

# 2024 Oversight Report on HKICPA's Performance of Specified Functions

Policy, Registration and Oversight

September 2024



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## **About the Accounting and Financial Reporting Council**

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

For more information about the statutory functions of the AFRC, please visit [www.afrc.org.hk](http://www.afrc.org.hk).

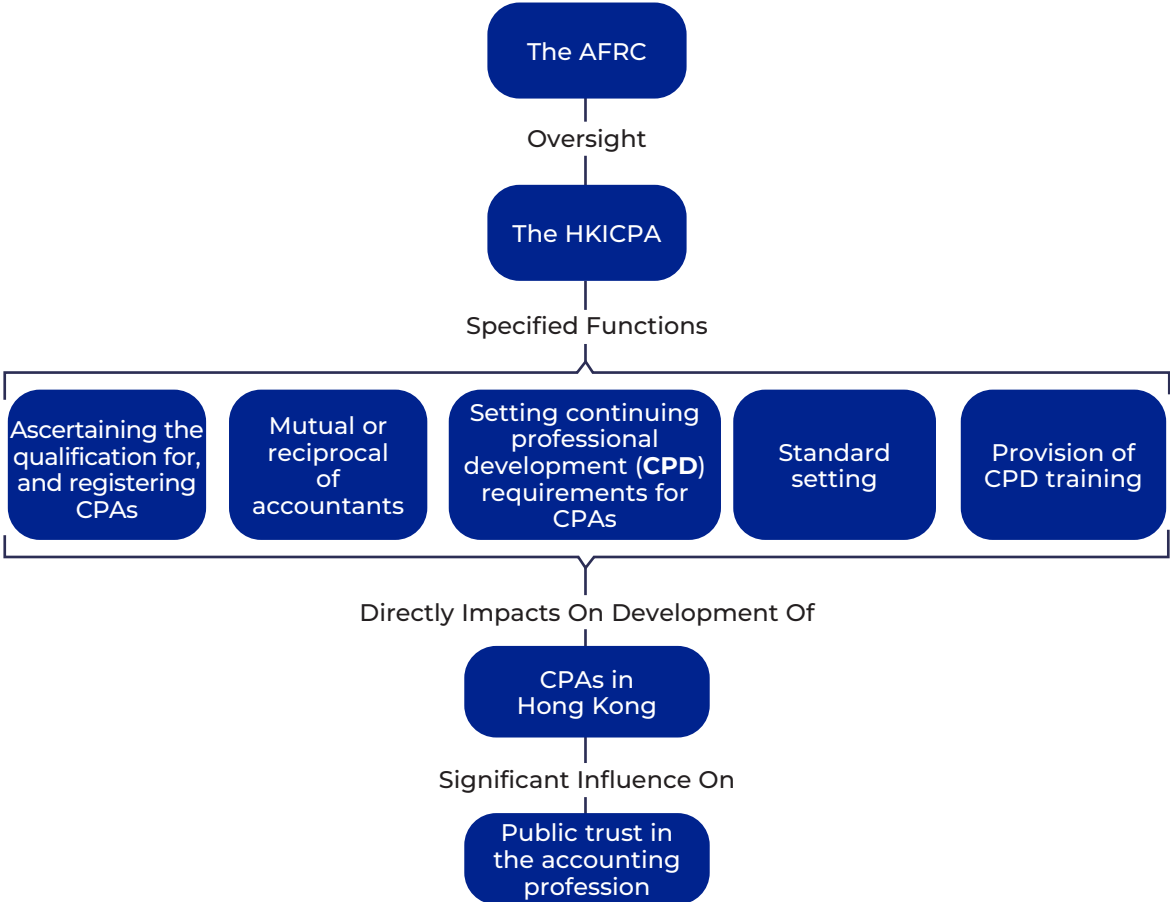
# Executive summary

This is the fifth report by the AFRC on the assessment of the performance by the Hong Kong Institute of Certified Public Accountants (**HKICPA**) of the specified functions that fall under the AFRC’s oversight (**Specified Functions**).

## Ensuring the healthy development of the accounting profession in Hong Kong

High-quality financial reporting and auditing are the foundations underlying the public’s trust in financial information and the integrity of capital markets, which is essential for upholding Hong Kong’s position as a competitive international financial centre. The HKICPA plays a vital role in this, and the effectiveness of its Specified Functions enhances the quality of Certified Public Accountants (**CPAs**) and nurtures the healthy development of the accounting profession in Hong Kong:

### The Hong Kong Accounting Profession Ecosystem



## Fulfilling the AFRC's oversight responsibilities

Maintaining a constructive approach, with a focus on the wider public interest impact of the HKICPA's Specified Functions has been the AFRC's guiding principle throughout the 2024 Oversight Assessment. Our strategic purpose is to ensure the accountability, integrity and effectiveness of the HKICPA in discharging its statutory responsibilities.

In the 2024 Oversight Assessment, the AFRC has also focused on how the HKICPA can support the healthy development of the accounting profession in Hong Kong through its Specified Functions. Therefore, among the Specified Functions, we primarily focused on the following specific areas:

- (a) The monitoring of Authorised Employers and Authorised Supervisors that are registered with the HKICPA as they play a pivotal role in providing practical experience training to prospective CPAs;
- (b) Setting CPD requirements for CPAs, including the requirement for CPAs to be subject to CPD compliance audit by the HKICPA;
- (c) Standard Setting, with a special emphasis on developing the profession; and
- (d) Providing training to CPAs through organisation of CPD courses.

This principle is at the forefront of our findings and recommendations.

For the first time this year, we have provided Enhancing Recommendations in addition to our findings and associated recommendations. These Enhancing Recommendations are made where we have not identified a deficiency in a HKICPA process, but we believe enhancements would greatly benefit the accounting profession. This year we have developed these with a particular focus on improving accessibility to the more technical aspects of the profession to help small- and medium-sized practices (**SMPs**).

## Who should read this report?

This report is not just for the HKICPA, it is essential reading for all stakeholders interested in the vital role CPAs play in the Hong Kong market. Key stakeholders who would benefit from understanding the findings and recommendations within this report include:

- (a) **Individual CPAs** – CPAs would benefit greatly from understanding how their membership fees are utilised, and how effectively the HKICPA is discharging its responsibilities to them and to the accounting profession;
- (b) **Audit firms** – Audit firms specifically will benefit greatly from understanding the AFRC's finding in relation to Authorised Employer Assessment (Finding 2) and how they can themselves improve their policies and systems; and
- (c) **Other regulators & government bodies** – CPAs undertake vital work across the Hong Kong market, including as professional accountants in business in listed and other regulated entities. Financial regulators will benefit greatly from understanding how the HKICPA supports CPAs in business undertaking roles in their regulated areas.

## Overview of our findings and recommendations

In the 2024 Oversight Report the AFRC has identified:

- (a) Three new findings in relation to Ascertaining the qualification for, and registering CPAs and Provision of CPD training;
- (b) Two follow-up findings in relation to findings originally described in the 2023 Oversight Report on Ascertaining the qualification for, and registering CPAs and Provision of CPD training; and
- (c) Two Enhancing Recommendations in relation to Standard Setting to support the development of the accounting profession in Hong Kong.

Detailed information on each finding can be found in the following sections of this report. A summary of all findings and recommendations is provided in Annex 1 and Annex 2.

We have ensured that our observations are principles-based, with a focus on encouraging the HKICPA to consider its strategic goals in responding to our recommendations and in developing its policies and processes.

