the Committee must be composed of at least 5 CPAs, and a majority of such CPAs must be elected Council members”;*

- (b) *“No. [Number] of members: [13] members in which a majority i.e. [8] out of [13] are elected Council member”;*
- (c) *“% [Percentage] of CPA vs [versus] lay member: At least [8] CPAs”;*
- (d) *“% of CPA (Practising) vs CPA (Non-practising): NA”;*
- (e) *“Proportion of representatives from small, medium to large practices: NA”;*
- (f) *“Expected skills and/or knowledge: Leadership team with accountancy profession”;*
- (g) *“Level of work experience: Same as above”;*
- (h) *“Experience in the HKICPA committee: Same as above”; and*
- (i) *“Other considerations: NA”.*

2.3.13 The HKICPA Management did not specify criteria for attributes (d) and (e) in applying the “Committee Composition Criteria” and we consider that the criteria for attributes (f), (g) and (h) specified by the HKICPA Management were not sufficiently precise and measurable for the purpose of evaluating whether RPC members possessed the desired skills, knowledge and working experience.

2.3.14 The RPC plays an important role in advising the HKICPA Council on matters relating to the acceptance or rejection of applications for registration as local PIE auditors. Having well-defined criteria for the RPC’s composition would not only provide specified criteria for the HKICPA to select appropriate candidates but also enhance the effective functioning of the RPC. In particular, an indicative proportion of various groups would help ensure that the RPC could maintain balanced views.

Given that the RPC comprises only CPAs, the HKICPA should also specify that at least some members should be individuals who are not CPAs to increase the diversity of views in the public interest and to mitigate any self-interest threat that a composition consisting only of CPAs may bring. The attributes in the “Committee Composition Criteria” include (see attribute (c) above) the percentage of CPAs to lay members. No minimum ratio of lay members was prescribed, leaving it open to have no lay members in the RPC as was in fact the case (see paragraph 2.3.5 above).

Our recommendation

2.3.15 The HKICPA should:

- (a) Specify attributes that are relevant for members of the RPC, taking into account the overall objectives and activities of the RPC as set out in the terms of reference, which should be subject to approval by the Council;
- (b) Develop, for each of those attributes, sufficiently precise and measurable criteria whether potential RPC members possess the desired skills, knowledge and working experience; and
- (c) Specify that at least some RPC members should be individuals who are not CPAs (any ratio of CPAs to lay members is currently permitted leaving it open to have 100% CPA members) to increase diversity of views in the public interest and to mitigate any self-interest threat that a composition consisting only of CPA members may bring.

HKICPA's response: Further development of criteria to determine the composition of RPC (and other committees) has been ongoing since the publication of the 2020 assessment report. The FRC's finding recognises that the 2021 Assessment looked at an interim stage of development. The recommendations under paragraphs 2.3.15(b) and (c) will be taken into consideration in finalising the process for 2022 committee appointments.

Finding 2: Performance of the chairperson and members of the RPC was not evaluated based on the performance evaluation criteria set by the HKICPA (2020FU)

2.3.16 We noted that the performance of the chairperson and members of the RPC in 2020 was not evaluated based on the factors specified in the HKICPA's "Expectation of the Performance of Committee Members" applicable at the material time, as set out in paragraph 2.3.6(c). We have extracted the following from the written record regarding the performance evaluation of the RPC members:

"... it is proposed that:

- [Name redacted] *be kept as the chair as he had provided valuable contributions...;*
- [Name redacted] *be kept as member because of his contributions and experiences as Council member...; and*
- [Name redacted] *and [Name redacted] be kept as member because of their active participation..."*

2.3.17 The RPC is in charge of an important statutory function. A formal and comprehensive assessment of the performance of its members, which enables the HKICPA to assess the strengths of the RPC and significant areas for improvement, is crucial to enhancing the performance of the RPC.

Our recommendation

2.3.18 The HKICPA should perform a rigorous performance evaluation of the RPC members to assess whether the composition of the RPC is fit for its purpose. The HKICPA should develop written guidelines and provide training relating to the performance evaluation process which include the following:

- (a) Frequency of the performance evaluation;
- (b) Performance evaluation criteria;
- (c) Performance evaluation methods (for example, obtaining response via questionnaires, conducting interviews, performing group evaluation, etc);
- (d) Process for communication of the results and by whom and if necessary developing an action plan; and
- (e) Maintenance of confidentiality.

2.3.19 Under the draft performance evaluation policy on committee members as set out in paragraph 2.3.11, it is optional for the committee chairpersons to provide feedback on the performance of the committee members and vice versa. Given the importance for HKICPA to consider input from various stakeholders in the performance evaluation process, the HKICPA should make the above procedures mandatory.

HKICPA's response: All committee members appointed for 2022 will be fully briefed on the new performance evaluation process approved by the Governance Committee and the Council in June and August 2021 respectively and shared with the FRC. The recommendations under paragraph 2.3.18 were included in the new process. For committees with roles that are of public interest, specific requirement set out in paragraph 2.3.19 could be added to make feedback from committee chairs and members mandatory.

Finding 3: No orientation was provided to new RPC members

2.3.20 There were 13 RPC members appointed for the year 2021 and 6 of them were new members. Although the new members were given the terms of reference and work plan of the RPC as an agenda item at the first committee meeting in 2021, no orientation was provided to these new members to introduce to them the terms of reference of the RPC and their roles and responsibilities; and to communicate the expected contribution as a RPC member. In addition, there is no stated policy for the HKICPA to perform such orientation for a new chairperson or new members of the RPC.

2.3.21 A structured induction process would help new members to understand their roles and responsibilities; the expectations on their performance as RPC members; the policies and procedures and legal requirements for the registration of members, firms and local PIE auditors.

Our recommendation

2.3.22 The HKICPA should put in place policies to ensure that an orientation is arranged for new RPC members before its first meeting every year. The orientation should at least cover the following:

- Requirements for registration as local PIE auditors under the FRCO and the PAO;
- Roles and responsibilities of the RPC and the M&AD;
- Performance expectations for participation and contribution as an RPC member;
- Work plan of the RPC in the previous year and the proposed work plan for the current year;
- Administrative procedures of the RPC (including timing of distribution of agenda and papers); and
- Confidentiality obligations as an RPC member.

HKICPA's response: As well as making terms of reference and work plan agenda items for the first meeting of the year, it is the HKICPA's standard practice to provide RPC members with full explanatory supporting materials including relevant policies and procedures for all requests for decision by RPC on individual cases and other matters. The HKICPA will arrange an induction session for any new RPC members to be appointed for 2022.

2.4 New and renewal applications for registration of local PIE auditors

2.4.1 The HKICPA developed policies and procedures to facilitate the handling of the new and renewal applications (including dealing with applications, and establishing and maintaining the PIE auditors register). During the Assessment Year, the HKICPA approved 12 new applications and 69 renewal applications for registration of local PIE auditors.

HKICPA's policies and procedures

New and renewal applications for registration of local PIE auditors

2.4.2 The HKICPA's policies and procedures in handling the new applications for registration of local PIE auditors are set out in their Standard Operating Procedures for handling new and renewal applications for registration of local PIE auditors. The policies and procedures are summarised below.

(a) Initial screening of the application

The M&AD reviews the application form and the fit and proper declaration form submitted by the applicant to ensure that the applicant provides all required information.

(b) Determination of whether an application is straightforward or non-straightforward and assessment of "fit and proper" under section 20H(2) of the FRCO

Under the HKICPA's policies, an application is a non-straightforward application if more than one "fit and proper" issue is identified during the HKICPA's review of the application. All other applications are classified as straightforward applications. Section 20Q of the FRCO stipulates that in assessing whether a person is "fit and proper" to be a CPA, the HKICPA Council must have regard to the following:

- The person's professional qualification, knowledge, skills and experience;
- The person's reputation, character, reliability and integrity;
- The person's financial status and solvency;
- Whether any disciplinary action has been taken against the person by the FRC or the HKICPA; and

- Whether the person has been convicted of any offence in Hong Kong or elsewhere.

(c) Imposing conditions in relation to registration of local PIE auditors

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.

In considering a non-straightforward application, the HKICPA Registrar is required to consult with the RPC as to whether a condition should be imposed in relation to registration of a local PIE auditor, including but not limited to requiring the nominated responsible person to complete CPD activities before carrying out any activities as a responsible person of the registered PIE auditor.

(d) Approval or rejection of the application

The HKICPA Council has delegated its authority to approve or reject new and renewal applications for registration of local PIE auditors under section 52(1)(b) of the PAO. The Head of the M&AD approves or rejects straightforward applications. The Head of M&AD reports to the RPC the number of straightforward applications which have been approved, together with a list of approved registered PIE auditors and provides the particulars of straightforward applications rejected by the Head of M&AD, including the names of the applicants and reasons for rejection.

For non-straightforward applications, the HKICPA Registrar provides to RPC for consideration at its meeting details of the applications and recommended actions, including reasons for the recommended approval or rejection and recommended conditions to be imposed. The HKICPA Registrar approves or rejects the non-straightforward applications according to the recommended outcome of the RPC.

The RPC plays an oversight role in overseeing the activities of the HKICPA Registrar and Head of M&AD in the registration of PIE auditors.

Maintenance of PIE auditors register

2.4.3 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 local 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.

2.4.4 Section 20ZX of the FRCO also requires the register to contain similar information as set out in paragraph 2.4.3 for each recognized PIE auditor (i.e. non-Hong Kong auditors recognized by the FRC under Division 3 of Part 3 of the FRCO).

2.4.5 Pursuant to section 20ZY of the FRCO, the HKICPA Registrar must make the PIE auditors register available to any person for inspection free of charge. The HKICPA maintains the PIE auditors register on their website and at their service counter. The online version of the register is also available for inspection at the service counter. As at 31 March 2021, there were 72 registered PIE auditors and 35 recognized PIE auditors.

Our assessment

2.4.6 In conducting our assessment, we evaluated the HKICPA's follow-up actions in response to our recommendations in the 2020 Assessment. In addition, we evaluated the HKICPA's policies and procedures regarding the handling of new and renewal applications for registration of local PIE auditors.

Evaluation of HKICPA's follow-up actions

2.4.7 In the 2020 Assessment, we noted that the HKICPA did not have policies and procedures on imposing conditions other than their general CPD requirements for registering local PIE auditors.

2.4.8 Based on our observation and review of the minutes of the RPC meeting dated 3 May 2021, the RPC reviewed and approved the following types of conditions and the key considerations in determining the specific conditions to be applied in a particular case for each type of condition:

- Requiring a responsible person to complete specified CPD activities to rectify deficiencies identified in his disciplinary record;
- Restricting a responsible person from taking part in PIE engagements during the period in which his practising certificate has been cancelled and/or from practising subject to fulfilment of a condition imposed by another professional body/regulator;
- Requiring a registered PIE auditor to carry out an independent monitoring review of its quality control system and/or selected audit engagements to address audit deficiencies identified in its disciplinary record; and
- Requiring a registered PIE auditor to implement training programmes to enhance the professional competence of staff members.