## Looking to the future

The HKICPA's 2024 Strategic Plan has a strong focus on developing the profession, from identifying development needs and supporting the profession in lifelong learning to advocating for high standards of governance and ethics.

Sustainability is a significant aspect of the future of the accounting profession in Hong Kong. It is important to ensure Hong Kong is at the forefront of sustainability reporting and assurance. The HKICPA has highlighted that sustainability is a key focus for the year in its Strategic Plan, and the AFRC believes that there will be an increasing impact of sustainability on the Specified Functions. The AFRC is committed to maintaining a close dialogue with the HKICPA to promote the healthy development of the accounting profession in Hong Kong.

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# Section 1

## Overview

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### 1.1 Introduction

- 1.1.1 This report summarises the key findings and recommendations of the AFRC's assessment (**2024 Assessment**) of the HKICPA performance of the functions as set out in section 1.2 below. The 2024 Assessment covers the period from 1 April 2023 to 31 March 2024 (**the Assessment Year**).
- 1.1.2 The HKICPA is the only statutory body in Hong Kong responsible for the registration and professional training of CPAs and the setting of standards for the accounting profession. As the independent regulator of the accounting profession, the AFRC exercises its statutory oversight function over the HKICPA diligently to ensure that the profession maintains the highest standards, upholds financial reporting and audit quality, and contributes to the development of Hong Kong as a premier international financial centre.

### 1.2 Scope of our assessment

- 1.2.1 The AFRC has a statutory duty under section 9(b) of the Accounting and Financial Reporting Council Ordinance (Cap. 588) (**AFRCO**) to oversee the performance of certain Specified Functions of the HKICPA. The Specified Functions are:
- (a) Ascertaining the qualification for registration as CPAs by conducting examinations; and registering CPAs;
  - (b) Arranging for mutual or reciprocal recognition of accountants;
  - (c) Setting CPD requirements for CPAs;
  - (d) Issuing or specifying standards of professional ethics, and accounting, auditing and assurance practices for CPAs; and
  - (e) Providing training for qualifying as CPAs, and for their CPD.

- 1.2.2 In addition, under Part 2 of Schedule 1 of the Anti-Money Laundering and Counter-Terrorist Financing Ordinance (Cap. 615) (**AMLO**), the AFRC functions as a regulatory body of the accounting profession with regard to Anti-Money Laundering and Counter-Terrorist Financing (**AML/CTF**). The AFRC also holds the responsibility of overseeing the HKICPA in publishing and amending the Guidelines on Anti-Money Laundering and Counter-Terrorist Financing for Professional Accountants (**AML/CTF Guidelines**), which form Part F of the Code of Ethics for Professional Accountants (**Code**). This forms part of the Specified Functions as stipulated in paragraph 1.2.1(d).
- 1.2.3 The AFRC also evaluated the follow-up actions taken by the HKICPA on previous findings, including the two assessments covering the 12-month periods ended on 31 March 2022 (**2022 Assessment**) and 31 March 2023 (**2023 Assessment**), respectively.
- 1.2.4 Under section 10(1A) of the AFRCO, to oversee the HKICPA's performance of the Specified Functions, the AFRC 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.
- 1.2.5 The Statement of Protocol on Oversight Arrangements between the AFRC and the HKICPA sets out the oversight arrangements as follows:
- (a) The AFRC representative(s) will observe the meetings of committees responsible for the performance of the Specified Functions (**Specified Committees**). These include the:
    - Auditing and Assurance Standards Committee (**AASC**);
    - Ethics Committee (**EC**);
    - Financial Reporting Standards Committee (**FRSC**);
    - Professional Development Committee (**PDC**);

- Qualification and Examination Board (**QEB**); and
  - Registration Committee (**RC**).
- (b) The HKICPA will provide the AFRC with:
- Information on the applicable due process in relation to the Specified Functions and the annual work plan each year;
  - The terms of reference and composition of the Specified Committees each year;
  - Quarterly activity reports containing information that will enable us to understand the activities of the HKICPA in relation to the Specified Functions, with relevant supporting materials including agendas and approved minutes of meetings of the Specified Committees of the HKICPA and/or the Council of the HKICPA established by section 10(1) of the Professional Accountants Ordinance (Cap. 50) (**PAO**) (**HKICPA Council**); and
  - Any other information, documents, or reports in the HKICPA's possession that we may reasonably require for the performance of the oversight function.
- (c) The AFRC will assess the HKICPA's performance of the Specified Functions and make recommendations where appropriate. The HKICPA will provide us with a written response including any follow-up actions regarding our recommendations; and
- (d) The AFRC will publish a report with our key findings and recommendations, where appropriate, on a periodic basis.

### **1.3 How the AFRC conducted the assessment**

1.3.1 In conducting the 2024 Assessment, we performed the following procedures:

- (a) Reviewed the process of nomination, appointment and selection of members for the Specified Committees, the governance arrangement, and related documents of the HKICPA;

- (b) Observed 26 meetings of the Specified Committees and reviewed the relevant meeting papers and minutes;
- (c) Reviewed the quarterly activity reports submitted by the HKICPA; and
- (d) Conducted an on-site assessment that included:
  - Reviewing the policies and procedures and other relevant documents related to the Specified Functions;
  - Conducting walkthroughs with the HKICPA personnel;
  - Reviewing samples of operations of the Specified Functions; and
  - Meeting the President of the HKICPA Council and the chairperson and the selected members of the Specified Committees.

## **1.4 Structure of the report**

1.4.1 In presenting the assessment results, we focused on three out of the five Specified Functions where findings or Enhancing Recommendations have been identified. The three functions are related to ascertaining the qualification for, and registering CPAs, standard setting, and provision of CPD training, all of which are crucial for upholding the quality and integrity of the accounting profession. A separate section is devoted to present the relevant findings for those Specified Functions, and an additional section has been included which focuses on the evaluation of policies and procedures concerning the nomination, selection, and appointment of members to the Specified Committees. These sections are organised as follows:

- (a) Nomination, selection, and appointment of Specified Committees' members (*Section 2*)
- (b) Ascertaining the qualification for, and registering CPAs (*Section 3*)
- (c) Standard setting (*Section 4*)
- (d) Provision of CPD training (*Section 5*)

- 1.4.2 The sections follow a uniform structure, starting with an overview of the scope and approach, followed by an evaluation of the progress made by the HKICPA on previous findings, follow-up recommendations and HKICPA's response (where applicable), and finishing with new findings and recommendations from the AFRC's 2024 Assessment, and the response from the HKICPA.
- 1.4.3 In the 2024 Assessment Report, we have also included Enhancing Recommendations. These are made where we have not identified a deficiency in a HKICPA policy or process this year and so have not included a finding, but we believe that additional enhancements would contribute to developing the profession in Hong Kong, with a particular focus on actions which support SMPs.

## Section 2

# Nomination, selection, and appointment of Specified Committees' members

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### 2.1 Scope and approach

2.1.1 Since the composition of a committee and the quality of committee members have a significant impact on the effectiveness of the performance of Specified Functions, our oversight assessment covers the evaluation of the HKICPA's policies and procedures relating to the nomination, selection, and appointment of members of the Specified Committees, details of which are summarised in A3.1 to A3.6 of Annex 3.

2.1.2 In our assessment, we evaluated the HKICPA's policies and procedures, as summarised in A4.1 of Annex 4. In addition, the AFRC evaluated the HKICPA's follow-up actions on previous findings.

### 2.2 Evaluation of progress made by the HKICPA on previous findings

#### **Previous finding (a): Performance of chairperson and members of the Specified Committee was not evaluated based on the performance evaluation criteria set by the HKICPA**

2.2.1 In the 2022 Assessment, we found that the performance evaluation of the chairperson and members of the Specified Committee was not evaluated based on the performance criteria set by the HKICPA. In the 2023 Assessment, we noted that the HKICPA addressed this by revising the performance evaluation form, to include relevant questions to help assess the committee chairperson's and member's requisite skills and knowledge. The revised form was first used in evaluating their performance in November 2023.

2.2.2 In the 2024 Assessment period, we selected and reviewed samples, and it was noted that the revised evaluation forms were being used for performance evaluation. We have no further comments on the follow-up actions in the 2024 Assessment.

## **2.3 Findings and recommendations from the 2024 Assessment**

- 2.3.1 There were no new findings relating to the nomination, selection, and appointment of Specified Committees' members in the 2024 Assessment.

## Section 3

# Ascertaining the qualification for, and registering CPAs

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### 3.1 Scope and approach

3.1.1 Our oversight assessment covers the HKICPA's performance of the Specified Functions, details of which are summarised in A3.7 to A3.8 of Annex 3. These include:

- (a) Ascertaining whether persons are qualified for registrations as CPAs by:
- Conducting examinations;
  - Assessing their practical experience; and
  - Conducting compliance audit on CPD requirements for CPAs.
- (b) Processing applications for registration as a CPA.

3.1.2 Our assessment includes an evaluation of the HKICPA's policies and procedures, as summarised in A4.2 to A4.27 of Annex 4. In addition, the AFRC evaluated the HKICPA's follow-up actions on previous findings.

### 3.2 Evaluation of progress made by the HKICPA on previous findings

#### **Previous finding (b): High non-compliance rate in CPD compliance audits**

3.2.1 In the 2023 Assessment, we noted a high non-compliance rate in the CPD compliance audit. As a result, we recommended that the HKICPA explore additional strategies to improve CPAs' compliance with CPD requirements. Alongside effectively communicating the CPD requirements to CPAs, we suggested that the HKICPA conduct audits on a larger number of CPAs to ensure greater overall CPD compliance.



- 3.2.2 We noted in the 2024 Assessment period that the HKICPA has increased the sample size of CPD compliance audits by 11%, compared to the previous period. In addition, the HKICPA continued to communicate with CPAs regarding CPD requirements and the importance of ensuring compliance. This year's CPD compliance audit had a non-compliance rate of 20%<sup>1</sup>, which is lower than the previous rate of 32%.
- 3.2.3 This year's CPD compliance audit also identified eight CPAs who demonstrated repeated non-compliance. Seven of them failed to comply for two consecutive years and one for three consecutive years. CPAs commonly attributed non-compliance to overlooking or misunderstanding the CPD requirements.
- 3.2.4 Currently, the HKICPA provides additional time for CPAs, including those who have repeatedly failed to comply, to make up for the shortfall in meeting the CPD requirements. After fulfilling the CPD requirements, they are renewed as CPAs.
- 3.2.5 We observed that after the additional time was provided to non-compliant individuals for remedying the shortfall, the revised non-compliance rate reached 6%. This is the same as the average non-compliance rate (6%) observed in the audits conducted among the Global Accounting Alliance member bodies<sup>2</sup>, as reported in the HKICPA's January 2022 survey.
- 3.2.6 Providing additional time for CPAs to address any CPD shortfalls is intended to provide them with an opportunity to remediate and improve CPD compliance. However, providing additional time for individuals with repeated non-compliance to make up for the shortfall, or providing prolonged additional time to individuals to complete the shortfall could be considered excessively lenient. This may inadvertently convey a misguided message to CPAs that CPD compliance is not of significant importance and undermine the original intent of allowing extra time to address the shortfall.

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1 The CPD requirements apply equally to both practising certificate holders and non-practising certificate holders. This year's CPD non-compliance rate for practising certificate holders and non-practising certificate holders was 9% and 21% respectively.

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

3.2.7 The AFRC emphasises the critical role of CPD training in ensuring the development and maintenance of professional competence among CPAs. It is unacceptable for CPAs to perceive it as a mere box-ticking exercise. CPD compliance audits are essential to ensure that CPAs fulfil the prescribed requirements for CPD. The high non-compliance rate raises concerns about a potential widespread issue of non-compliance among all CPAs, and the perception that CPD compliance is of little importance needs to be addressed.

### **Our recommendations**

3.2.8 The HKICPA should actively pursue strategies to enhance CPAs' compliance with the prescribed CPD requirements with specific actions and timelines. These should include:

- (a) Raise CPAs' awareness of the significance of CPD and its requirements and, at the very least, mandate CPAs with shortfalls to undergo CPD training that reinforces this message;
- (b) Re-evaluate the measures in place for any identified non-compliance, which involves assessing both the appropriateness and the duration of additional time provided to CPAs with shortfalls, and reviewing the fit and proper status of CPAs with repeated non-compliance at their renewal of registration; and
- (c) Conduct an analysis of non-compliance cases and identify common attributes. This enables the HKICPA to refine their sample selection criteria to enhance the effectiveness of the CPD compliance audit.

### *HKICPA's response:*

*The HKICPA carries out an ongoing review of the efficiency and effectiveness of its CPD compliance audit process that facilitates implementation of new and enhanced strategies to improve CPAs' compliance with CPD requirements.*

*As recognised by the AFRC, the HKICPA had increased efforts to communicate with CPAs regarding CPD compliance and audit requirements. The HKICPA had also altered its CPD compliance audit by increasing its sample size. The AFRC also recognised that this year's CPD compliance audit had a lower non-compliance rate and ultimately, after providing additional time for CPAs to make up for the shortfall in meeting the CPD requirements, the revised CPD non-compliance rate was 6% (practising certificate holders: 0% and non-practising certificate holders: 7%). CPAs who were identified as non-compliant in the CPD compliance audit would have a high chance of being selected again for audit in the subsequent year.*

*The recommendations from the AFRC to enhance CPAs' compliance with the prescribed CPD requirements are well-noted and are also in-line with the work plan of the RC set out at the beginning of year 2024.*

*The HKICPA will continue to take steps to raise CPAs' awareness of CPD requirements and would consider requesting CPAs with shortfalls of required CPD activities to undergo CPD training on CPD requirements, as part of the remedial action to address the shortfall.*

*As observed by the AFRC, the HKICPA's management has raised re-evaluating measures in respect of CPAs with non-compliance, in particular to include development of a new policy for CPAs with repeated non-compliance as part of the RC work plan. Any significant changes to the consequences of repeated non-compliance with CPD requirements would be communicated to CPAs before implementation.*

*As observed by the AFRC, the HKICPA conducts an annual analysis of non-compliance cases and reports findings to the RC for consideration in finalising the audit process, including sample selection criteria, for the following year. The sample selection criteria have been effective to address non-compliance risk. The HKICPA will endeavour to identify additional relevant common attributes of non-compliance cases in the current ongoing compliance audit for further analysis to enhance effectiveness of its audit process.*

### **Previous finding (c): Quality control of Qualification Programme exam papers needs enhancement**

- 3.2.9 In the 2023 Assessment, we noted the quality control of Qualification Programme (QP) exam papers needed enhancement. Specifically, there was a lack of established criteria to determine when significant modifications to the exam papers are necessary. Further, the trial exam feedback was solicited from Trial Sitters before they knew their results, which may have reduced its effectiveness.
- 3.2.10 In response, the HKICPA has revised the Guidelines for trial examinations which took effect in February 2024. The revised guidelines include a set of criteria that encompasses both qualitative and quantitative aspects, enabling the identification of situations where significant modifications of an exam paper are required.
- 3.2.11 In addition, the revised guidelines have introduced a performance threshold for trial sitting. If the performance of Trial Sitters falls below this threshold, the corresponding trial exam results will be provided to the Trial Sitters, and a second round of feedback will be gathered from them. The modified mechanism could provide more meaningful feedback on the clarity and appropriateness of the questions and answers. We have no further comments on the follow-up actions in the 2024 Assessment.