The M&AD updated its policies and procedures for imposing conditions in relation to registration of local PIE auditors, which was reviewed by the chairperson of RPC, on 3 September 2021. We found that the above types of conditions and the key considerations in determining the specific conditions to be applied are reasonable. We will review the operation of the policies and procedures in our next onsite assessment.

Evaluation of HKICPA's policies and procedures in place in the Assessment Year

2.4.9 To evaluate the HKICPA's policies and procedures regarding the handling of new and renewal applications for registration of local PIE auditors, in addition to the procedures set out in paragraphs 2.3.9(a) and (b), we performed the following procedures:

- (a) Reviewed the 4 quarterly reports provided by the HKICPA;
- (b) Reviewed the SOP for handling new and renewal applications for registration of local PIE auditors which were reviewed by the Head of the M&AD in October 2019 and September 2020, respectively;
- (c) Selected 3 applications out of 12 new applications (all 12 were straightforward applications); and 7 applications (including 2 non-straightforward applications) out of 69 renewal applications (including 7 non-straightforward applications) to assess the HKICPA's process of handling the applications; and
- (d) Reviewed the PIE auditors register as at 31 March 2021.

2.4.10 We found that the selected applications were handled by the HKICPA in accordance with the policies and procedures as set out in paragraph 2.4.2 and that the PIE auditors register was maintained in accordance with section 20ZX of the FRCO.

2.5 Compliance audit on CPD requirements for responsible persons of registered PIE auditors

HKICPA's policies and procedures

2.5.1 In accordance with section 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.

2.5.2 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 and record relevant CPD that develops and maintains professional competence necessary to perform their role as a professional accountant.

2.5.3 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 should be supported by verifiable evidence for demonstrating 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; and
- (d) Maintain records and documentary evidence sufficient to support their attendance or completion of CPD activities for a minimum of 5 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, the 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 to 30 November.

2.5.4 The HKICPA renew the membership of their members in December. The HKICPA members are required to declare compliance with CPD requirements for renewal of their membership. As part of the process of membership renewal, the HKICPA conduct an audit in April to September the following year, after the renewal. This is to ensure that their members including those who are responsible persons of registered PIE auditors have complied with the aforementioned requirements under Statement 1.500.

2.5.5 The 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 the HKICPA's procedures in conducting the compliance audit on CPD requirements at its meeting on 3 May 2021.

2.5.6 The procedures are summarised below.

(a) Selection of samples

The M&AD starts the compliance audit in April. The HKICPA members who have declared compliance with the CPD requirements and renewed their HKICPA membership are sampled for audit. Samples are selected randomly by computer. More samples are selected from the following groups of HKICPA members:

- HKICPA members who have been the subjects of disciplinary actions by HKICPA; and
- HKICPA members who previously failed to comply with CPD requirements.

(b) Communication with the selected HKICPA members

The HKICPA members who are selected for the compliance audit receive a notification from the HKICPA which requires the members to complete and return the “CPD Record Form” to the HKICPA. The “CPD Record Form” lists out the following details of the CPD activities completed in the three-year reporting period (for example 1 December 2016 to 30 November 2017, 1 December 2017 to 30 November 2018 and 1 December 2018 to 30 November 2019):

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

(c) 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 the 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)*”.

- (d) Completion of the compliance audit and reporting to the RPC

The M&AD completes the compliance audit in September. The M&AD reports the results of the compliance audit to the RPC. 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).

Our assessment

2.5.7 To evaluate the HKICPA’s policies and procedures regarding compliance audit on CPD requirements, we performed the following procedures in addition to those set out in paragraphs 2.3.9(a) and (b); and paragraph 2.4.9(a):

- (a) Reviewed the SOP for the compliance audit on CPD requirements reviewed by the Head of the M&AD in April 2020; and
- (b) Selected 6 out of the 39 responsible persons of registered PIE auditors who had been sampled for the compliance audit, to review the HKICPA’s audit process.

Our findings and recommendations

Finding 4: CPD compliance audit was performed after the renewal of HKICPA membership which might lead to unqualified persons being registered

2.5.8 HKICPA members, including those who are responsible persons of registered PIE auditors, must comply with CPD requirements for renewal of their HKICPA membership. However, the HKICPA only required their members to declare the compliance with CPD requirements for the renewal of membership in December 2019. The compliance audit on CPD requirements was performed in April 2020 to September 2020, after the renewal.

- 2.5.9 Responsible persons of registered PIE auditors play a crucial role in carrying out PIE engagements and their professional competence has a direct impact on the audit quality. The delay in performing the compliance audit may result in unqualified persons being registered.

Our recommendation

- 2.5.10 The HKICPA should carry out the compliance audit on CPD requirements, which is performed on a sample basis, by the time they process the applications for renewal of registration of local PIE auditors in December. For example, the HKICPA may select and notify the responsible persons of PIE auditors subject to the compliance audit and request the necessary information when the HKICPA communicate with them on their renewal applications. This is to ensure that the responsible persons of registered PIE auditors have the necessary professional competence to perform PIE engagements.