### **Previous finding (d): Absence of a pre-defined baseline for acceptable performance and additional support for QP workshop facilitators**

- 3.2.12 In the 2023 Assessment, we noted the HKICPA allocates facilitators to QP workshops based on their past performance and availability, however, there was a lack of pre-defined baseline for acceptable performance for facilitators. Furthermore, the facilitators were not provided with their performance feedback and there was no provision for additional support or training to help improve the performance of facilitators with poor records.
- 3.2.13 In response, the HKICPA has established a baseline for acceptable performance for QP workshop facilitators, effective from 1 August 2023. Facilitators who fall below this threshold will not be assigned for workshops. Additional training materials and support have also been provided to assist facilitators in improving their performance. We also observed that feedback has been shared with the facilitators to enhance their awareness of areas that require improvement. We have no further comments on the follow-up actions in the 2024 Assessment.

### **Previous finding (e): Insufficient verification of compliance of Authorised Employers and Authorised Supervisors with the Practical Experience Codes and Guidelines**

- 3.2.14 In the 2023 Assessment, we noted there was a lack of sufficient verification regarding compliance with the Practical Experience Codes and Guidelines (**PE Code**) of Authorised Employers (**AEs**) and Authorised Supervisors (**ASs**). These entities and individuals employ or supervise the QP students and hold a significant role in the transition of a QP student into a CPA.
- 3.2.15 The HKICPA has implemented measures to strengthen its verification process. One such measure is the expansion of the sample selected for verifying the compliance of AE and AS with the PE Code. Additionally, the HKICPA has enhanced the risk factors to include past assessment results and changes in training environment for sample selection. These measures could help to improve the level of assurance regarding the compliance of accredited AEs/ASs with the PE Code. We have no further comments on the follow-up actions in the 2024 Assessment.

### **Previous finding (f): No referrals of CPAs with self-declared convictions or sanctions by other regulators have been made to the AFRC for consideration of regulatory action**

- 3.2.16 In the 2023 Assessment, it was noted the HKICPA had not referred any CPAs who reported convictions or sanctions by other regulators to the AFRC for consideration regarding possible regulatory action since the transfer of responsibilities of the HKICPA to the AFRC. In response, the HKICPA has updated its policy in March 2024 to establish procedures for referring CPAs with self-reported convictions or sanctions to the AFRC. The AFRC has also received referrals of CPAs with self-reported convictions or sanctions during our 2024 Assessment period. We have no further comments on the follow-up actions in the 2024 Assessment.

### **Previous finding (g): Overlooking of a fit and proper issue resulting in an ineligible CPA being registered by mistake**

- 3.2.17 In the 2023 Assessment, it was noted the HKICPA overlooked a fit and proper issue which resulted in an ineligible CPA being registered by mistake. In response, the HKICPA has conducted additional trainings to increase the team’s awareness and caution when handling registration applications and reiterated the importance of maintaining a critical mindset in the process. We have no further comments on the follow-up actions in the 2024 Assessment.
- 3.2.18 With the exception of the previous finding (b) mentioned in paragraphs 3.2.1 to 3.2.8, we noted that the revised processes have been applied and the follow-up actions have adequately addressed our previous findings.

## **3.3 Findings and recommendations from the 2024 Assessment**

### **Finding 1: Compliance with the regulatory order is not considered in the fit and proper assessment of CPA registration**

- 3.3.1 To be registered as a CPA, an applicant must prove to the satisfaction of the HKICPA that the applicant is a “fit and proper person to be a CPA”.
- 3.3.2 In assessing whether the applicant is a “fit and proper person to be a CPA”, the HKICPA staff member will refer to the HKICPA’s Guidelines on fit and proper assessment. We noted the Guidelines on fit and proper assessment does not mandate an assessment of whether the applicant has any unfulfilled terms of a regulatory order. Additionally, it does not require any consideration of the impact of such unfulfilled terms on each fit and proper criterion.
- 3.3.3 For applicants with unfulfilled terms of a regulatory order, the HKICPA’s management has the authority to decide, without the need for approval from the RC.
- 3.3.4 In our sample, we noted that one of the renewal applicants failed to fulfil the term stated in the disciplinary order issued by the Disciplinary Committee of the HKICPA. This order included a penalty and disciplinary proceeding costs.

- 3.3.5 Following the dismissal of the appeal by the court, the order has become effective. Despite being aware of the applicant's failure to settle the penalty and costs, the HKICPA concluded that it did not affect the applicant's eligibility as a "fit-and-proper person to be a CPA", and approved the renewal application based on the following rationale: *"(the applicant) did not agree the decision of the Court... As there is a dispute on the outstanding penalty from the applicant's perspective, it is not considered a financial integrity issue for fit and proper assessment."*
- 3.3.6 The AFRC considers that the applicant's refusal to serve the terms of the disciplinary order reflects the applicant's lack of respect for the decisions made by the Disciplinary Committee of the HKICPA and the court. This refusal also casts doubt on the applicant's reputation and character.
- 3.3.7 Other than financial integrity issue, criteria, such as "adherence to professional standards, professional behaviours, good reputation and character" should also be considered in the assessment. In light of these factors, the renewal application should be refused.

### **Our recommendations**

- 3.3.8 The HKICPA should strengthen the Guidelines on fit and proper assessment by including the following requirements when applicants have any unfulfilled terms of a regulatory order:
- (a) Consider its impact on each fit and proper criterion; and
  - (b) Require the determination of the registration or renewal application by the RC.
- 3.3.9 The HKICPA should also re-evaluate the appropriateness of the subject applicant's CPA renewal decision in the next annual renewal exercise.

### ***HKICPA's response:***

*The current HKICPA Guidelines on fit and proper assessment did not mandate an assessment of whether the applicant has unfulfilled terms of a regulatory order. For the mentioned renewal application, the HKICPA's management did in fact identify and consider the non-payment of the disciplinary penalty. However, the management had not considered other fit and proper criteria besides financial integrity when reaching the judgement.*



*The HKICPA will review the Guidelines on fit and proper assessment and make appropriate changes. In future, cases with similar features involving unfulfilled terms of regulatory orders would be reported to the RC for consideration. With regard to the case in question, the subject applicant's renewal application for next year would be reevaluated based on the revised Guidelines on fit and proper assessment.*

### **Finding 2: Gaps in AE and AS assessment**

- 3.3.10 To become a CPA, a QP student is required to attain at least three years of practical experience from AEs or ASs registered with the HKICPA. These AEs and ASs are pivotal in providing practical experience training for QP students to qualify as CPAs. It is of utmost importance that they adhere to the PE Code set by the HKICPA.
- 3.3.11 The objective of the PE Code is to ensure an AE and AS will provide a work environment with quality learning and development opportunities for QP students. The PE Code also requires that the AE/AS or the training personnel have no ethical or professional issues. However, we understand from the HKICPA's management that the AE/AS is not required to report any self-identified quality control weaknesses to the HKICPA.
- 3.3.12 As part of the monitoring process, a site visit was conducted by the HKICPA to an AE, and no non-compliance of the PE Code was found. However, within two months of the visit's conclusion, an overseas regulator issued a sanction order to the concerned AE, specifically related to the AE's self-identified quality control weaknesses on training.
- 3.3.13 As a result, the HKICPA was unaware of these weaknesses at the site visit and did not assess their remediation, or the impact they may have on the AE's learning and development environment, indicating a gap in the current assessment procedures.
- 3.3.14 A gap in an AE/AS assessment in evaluating the ability of AEs/ASs to provide a high-quality learning and development environment can result in the registration of non-compliant AE/AS, depriving QP students of appropriate practical experience or adequate training and development opportunities. Consequently, this can lead to the admission of CPAs with insufficient levels of competence, negatively impacting the quality of registered CPAs and the accounting profession in Hong Kong.



## Our recommendations

3.3.15 The HKICPA should publish guidance and strengthen the procedures to improve its assessment on the AE/AS's ability in providing quality learning and development opportunities, and on whether the AE/AS has any ethical or professional issues. This could be achieved through collecting the following information, where applicable, and assess their relevant impact:

- (a) Internal regulatory records for individuals involved in providing training;
- (b) Information on ongoing investigation or regulatory actions on ethical or professional issues taken against the AE by local or overseas regulatory bodies; and
- (c) Information on identified weaknesses in the AE's quality control pertaining to training.

### *HKICPA's response:*

*The HKICPA has an established process for monitoring AEs and ASs to ensure compliance with the PE Code and maintain a high-quality learning environment. This process includes site visits, desk-based reviews and annual declarations. In the mentioned case, the AE had identified and resolved quality control weaknesses in their training procedures a few years ago. Additionally, the HKICPA took further actions to address the training matters outlined in the sanction order, to ensure that the training and development environment for future CPAs remain robust.*

*In addition to addressing this isolated incident, the HKICPA agrees with the AFRC's recommendations to improve the assessment on the AEs/ASs in providing quality learning environment. The HKICPA will enhance practical guidance to accommodate the diverse nature of AEs in the monitoring processes.*

## Section 4

# Standard setting

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### 4.1 Scope and approach

- 4.1.1 Our oversight assessment covers the HKICPA's performance in relation to setting standards on accounting, professional ethics, and auditing and assurance practices for the Assessment Year. Details are summarised in A3.12 to A3.15 of Annex 3.
- 4.1.2 Our assessment includes the evaluation of the HKICPA's policies and procedures, as summarised in A4.28 to A4.30 of Annex 4. In addition, the AFRC evaluated the HKICPA's follow-up actions on previous findings.

### 4.2 Evaluation of progress made by the HKICPA on previous findings

#### **Previous Finding (h): A draft consultation document revising a standard with significant local adaptation did not include all necessary considerations, rationale, or adequate analysis**

- 4.2.1 In the 2023 Assessment, we determined that a draft consultation document in relation to the Public Interest Entity (**PIE**) definition in the Code did not include all necessary considerations, rationale, or adequate analysis.
- 4.2.2 The HKICPA's analysis of potential additional public interest categories was inadequate and did not consider all options holistically, instead including only a limited number of additional PIE categories as described by the International Ethics Standards Board for Accountants (**IESBA**). Additionally, the draft did not explain how the HKICPA defined the scope of the project or articulate the rationale for the proposed refinements.
- 4.2.3 In response to our finding, the HKICPA undertook additional analysis, which included consideration of a wider range of entities. It developed a revised draft of the consultation, which was approved for publication by the HKICPA Council in January 2024. Given the vital importance of developing an appropriate PIE definition, the draft consultation was reviewed by the AFRC and endorsed by the AFRC Board in February 2024.

4.2.4 The consultation was launched on 27 February 2024, with a closing date of 27 April 2024. The HKICPA published the final changes to the Code to implement the revised definition in July 2024. We have no further comments on the follow-up actions in the 2024 Assessment.

**Previous Finding (i): Lack of consultation with a relevant regulator when revising AML/CTF Guidelines**

4.2.5 In the 2023 Assessment, we determined that the HKICPA did not formally consult the AFRC when revising the AML/CTF Guidelines.

4.2.6 From 1 October 2022, under Part 2, Schedule 1 of the AMLO, the AFRC became a regulatory body of the accounting profession in relation to anti-money laundering in all aspects except for the publication and amendment of the AML/CTF Guidelines. The HKICPA, overseen by the AFRC, remains the regulatory body responsible for publishing and amending the AML/CTF Guidelines, which forms Part F of the Code.

4.2.7 Even though the amended AMLO did not impose any new responsibilities on the regulator, without prior consultation the AFRC's ability to comment on the draft consultation paper was impeded, and the document could have included proposals that were inconsistent with our regulatory approach, potentially causing confusion among market participants.

4.2.8 In response to our finding, the HKICPA ensured that guidance in the relevant standard operating procedures (**SOPs**) for standard setting reflected the need to identify key stakeholders for formal consultation prior to the publication of consultation documents. The AFRC is currently liaising with the HKICPA with the aim of increasing the effectiveness of our cooperation with regards to AML/CTF regulation. We have no further comments on the follow-up actions in the 2024 Assessment.

**Previous Finding (j): Certain standards on professional ethics were not accurate or up to date**

4.2.9 In the 2023 Assessment, we determined that certain standards on professional ethics were not accurate or up to date.

- 4.2.10 Although the HKICPA was informed about the further reform of the accounting profession in June 2021, it did not implement a project plan, with specific action steps and milestones, to update relevant standards. The HKICPA also did not deploy sufficient resources to ensure that all required consequential amendments to standards are identified and addressed before the effective date of the further reform on 1 October 2022.
- 4.2.11 As a result, certain standards became outdated and inaccurate when the further reform took effect on 1 October 2022.
- 4.2.12 In response to our finding, the HKICPA completed all updates after agreeing the necessary changes with the AFRC. We have no further comments on the follow-up actions in the 2024 Assessment.

**Previous Finding (k): The SOP of standard setting does not cover all major standard-setting activities**

- 4.2.13 In our 2022 Assessment, we determined that the SOP for setting standards on professional ethics and auditing and assurance practices did not cover post-implementation reviews of standards.
- 4.2.14 In our 2023 Assessment, we reviewed the HKICPA's amendments to the SOP and determined that the SOP regarding the post-implementation review for the Small- and Medium-sized Entity Financial Reporting Framework and Financial Reporting Standards (**SME-FRF & SME-FRS**) did not specify the criteria and threshold for determining the scope and extent of the post-implementation reviews.
- 4.2.15 In the 2024 Assessment, we have reviewed the changes made to the SOP, which include the addition of an exceptions policy for determining when a post-implementation review of the SME-FRF & SME-FRS is necessary and criteria for determining the priority of any follow-up activities. We have no further comments on the follow-up actions in the 2024 Assessment.