HKICPA's response: Declaration of compliance with CPD requirements at the time of membership renewal has been in place for many years. The HKICPA consider it reasonable to assume that professional accountants make honest and accurate declaration. To undertake a vetting process using only a sample of members would provide no more comfort on accuracy of declarations than the current process and the impact on timing and resource implications during the annual renewal process could be substantial. The HKICPA would further engage with FRC on how to address this recommendation. The change in the process would need to go through due process of member engagement and consideration by HKICPA Council before implementation.

Finding 5: HKICPA did not sufficiently check underlying documents to verify the completion of CPD activities including attendance and hours

- 2.5.11 For the 39 samples of responsible persons of registered PIE auditors whom the HKICPA audited for compliance with CPD requirements, seven of them participated in CPD activities organised by the HKICPA. For CPD activities not organised by the HKICPA, the staff of HKICPA did not request the responsible persons to provide documentation to support attendance or completion of CPD activities for checking. Eight responsible persons, who met the CPD requirements through the CPD activities offered by their employers, provided their attendance records voluntarily when submitting "CPD Record Forms".

- 2.5.12 Although we noted some “tick marks” on the “CPD Record Forms” submitted by the responsible persons for the 6 samples that we had selected for review, there was no basis to support that the HKICPA had checked the underlying documents which evidenced the completion of CPD activities including attendance and hours. The HKICPA explained that they had verified the attendance of reported CPD organised by the HKICPA reported by the responsible persons. In addition, the HKICPA’s documentation did not indicate whether the HKICPA’s procedures as set out in paragraph 2.5.6(c) had been performed.
- 2.5.13 A sufficient and appropriate record of documentation facilitates the supervision of procedures performed and provides a written record as the basis for conclusion of the compliance audit on CPD requirements.

Our recommendation

- 2.5.14 The HKICPA should perform checks on the underlying documents to evaluate whether the reported CPD activities were undertaken, irrespective of the providers of the CPD activities, including checks to confirm the reported time spent. The HKICPA should also evaluate whether the CPD activities undertaken by a registered responsible person of a PIE auditor is relevant to maintaining their professional competence to perform their role as a responsible person competently, by inspecting the records of the members CPD activities and considering relevant matters such as the learning objectives, course outlines and timetables, instructional materials and case studies.

The HKICPA should also strengthen the documentation of the procedures performed, the relevant evidence obtained and the conclusions reached for the compliance audit on CPD requirements.

HKICPA’s response: The extent of detailed checking to verify CPD activities has been based on an initial assessment of the information provided whereby the reviewer will request additional information for cases where there are doubts on the suitability of the provider or relevance of the content. However, the HKICPA accept that documentation of the verification carried out can be improved and will keep more evidence for responsible persons that are selected in the CPD audit. The HKICPA will enhance their processes for addressing this recommendation.

Section 3 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, we oversee the HKICPA's performance of the function of setting CPD requirements for registered PIE auditors.
- 3.1.2 As set out in paragraph 2.5.1, compliance with CPD requirements is a condition for renewal of registration as a CPA and/or issuance and renewal of a practising certificate by the HKICPA.
- 3.1.3 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.
- 3.1.4 The CPD requirements prescribed by the HKICPA are set out in Statement 1.500 "Continuing Professional Development", which applies to all CPAs.

3.2 Objectives of our assessment

- 3.2.1 The objectives of our assessment are to evaluate the HKICPA's policies and procedures of the following aspects of the HKICPA's function of setting CPD requirements for registered PIE auditors:
- (a) Nomination, selection and appointment of the EC members, the results of which is in section 4.3 of this Report;
 - (b) Terms of reference of the EC; and
 - (c) Setting CPD requirements for registered PIE auditors.

3.3 Terms of reference of the EC

- 3.3.1 The terms of reference of the EC³ set out the EC's roles and responsibilities in relation to the adoption of standards and guidelines on CPD requirements.

³ Refer to the HKICPA's website for the terms of reference and composition of the EC (http://app1.hkicpa.org.hk/about_us/committee_info.php?committee_id=34&year=2021).

Our assessment

3.3.2 In conducting our assessment, we evaluated the HKICPA's follow-up actions in response to our recommendations in the 2020 Assessment and the EC's terms of reference.

Evaluation of HKICPA's follow-up actions

3.3.3 In the 2020 Assessment, we identified that setting CPD requirements for registered PIE auditors was not reflected in the terms of reference of the EC.

3.3.4 In the Assessment Year, we evaluated the follow-up actions taken by the HKICPA as set out in paragraphs 3.3.6 to 3.3.7 to ensure satisfactory resolution of the issues identified.

Evaluation of EC's terms of reference

3.3.5 We reviewed the EC's terms of reference to assess whether the committee's power and responsibilities in setting CPD requirements, which has been delegated by the HKICPA Council, were reflected accurately in the terms of reference.

Our findings and recommendations

3.3.6 In response to our findings set out in paragraph 3.3.3, the terms of reference had been revised to reflect the EC's responsibilities delegated by the HKICPA Council in adopting standards and guidelines on CPD requirements for registered PIE auditors. The revised terms of reference were reviewed by the EC at its first meeting held on 2 March 2021 and approved by the HKICPA Council at its meeting held on 23 March 2021.

3.3.7 The HKICPA had also developed a draft policy requiring an annual review of the terms of reference of the committees by committee members at the first meeting of the relevant committees of the year. Such policy was reviewed by the Governance Committee at its meeting on 10 August 2021 and the HKICPA Council considered and approved such policy at its meeting on 24 August 2021. We were therefore satisfied with the implementation of the follow-up actions.