### 4.3 Findings and recommendations from the 2024 Assessment

- 4.3.1 We have no findings in respect of the HKICPA's standard setting function in our 2024 Assessment.
- 4.3.2 We do however have two Enhancing Recommendations which we believe will improve the accessibility and transparency of the standard setting process in Hong Kong. These Enhancing Recommendations are made where we have not identified a deficiency in a HKICPA process, but we believe that additional enhancements would contribute to developing the profession in Hong Kong, with a particular focus on improving accessibility of the standard setting process for SMPs.
- 4.3.3 The HKICPA has a detailed process for the adoption of a standard in Hong Kong, which is available on their website page<sup>3</sup>.
- 4.3.4 When preparing comment letters for submission to international standard setting bodies, the HKICPA will prepare a local invitation to comment and send this to CPAs, with additional targeting to other key stakeholders. The aim of this is to ensure that local issues and considerations are communicated at the international level, improving the standard and reducing the need for significant localisation.
- 4.3.5 The HKICPA directs potential respondents to the relevant international regulators proposed standard and explanatory memorandum, and asks for their comments for incorporation into the HKICPA's comment letter. The comment letter will also incorporate any comments made at relevant committee meetings. SMPs, without dedicated technical teams, often do not respond to complex international consultations, given the volume of material included within the international standard setting papers.
- 4.3.6 When a final local standard is issued, the HKICPA may publish a Basis for Conclusions document depending on the significance of the standard and the extent of localisation. A robust Basis for Conclusions is beneficial as it provides CPAs with detail on how the standard is likely to impact upon them, the key changes made to the standard and important implementation considerations.

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3 HKICPA, [How we set standards & contribute to international standards \(2024\)](https://www.hkicpa.org.hk/en/Standards-setting/Standards/How-we-set-standards-and-contribute-to-international-standards) (https://www.hkicpa.org.hk/en/Standards-setting/Standards/How-we-set-standards-and-contribute-to-international-standards).

4.3.7 This is important given the time scales for standard setting, which can span several years. In these circumstances, a Basis for Conclusions provides a useful reminder to CPAs of the path the standard has taken and how the HKICPA, CPAs, and other key Hong Kong stakeholders have fed into the process.

### **Our Enhancing Recommendations**

4.3.8 Although the process for standard setting is clear, and CPAs and other stakeholders have opportunities to comment, the AFRC believes that the accessibility of the process could be improved by:

- (a) Providing a more detailed overview of the key proposals within Invitations to Comment for key standards, including discussion of how the changes may impact on auditors in Hong Kong. A focused summary of the key changes and how they might impact on auditors in Hong Kong would be beneficial in encouraging SMPs to provide needed input into the standard setting process. This could include directing SMPs to specific questions within any consultation which may significantly impact on them.
- (b) Adding additional detail to local Basis for Conclusions highlighting, where appropriate, the changes most likely to impact Hong Kong and how SMPs in particular might be impacted. This would help to improve the accessibility and transparency of the standard setting process in Hong Kong.

#### *HKICPA's response:*

*We will implement the suggestions to significant new standards and amendments in the future.*

## Section 5

# Provision of CPD training

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### 5.1 Scope and approach

- 5.1.1 Our oversight assessment covers the HKICPA's performance in relation to the provision of CPD training.
- 5.1.2 Our assessment includes an evaluation of the HKICPA's policies and procedures, as summarised in A4.31 to A4.33 of Annex 4.

### 5.2 Evaluation of progress made by the HKICPA on previous findings

#### **Previous Finding (I): A lack of robust handling and review mechanism of feedback received on CPD training**

- 5.2.1 In the 2023 Assessment, we recommended that the HKICPA develop an appropriate mechanism for the handling and review of feedback from participants of CPD training.
- 5.2.2 The HKICPA implemented their policy on 29 December 2023. We have reviewed this policy as part of our 2024 Assessment and have noted the following.
- 5.2.3 Although there is a policy for obtaining CPD course feedback, this has generated an average response rate of 7.2%. Feedback response rates range from 2.6% for e-learning to 14.6% for face-to-face events.
- 5.2.4 Though there is a policy for sharing quantitative feedback scores, there is less detail in relation to the sharing of qualitative feedback.
- 5.2.5 Discussion with the HKICPA indicated that often qualitative feedback is not productive and relates to personal attributes of the presenter such as tone of voice. Whilst we understand filtering is necessary, the policy should have sufficient detail to ensure relevant qualitative feedback is shared.

- 5.2.6 The policy states that for courses with participants exceeding 100 individuals, the HKICPA will conduct an assessment of course effectiveness when the average feedback score is under 3.8 (on a scale of 1-5). For those with fewer than 100 participants, the HKICPA will conduct an assessment of course effectiveness when the average feedback score is under 3.8 and the response rate for feedback exceeds 6%.
- 5.2.7 In order to understand the policy, the AFRC and the HKICPA discussed the application of the thresholds several times. The HKICPA clarified that the thresholds are applied in a tiered approach. The HKICPA explained that they will read all feedback for courses with more than 100 participants and for those with less than 100 participants but a greater than 6% response rate. This means that 58.6% of CPD course feedback would have been read by the HKICPA and fallen within the scope of review if the policy was in place for the whole assessment period.<sup>4</sup> Only then is the 3.8 cut-off applied, resulting in 5.9% of courses being subsequently subject to an assessment of course effectiveness.
- 5.2.8 After an assessment of course effectiveness, the potential implications for low scoring CPD include seeking alternative speakers, ensuring that low scoring speakers are not invited back and removing the CPD course recording or e-learning if an alternative is available.
- 5.2.9 There are no factors for considering when a CPD course, which may be detrimental to the profession, should be removed even without an alternative being available.

### **Our recommendations**

- 5.2.10 The HKICPA should further develop the mechanism for handling and reviewing feedback. The mechanism should ensure that feedback is incorporated into future CPD courses to ensure they are effective and responsive to CPAs' needs.

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<sup>4</sup> The policy was implemented on 29 December 2023, and from the effective date up to the end of the Assessment Period 73.1% of CPD course feedback was read and fell under the scope of review, and 4% was subsequently subject to an assessment of course effectiveness.



5.2.11 The development of the mechanism, as a minimum, should include:

(a) Handling of feedback from participants

- Enhanced procedures for obtaining feedback from participants. The enhanced procedures could include other means of obtaining feedback, such as QR codes displayed at the end of CPD courses which allow participants to quickly provide feedback. This is currently offered only for QP seminars. The HKICPA should also consider other ways in which the HKICPA app could be utilised to collect feedback more effectively.
- Additional details for sharing qualitative feedback with speakers and/or vendors, including examples of qualitative feedback that should be shared and key factors to consider in determining what is necessary to share.

(b) Review mechanism regarding feedback received on CPD training:

- Reviewing the clarity of the policy regarding the thresholds and the tiered approach to assessing feedback, to ensure it is clearly and consistently understood.
- Considering additional refinement of the thresholds for the assessment of course effectiveness for CPD training to ensure sufficient coverage.
- This refinement should include consideration of whether the 100 participants and 3.8 average rating are appropriate cut-offs for performing a review of course effectiveness, or if a single simpler threshold for review of course effectiveness would be clearer.
- A policy for when archived or recorded CPD which is subsequently offered as e-learning should be removed, even when no alternative course is available. The policy should include key factors to help determine when CPD training should be removed.

### *HKICPA's response:*

*The HKICPA values constructive feedback on CPD courses to maintain training quality and value for CPAs. Tailored approaches were used to encourage participants to provide training feedback based on different learning modes. As part of the ongoing review process, the HKICPA agrees to further encourage participants to provide training feedback as recommended by the AFRC, while considering the practicality of implementation.*

*The HKICPA will endeavour to enhance the procedures regarding the sharing of qualitative feedback with speakers and/or vendors.*

*In terms of course feedback review thresholds, the HKICPA established them in 2022 using historical data, such as participants' records. All individual training feedback forms were carefully reviewed by the HKICPA staff when they meet the predetermined threshold. Course effectiveness reviews would be conducted for courses with average feedback ratings below 3.8. The parameters for review will be continuously evaluated to ensure their ongoing effectiveness.*

*When assessing low scoring courses and exploring alternative solutions, the HKICPA will enhance the existing policy to determine if these courses need revision, replacement, retention, or removal.*

## **5.3 Findings and recommendations from the 2024 Assessment**

### **Finding 3: A lack of process for ensuring the quality of CPD courses prior to the event and that the course meets the identified learning objective**

- 5.3.1 The HKICPA's CPD Training Course Design and Development Guidelines includes guidance in relation to reviewing learning outcomes for CPD courses.
- 5.3.2 There is a reference in the policy to ensuring the quality of content prior to a CPD course being held, but it is not an explicit requirement as departments only "might review" the flyer prepared for the course and liaise with the speakers. There are no additional requirements regarding the review of course materials prior to an event.