3.4 Setting CPD requirements for registered PIE auditors

HKICPA's policies and procedures

3.4.1 The HKICPA adopt and implement the IESs issued by the IFAC. The IESs establish requirements for:

- Entry to professional accounting education programmes;
- Initial professional development of aspiring professional accountants; and
- CPD of professional accountants.

3.4.2 Statement 1.500 draws on the CPD requirements as prescribed in International Education Standard (IES) 7 “Continuing Professional Development” and IES 8 “Professional Competence for Engagement Partners Responsible for Audits of Financial Statements”. This Statement applies to all CPAs, including registered PIE auditors. During the Assessment Year, there was no new or revised IES relating to CPD requirements issued by IFAC. IES 7 and IES 8 are both directed towards member bodies of IFAC such as HKICPA, which have a responsibility under their IFAC membership obligations for the CPD of professional accountants and for fostering a commitment to learning among professional accountants. They are therefore relevant criteria to be taken into account in our assessment of the HKICPA's performance of their function to set CPD requirements.

3.4.3 The HKICPA's policies and procedures for monitoring international pronouncements relating to CPD requirements for registered PIE auditors are set out in the SOP which was reviewed by the EC on 2 March 2021. Such policies and procedures are summarised below:

- (a) Step 20 of the SOP: “M&A [Membership & Admission Department] monitors any changes in international standards relating to CPD issued by International Federation of Accountants.”
- (b) Step 21 of the SOP: “M&A informs SSD (who supports the Ethics Committee) of such changes and any local impact arising from the changes on a timely basis.”
- (c) Step 22 of the SOP: “SSD informs the Ethics Committee upon receipt.”

Our assessment

3.4.4 In conducting our assessment, we evaluated the HKICPA's follow-up actions in response to our recommendations in the 2020 Assessment. In addition, we evaluated the HKICPA's policies and procedures regarding setting of CPD requirements for registered PIE auditors.

Evaluation of HKICPA's follow-up actions

3.4.5 In the 2020 Assessment, we identified the following findings in relation to setting CPD requirements for registered PIE auditors:

- (a) The requirements set out in IES 8 were not included in Statement 1.500;
- (b) The revised Statement 1.500 was provided to the EC for approval 10 months after IFAC had issued the revisions to the CPD requirements; and
- (c) No specific CPD requirements were prescribed for registered PIE auditors to ensure PIE auditors have the knowledge and skills for discharging their duties in performing PIE engagements.

3.4.6 In the Assessment Year, we evaluated the follow-up actions taken by the HKICPA as set out in paragraphs 3.4.8 to 3.4.10 to ensure satisfactory resolution of the issues identified.

Evaluation of HKICPA's policies and procedures in place in the Assessment Year

3.4.7 To evaluate the HKICPA's policies and procedures regarding setting CPD requirements for registered PIE auditors, we have performed the following procedures:

- (a) Observed and reviewed minutes of 4 meetings of EC during the Assessment Year;
- (b) Reviewed the 4 quarterly reports provided by the HKICPA during the Assessment Year;
- (c) Interviewed the chairperson of EC, the Chief Executive and the Executive Director of the HKICPA; and
- (d) Evaluated the HKICPA's SOP, which was reviewed by the EC on 2 March 2021.

Our findings and recommendations

Evaluation of HKICPA's follow-up actions

- 3.4.8 In response to our finding set out in paragraph 3.4.5(a) in relation to the inclusion of the requirements set out in IES 8, the HKICPA issued the revised Statement 1.500 in March 2021 to include the requirements.
- 3.4.9 Regarding our finding on timely issuance of CPD requirements set out in paragraph 3.4.5(b), the HKICPA included in their SOP the procedures summarised in paragraph 3.4.3 to monitor international pronouncements relating to CPD requirements.
- 3.4.10 In response to the finding on prescription of specific CPD requirements set out in paragraph 3.4.5(c), the HKICPA had not addressed our finding in the 2020 Assessment.

Finding 6: No prescription of specific CPD requirements for registered PIE auditors (2020FU)

- 3.4.11 The HKICPA had not concluded whether it should prescribe specific CPD requirements for registered PIE auditors. The HKICPA considered that it should evaluate the effectiveness of adopting the professional competence requirements for audit engagement partners set out in IES 8 before determining whether to prescribe specific CPD requirements for registered PIE auditors.
- 3.4.12 We noted that paragraph 11 of Statement 1.500 requires CPAs, who are holders of a Specialist Designation awarded by the HKICPA, to complete at least 5 verifiable CPD hours per year in the subject of the Specialist Designation, as part of the total CPD requirement in each rolling three-year period.

Our recommendation

- 3.4.13 Given the significant public interest in PIE engagements, the HKICPA should prescribe specific CPD requirements for registered PIE auditors to ensure PIE auditors have the knowledge and skills for discharging their duties in performing PIE engagements. The HKICPA may make reference to paragraph 11 of Statement 1.500, which prescribes minimum relevant verifiable hours of CPD for Specialist Designates, but should also consider specifying particular topics to be covered in general or from time to time in prescribing specific CPD requirements for PIE auditors.

HKICPA's response: There has been ongoing discussion on this finding. The HKICPA will develop a work plan with timelines on how to address FRC's recommendation and will consider whether the example of additional CPD requirements for Specialist Designates will be of relevance. The HKICPA believes that the FRC's input will be essential to develop specific CPD requirements for registered PIE auditors.