5.3.3 Our walkthrough with the organising departments for CPD courses indicates a lack of a consistent review policy. Some departments request course material to be provided at least 7 days before the training is to be delivered to give sufficient time for review. Other departments do not and hence are not able to review the content in detail. There is also no set policy for who will review CPD course material, the level of seniority of the staff member reviewing and the factors that should be considered when reviewing.

### **Our recommendations**

5.3.4 The HKICPA should develop a standardised process for assessing the quality of both internal and external CPD training prior to its delivery and for ensuring that the CPD meets learning objectives. The below process should consider not only technical accuracy of content, but also a review against learning objectives to ensure the material is likely to achieve them.

The process, as a minimum, should include:

- (a) Deadlines by which CPD trainers should submit material for review prior to a course;
- (b) A clear policy regarding who within the organising department is authorised to conduct the review;
- (c) A list of key factors both technical and non-technical, for the reviewer to consider;
- (d) Detailed procedures for sending comments and change requests to CPD providers and addressing any refusal to amend by providers;
- (e) Factors which may indicate that a CPD course should be removed or delayed should the course material require significant revision;
- (f) The exception policy and relevant approval process for not adhering to the pre-determined process; and

- (g) Given CPD training can be of both a technical and non-technical nature, it may be logical for the HKICPA to have more than one policy for different types of training and events.
- 5.3.5 Finally, the HKICPA should revise the CPD offered in relation to *PN840 (Revised) Reporting on Solicitors' Accounts* to ensure that it is fit for purpose and responds to recent AFRC's concerns. The AFRC notes that this is already a planned action by the HKICPA and that they are currently sourcing a speaker to provide additional training.
- 5.3.6 In the last quarter of the Assessment Year, the AFRC has seen the HKICPA deploying initiatives to enhance the technical support and training available to CPAs. Such initiatives include the publication of a Roadmap of Audit Engagement which sets out examples of the AFRC inspection findings and maps them to existing resources and support available from the HKICPA, the AFRC and other international sources.
- 5.3.7 Regarding the requirement for responsible persons of registered PIE auditors to undertake at least five verifiable CPD hours of related activities per annum that took effect from 1 December 2023, the HKICPA posted available HKICPA resources to a new webpage "CPD highlights for PIE auditors" to facilitate compliance for relevant CPAs. The AFRC looks forward to seeing further initiatives from the HKICPA which help to uphold audit quality and contribute to the sustainable and healthy development of the profession.

*HKICPA's response:*

*The HKICPA has an established review process for CPD training to maintain high quality. The HKICPA has taken note of the AFRC's recommendations to enhance consistency and will take appropriate action accordingly. However, we also recognise that some training courses are different and need more flexibility, such as conferences, panel discussion, technical workshops etc. These trainings may involve speakers and experts who share their opinions and views that we may not be able to check beforehand. We agreed to focus on a brief outline or summary of their presentation, to ensure it matches the learning objectives and training needs.*

*In addition, the HKICPA will work closely with the AFRC to address training needs and identify relevant issues in addition to those in public domain in a timely manner, for the purpose of ensuring the CPD trainings are of high quality, up-to-date and pertinent.*

## Section 6

# Acknowledgment

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- 6.1 We would like to express our appreciation of the HKICPA for its cooperation in conducting the 2024 Assessment.

## Annex 1

### Summary of findings and Enhancing Recommendations from the 2024 Assessment

A1.1 A summary of our findings and recommendations based on our 2024 Assessment is set out below. Details of findings and recommendations are set out in Section 2 to Section 5 of this Report.

#### Ascertaining the qualification for, and registering CPAs

Findings from the 2024 Assessment	We expect the HKICPA to:
<p><b>Finding 1</b></p> <p>Compliance with the regulatory order is not considered in the fit and proper assessment of CPA registration</p>	<p>Strengthen the Guidelines on fit and proper assessment by including the following requirements when applicants have any unfulfilled terms of a regulatory order:</p> <ul style="list-style-type: none"> <li>(a) Consider its impact on each fit and proper criterion; and</li> <li>(b) Require the determination of the registration or renewal application by the RC.</li> </ul> <p>Re-evaluate the appropriateness of the subject applicant's CPA renewal decision.</p> <p>Paragraphs 3.3.1 – 3.3.9</p>
<p><b>Finding 2</b></p> <p>Gaps in AE and AS assessment</p>	<p>Publish guidance and strengthen the procedures to improve its assessment on the AE/AS's ability in providing quality learning and development opportunities, and on whether the AE/AS has any ethical or professional issues.</p> <p>Paragraphs 3.3.10 – 3.3.15</p>

## Standard setting

### Enhancing Recommendations from the 2024 Assessment

#### Enhancing Recommendation 1

Provide a more detailed overview of the key proposals within Invitation to Comment for key standards, including discussion of how the changes may impact on auditors in Hong Kong. A focused summary of the key changes and how they might impact on auditors in Hong Kong would be beneficial in encouraging SMPs to provide needed input into the standard setting process. This could include directing SMPs to specific questions within any consultation which may significantly impact on them.

Paragraphs 4.3.1 – 4.3.8

#### Enhancing Recommendation 2

Add additional detail to any local Basis for Conclusions highlighting, where appropriate, the changes most likely to impact Hong Kong and how SMPs in particular might be impacted. This would help to improve the accessibility and transparency of the standard setting process in Hong Kong.

Paragraphs 4.3.1 – 4.3.8

## Provision of CPD training

Findings from the 2024 Assessment	We expect the HKICPA to:
<p><b>Finding 3</b></p> <p>A lack of process for ensuring the quality of CPD courses prior to the event and that the course meets the identified learning objective</p>	<p>Develop a standardised process for assessing the quality of both internal and external CPD training prior to its delivery and for ensuring that the CPD meets learning objectives.</p> <p>Paragraphs 5.3.1 – 5.3.7</p>

## Annex 2

### Summary of evaluation of progress made by the HKICPA on previous findings

- A2.1 In response to our 12 previous findings and recommendations, the HKICPA has satisfactorily addressed 10 of them. For the remaining two findings, the HKICPA had taken steps to address them. However, we consider they have not been fully addressed.
- A2.2 The actions taken by the HKICPA and our evaluation of those actions are as follows:

#### Nomination, selection, and appointment of Specified Committee members

Previous findings	Status of HKICPA's follow-up actions	Our assessment
(a) Performance of chairperson and members of the Specified Committee was not evaluated based on the performance evaluation criteria set by the HKICPA	<p>The HKICPA has revised the performance evaluation form to include relevant questions to help assess the committee chairperson's and member's requisite skills and knowledge.</p> <p>The revised evaluation forms were being used for performance evaluation in November 2023.</p> <p>Paragraphs 2.2.1 – 2.2.2</p>	No further comment in the 2024 Assessment.