Evaluation of HKICPA's policies and procedures in place in the Assessment Year

Finding 7: Deficiencies in design and performance of policies and procedures relating to the setting of CPD requirements (2020FU)

- 3.4.14 While the HKICPA revised Statement 1.500 in March 2021 to include the requirements set out in IES 8, we noted during our assessment that it omitted the learning outcome expected from an audit engagement partner relating to the competence area of “business environment” in IES 8. The HKICPA explained that the omission was an inadvertent oversight and further revised the Statement 1.500 in July 2021 in response to our finding.
- 3.4.15 We consider that the design of the SOP is deficient as it failed to specify the respective responsibilities of staff members of M&AD and SSD in monitoring changes in the IESs, the frequency for doing so and the means by which staff should monitor such changes, and the checks and balances to ensure any changes to the IESs are adopted in the CPD requirements accurately and in a timely manner.

Our recommendation

- 3.4.16 The HKICPA should conduct a comprehensive review of the SOP, and make changes to address or include:
- A clear description of the respective responsibilities of SSD and M&AD staff in monitoring changes in the IESs;
 - The means by which staff members should monitor publication of international pronouncements and consultation documents (such as subscription to IFAC alerts or checking to the website);
 - The frequency of monitoring for publication of international pronouncements and consultation documents;
 - The time limits for publication of international pronouncements and consultation documents and circumstances under which exceptions are permitted and the required approval authority; and
 - The process and procedures to ensure the accuracy of the content.

HKICPA's response: The HKICPA will take necessary steps including strengthening the process for final approval of changes to Statement 1.500.

Section 4 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, we oversee the HKICPA's performance of the setting of the 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 CPAs, including registered PIE auditors.

4.1.3 The HKICPA 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).

4.1.4 The Standards on Auditing and Assurance Practices issued by the HKICPA⁴ include:

- Hong Kong Standards on Quality Control;
- Hong Kong Framework for Assurance Engagements;
- Hong Kong Standards on Auditing;
- 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.

⁴ Refer to paragraphs 12-24 of the Amended Preface for the information regarding the purpose and authority attaching to the standards.

4.2 Objectives of our assessment

- 4.2.1 The objectives of our assessment are to evaluate the HKICPA's policies and procedures of the following aspects of the HKICPA's function of setting of Standards on Professional Ethics, and Auditing and Assurance Practices for registered PIE auditors:
- (a) Nomination, selection and appointment of the EC and AASC members;
 - (b) Terms of reference of the EC and AASC; and
 - (c) Setting the Standards on Professional Ethics, and Auditing and Assurance Practices for registered PIE auditors.

4.3 Nomination, selection and appointment of the EC and AASC members

HKICPA's policies and procedures

- 4.3.1 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. SSD supports the standard setting work of the EC and AASC.
- 4.3.2 In year 2021, the EC has 12 members while AASC has 14 members. Both committees comprise representatives from registered PIE auditors and other auditors, including different sizes of audit firms, professional accountants in business and representatives from other regulatory or professional bodies. The compositions are intended to ensure members of the committees provide balanced views and perspectives in discharging the delegated functions.
- 4.3.3 The HKICPA's procedures in the nomination, selection and appointment of the EC and AASC members are the same as those of the RPC members. Those procedures are set out in paragraph 2.3.6 of this Report.

Our assessment

- 4.3.4 In conducting our assessment, we evaluated the HKICPA's follow-up actions in response to our recommendations in the 2020 Assessment. In addition, we evaluated the HKICPA's policies and procedures regarding nomination, selection and appointment of EC and AASC members.

Evaluation of HKICPA's follow-up actions

- 4.3.5 The HKICPA have implemented follow-up actions to address our findings in the 2020 Assessment in relation to the nomination, selection and appointment of the EC and AASC members. Such follow-up actions are the same as those set out in paragraphs 2.3.8; 2.3.10 to 2.3.11 which apply to the nomination, selection, and appointment of the RPC members.

Evaluation of HKICPA's policies and procedures in place in the Assessment Year

- 4.3.6 To evaluate the HKICPA's policies and procedures regarding nomination, selection and appointment of the members of EC and AASC, in addition to the procedures set out in paragraph 2.3.9(c), we performed the following procedures:
- (a) Observed and reviewed minutes of 14 meetings of EC and AASC during the Assessment Year;
 - (b) Interviewed the chairpersons of EC and AASC, the Chief Executive, Executive Director and Deputy Standard Setting Director of the HKICPA to understand the HKICPA's policies and procedures;
 - (c) Reviewed the process of nomination, appointment and selection of three members each from EC and AASC and the related HKICPA documentation.

Our findings and recommendations

Evaluation of HKICPA's policies and procedures in place in the Assessment Year

- 4.3.7 Based on our procedures, we found that the HKICPA processed the nomination, appointment and selection of the 6 selected members of EC and AASC in accordance with their policies and procedures set out in paragraph 2.3.6 of this Report. We noted that the "Committee Composition Criteria" set out specific criteria for EC and AASC and the performance of chairpersons and members of EC and AASC was evaluated based on the HKICPA's "Expectation of the Performance of Committee Members".

4.4 Terms of reference of the EC and AASC

4.4.1 The terms of reference of the EC set out their roles and responsibilities which include:

- To adopt standards and guidelines on ethics for professional accountants; and
- To develop and prepare comments on the IESBA and other consultative documents relating to ethics for professional accountants.

4.4.2 The terms of reference⁵ of the AASC set out their roles and responsibilities which include:

- To adopt new and revised standards on auditing and assurance;
- 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; and
- To develop and prepare comments on the 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.

Our assessment

4.4.3 We reviewed the terms of reference of EC and AASC to assess whether the committees' terms of reference reflected the committees' roles and responsibilities in setting the Standards on Professional Ethics, and Auditing and Assurance Practices delegated by the HKICPA Council.

Our findings and recommendations

4.4.4 Based on our review, we found that the terms of reference of EC and AASC reflected the committees' roles and responsibilities in setting the Standards on Professional Ethics, and Auditing and Assurance Practices delegated by the HKICPA Council. Those terms of reference were reviewed by the EC/AASC at its first meeting held on 2 March 2021/16 February 2021 and approved by the HKICPA Council at its meeting held on 23 March 2021.

⁵ Refer to the HKICPA's website for the updated terms of reference and composition of AASC (http://app1.hkicpa.org.hk/about_us/committee_info.php?committee_id=40&year=2021).

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

HKICPA's policies and procedures

- 4.5.1 As stated in the Amended Preface and the Code of Ethics for Professional Accountants, it is the 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.
- 4.5.2 The HKICPA's procedures for setting the Standards on Professional Ethics, and Auditing and Assurance Practices are set out in the following policy documents:
- The SOP which was reviewed by the EC/AASC on 2 March 2021/ 16 February 2021;
 - Amended Preface to the Hong Kong Quality Control, Auditing, Review, Other Assurance and Related Services Pronouncements (Amended Preface); and
 - "Ethics Committee — Due Process for the Adoption of International Ethics Standards Board for Accountants (IESBA) pronouncements" document.
- 4.5.3 The HKICPA review and update the policy documents describing the process in setting the Standards on Professional Ethics, and Auditing and Assurance Practices on an annual basis.
- 4.5.4 The HKICPA's policies and procedures in adopting the standards and requirements issued by the IESBA and IAASB are summarised below.
- (a) Issuance of an invitation to collect comments from local stakeholders

Step 1 of the SOP states that "*When IAASB/IESBA issues a CP [Consultation Paper]/DP [Discussion Paper]/ED [Exposure Draft], Manager prepares an ITC [Invitation to comment] to seek comments locally on CP/DP/ED with a request for comment ending one month before the deadline imposed by the IAASB/IESBA, for DD [Deputy Standard Setting Director]'s review...*"

Step 2 of the SOP further states that "*In case where the proposals made by the IAASB/IESBA are non-controversial and the SSD staff, after due and careful consideration, consider that the proposals do not warrant local consultation, no ITC will be issued by HKICPA. DD will seek approval or ratification from respective committee.*"

(b) Preparation of submissions

Based on the comments received, SSD staff and working group, where applicable, develop draft submission letter for DD's and Executive Director's review. The draft submission letter together with all comment letters will be provided to EC or AASC for review and approval.

Step 8 of the SOP states that *"In case where the proposals made by the IAASB/IESBA are non-controversial and the SSD staff, after due and careful consideration, consider that the proposals do not warrant a submission, no submission will be made by the Institute [the HKICPA]. DD will seek approval from the respective committee before the submission deadline."*

(c) Preparation of the equivalent revision to the Standards

Step 12 of the SOP states that *"SSD staff monitors the IAASB/IESBA project progress"*. The SOP then prescribes the arrangement between HKICPA and IFAC in obtaining the soft copy of the pronouncements for reproduction and publication. Step 16 of the SOP states that *"Upon receipt of the soft copy, officer prepares the convergence of IFAC pronouncement to HK version for DD/Manager's review."*

(d) Approval of the equivalent revision of the Standards

Step 17 of the SOP states that after DD's review, the equivalent revision of the Standards on Professional Ethics or Auditing and Assurance Practices will be submitted to the EC or AASC for approval.

(e) Conduct post-implementation reviews of the new or revised Standards

The HKICPA conduct post-implementation reviews of major new standards and amendments that are significant, contentious or complex, after those standards and amendments have been applied for a few years. The HKICPA also participate in post-implementation review coordinated by the IAASB and IESBA.

Our assessment

4.5.5 In conducting our assessment, we evaluated the HKICPA's follow-up actions in response to our recommendations in the 2020 Assessment. In addition, we evaluated the HKICPA's policies and procedures on setting the Standards on Professional Ethics, and Auditing and Assurance Practices for registered PIE auditors.

Evaluation of HKICPA's follow-up actions

4.5.6 In the 2020 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) The procedures for setting the Standards on Auditing and Assurance Practices were not accurately reflected in the Amended Preface;
- (b) The HKICPA did not issue an invitation to comment nor performed any local consultation activity on a proposed ethical requirement of IESBA; and
- (c) The HKICPA did not have a policy for conducting post-implementation reviews of new or revised Standards on Professional Ethics, and Auditing and Assurance Practices.

4.5.7 We evaluated the follow-up actions taken by the HKICPA as set out in paragraphs 4.5.9 to 4.5.13 to ensure satisfactory resolution of the issues identified.

Evaluation of HKICPA's policies and procedures in place in the Assessment Year

4.5.8 To evaluate the HKICPA's policies and procedures on setting the Standards on Professional Ethics, and Auditing and Assurance Practices for registered PIE auditors, in addition to the procedures set out in paragraphs 4.3.6(a) and (b), we performed the following procedures:

- (a) Reviewed the 4 quarterly reports provided by the HKICPA during the Assessment Year;
- (b) Evaluated the HKICPA's SOP, which was reviewed by the EC/AASC on 2 March 2021/16 February 2021;
- (c) Reviewed the 3 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; and
- (d) Reviewed the 5 new or revised Standards on Professional Ethics, and Auditing and Assurance Practices for registered PIE auditors issued by the HKICPA, and the related supporting documents, during the Assessment Year.

Our findings and recommendations

Evaluation of HKICPA's follow-up actions

- 4.5.9 In response to our finding in relation to the Amended Preface set out in paragraph 4.5.6(a), the HKICPA updated the Amended Preface in July 2020 and implemented a procedure as set out in paragraph 4.5.3 to conduct an annual review of their policy documents. We were satisfied with the implementation of the follow-up action and will review their operation in our next onsite assessment.
- 4.5.10 Regarding our finding on the issuance of invitations to comment and performance of local consultations on a proposed requirement set out in paragraph 4.5.6(b), the HKICPA developed a new procedure in the SOP as set out in paragraphs 4.5.4(a) and 4.5.4(b) requiring the issuance of invitations to solicit comments and the preparation of submissions unless the proposal is non-controversial and approval is obtained from EC or AASC. We were satisfied with the implementation of the follow-up action and will review their operation in our next onsite assessment.

Finding 8: Ineffective policy for post-implementation review of standards/requirements (2020FU)

- 4.5.11 In response to our finding on post-implementation review of standards/requirements set out in paragraph 4.5.6(c), the HKICPA developed a new policy set out in paragraph 4.5.4(e) to conduct post-implementation reviews of major new standards and amendments that are significant, contentious or complex, after those standards and amendments have been applied for a few years. The HKICPA would also participate in post-implementation review coordinated by the IAASB and IESBA. The HKICPA would also stay alert to any evidence showing (1) lack of sufficient understanding by CPAs about the professional standards or (2) difficulties in applying the standards, through regular engagement with them and other stakeholders, or observing and analysing the outcomes of practice reviews, financial statement reviews and complaints about professional conduct.
- 4.5.12 We consider that the new policy failed to ensure the post-implementation reviews are initiated or the standards that should be subject to reviews are systematically identified by the HKICPA.

Our recommendation

- 4.5.13 The HKICPA should review their policy for post-implementation review of requirements and make changes to set out the frequency of reviews, the means to collect evidence and the criteria for determining “significant, contentious or complex” standards for evaluation.

HKICPA's response: The HKICPA had engaged with stakeholders through various channels, including members events and committee/panel meetings to understand implementation issues of standards/requirements. The HKICPA will submit a revised draft policy as well as a paper explaining their practices on conducting post-implementation review of standards to their committees for consideration.

Evaluation of HKICPA's policies and procedures in place in the Assessment Year

Finding 7: Deficiencies in design and performance of policies and procedures relating to the setting of Standards on Professional Ethics, and Auditing and Assurance Practices (2020FU)

- 4.5.14 In conducting our assessment, we observed that the IAASB issued the "Conforming Amendments to the IAASB International Standards as a Result of the Revised IESBA Code" on 8 April 2020 which would be effective from 15 July 2020. The HKICPA issued the revised requirement on 23 July 2020, which was 3 months after the IAASB issued the revised standard and 8 days later than the effective date. The delay was due to the failure of HKICPA staff members in timely identification of the issuance of the standard by the IAASB.
- 4.5.15 We also noted that the published Code of Ethics for Professional Accountants (i.e. the version revised in June 2021) also contained the old code (i.e. the version revised in July 2020). The HKICPA explained that the duplication was an inadvertent oversight. This could have created confusion to users about the extant requirements. The Code of Ethics for Professional Accountants was amended in response to our finding in July 2021.
- 4.5.16 We consider that the SOP is broadly drafted and would not be effective in preventing the occurrence of the types of incidents referred to above and therefore deficient in design. The SOP does not include the procedures for identifying issuance of consultation papers/discussion papers/exposure drafts and the publication of new/revised standards, such as the staff members responsible for executing and supervising the tasks, the frequency of monitoring for such publication and the means by which staff members should do so. The SOP also does not include the checks and balances to ensure international standards are adopted accurately and in a timely manner.

Our recommendation

4.5.17 The HKICPA should conduct a comprehensive review of the SOP and make changes to address our recommendations as set out in paragraph 3.4.16. In particular, for the setting of Standards on Professional Ethics, and Auditing and Assurance Practices, the HKICPA should also include in the SOP:

- A clear description of the respective responsibilities of SSD staff; and
- The procedures to ensure international pronouncements are published in a timely manner, and should not take longer than 3 months upon issuance by the IAASB or IESBA unless exception is permitted by the required approval authority.

HKICPA's response: The HKICPA have implemented enhancements to SOPs to avoid recurrence of the administrative oversight.

Section 5 ACKNOWLEDGEMENT

- 5.1 When preparing this Report, FRC would like to record its appreciation of HKICPA's cooperation with the FRC in conducting the 2021 Assessment.

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 April 2020 to 31 March 2021
CPA	Certified public accountant
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 HKICPA established by section 10(1) of the PAO
HKICPA Registrar	Registrar appointed under section 21 of the PAO
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. 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
SOP	Standard operating procedures
SSD	Standard Setting Department