## Ascertaining the qualification for, and registering CPAs

Previous findings	Status of HKICPA's follow-up actions	Our assessment
<p>(b) High non-compliance rate in CPD compliance audits</p>	<p>The HKICPA has increased sample size of CPD compliance audits by 11%. In addition, the HKICPA continued to communicate with CPAs regarding the CPD requirements and its importance.</p> <p>This year's CPD compliance audit had a non-compliance rate of 20%, which is lower than the previous rate of 32%.</p> <p>This year's CPD compliance audit also identified eight CPAs who demonstrated repeated non-compliance. CPAs commonly attributed non-compliance to overlooking or misunderstanding the CPD requirements.</p> <p>Paragraphs 3.2.1 – 3.2.8</p>	<p>The HKICPA should actively pursue strategies to enhance CPAs' compliance with the prescribed CPD requirements. These should include:</p> <ul style="list-style-type: none"> <li>(a) Raise CPA's awareness of the significance of CPD and its requirements;</li> <li>(b) Re-evaluate the measures in place for any identified non-compliance; and</li> <li>(c) Conduct analysis on non-compliance cases to refine sample selection criteria.</li> </ul> <p>Further assessment will be made next year.</p>

**Ascertaining the qualification for, and registering CPAs (Continued)**

<b>Previous findings</b>	<b>Status of HKICPA's follow-up actions</b>	<b>Our assessment</b>
(c) Quality control of QP exam papers needs enhancement	<p>The HKICPA has revised the Guidelines for trial examinations to include:</p> <p>(a) A set of criteria for significant modifications of exam paper; and</p> <p>(b) A performance threshold for trial sitting.</p> <p>Paragraphs 3.2.9 – 3.2.11</p>	No further comment in the 2024 Assessment.
(d) Absence of a pre-defined baseline for acceptable performance and additional support for QP workshop facilitators	<p>The HKICPA has established a baseline for acceptable performance for QP workshop facilitators.</p> <p>Feedback as well as additional training materials and support have been provided to facilitators.</p> <p>Paragraphs 3.2.12 – 3.2.13</p>	No further comment in the 2024 Assessment.

### Ascertaining the qualification for, and registering CPAs (*Continued*)

Previous findings	Status of HKICPA's follow-up actions	Our assessment
(e) Insufficient verification of compliance of AEs and ASs with the PE Code	<p>The HKICPA has expanded the sample size for verifying the compliance of AE and AS with the PE Code. Additionally, the HKICPA has enhanced the risk factors to include past assessment results and changes in training environment for sample selection.</p> <p>Paragraphs 3.2.14 – 3.2.15</p>	No further comment in the 2024 Assessment.

**Ascertaining the qualification for, and registering CPAs (Continued)**

<b>Previous findings</b>	<b>Status of HKICPA's follow-up actions</b>	<b>Our assessment</b>
(f) No referrals of CPAs with self-declared convictions or sanctions by other regulators have been made to the AFRC for consideration of regulatory action	<p>The HKICPA has updated its policy in March 2024 to establish procedures for referring CPAs with self-reported convictions or sanctions to the AFRC.</p> <p>The AFRC has also received referrals of CPAs with self-reported convictions or sanctions during the 2024 Assessment period.</p> <p>Paragraph 3.2.16</p>	No further comment in the 2024 Assessment.
(g) Overlooking of a fit and proper issue resulting in an ineligible CPA being registered by mistake	<p>The HKICPA has conducted additional trainings to increase the team's awareness and caution when handling registration applications and reiterated the importance of maintaining a critical mindset in the process.</p> <p>Paragraph 3.2.17</p>	No further comment in the 2024 Assessment.

## Standard setting

Previous findings	Status of HKICPA's follow-up actions	Our assessment
<p>(h) A draft consultation document revising a standard with significant local adaptation did not include all necessary considerations, rationale, or adequate analysis</p>	<p>The HKICPA undertook additional analysis, which included consideration of a wider range of entities, and developed a revised draft of the consultation which was reviewed by the AFRC and endorsed by the AFRC Board in February 2024.</p> <p>The consultation was launched on 27 February 2024, with a closing date of 27 April 2024. The HKICPA published the final changes to the Code to implement the revised definition in July 2024.</p> <p>Paragraphs 4.2.1 – 4.2.4</p>	<p>No further comment in the 2024 Assessment.</p>

**Standard setting (Continued)**

<b>Previous findings</b>	<b>Status of HKICPA's follow-up actions</b>	<b>Our assessment</b>
(i) Lack of consultation with a relevant regulator when revising AML/CTF Guidelines	<p>The HKICPA ensured that guidance in the relevant SOPs for standard setting reflected the need to identify key stakeholders for formal consultation prior to the publication of consultation documents. The AFRC is currently liaising with the HKICPA with the aim of increasing the effectiveness of our cooperation with regards to AML/CTF regulation.</p> <p>Paragraphs 4.2.5 – 4.2.8</p>	No further comment in the 2024 Assessment.
(j) Certain standards on professional ethics were not accurate or up to date	<p>The HKICPA completed all updates after agreeing the necessary changes with the AFRC.</p> <p>Paragraphs 4.2.9 – 4.2.12</p>	No further comment in the 2024 Assessment.

### Standard setting (*Continued*)

Previous findings	Status of HKICPA's follow-up actions	Our assessment
(k) The SOP of standards setting does not cover all major standard-setting related activities	<p>The HKICPA has updated the SOP, including the addition of an exceptions policy for determining when a post-implementation review of the SME-FRF &amp; SME-FRS is necessary and criteria for determining the priority of any follow-up activities.</p> <p>Paragraphs 4.2.13 – 4.2.15</p>	No further comment in the 2024 Assessment.

### Provision of CPD training

Previous findings	Status of HKICPA's follow-up actions	Our assessment
(l) A lack of a robust handling and review mechanism of feedback received on CPD training	<p>The HKICPA implemented the relevant policy on 29 December 2023.</p> <p>However, the HKICPA should further develop the mechanism for handling and reviewing feedback. The mechanism should ensure that feedback is incorporated into future CPD courses to ensure they are effective and responsive to CPAs' needs.</p> <p>Paragraphs 5.2.1 – 5.2.11</p>	Further assessment will be made next year.

## Annex 3

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

#### Appointment of Specified Committees

- A3.1 Under section 18(1)(m) of the PAO, the HKICPA Council “may appoint committees to assist or advise the Council in the exercise of its powers and delegate to such committees such of its power as it may ... determine”.
- A3.2 As appointed by the HKICPA Council, the Specified Committees are the boards and committees responsible for the performance of the Specified Functions. Set out below is a summary of their power and responsibilities.

#### *AASC, EC and FRSC*

- A3.3 The HKICPA Council has delegated the EC<sup>5</sup>, FRSC<sup>6</sup> and AASC<sup>7</sup> the respective powers and responsibilities to set professional ethics, and accounting and auditing and assurance practices. In discharging their responsibilities, the committees take into account the need to maintain convergence, as far as practicable, with the international standards and pronouncements issued by IESBA, International Accounting Standards Board (**IASB**) and International Auditing and Assurance Standards Board (**IAASB**).

#### *PDC*

- A3.4 With regards to the provision of CPD training, the PDC<sup>8</sup> is charged with the responsibility to advise the Council on the professional development needs of CPAs in relation to their technical competency and personal developments. The PDC also oversees the overall CPD training activities in the HKICPA by developing and implementing work plans to meet training needs through providing professional development events/programmes.

5 HKICPA, [Ethics Committee Terms of Reference \(2024\)](https://app1.hkicpa.org.hk/about_us/committee_info.php?committee_id=34&year=2024) (https://app1.hkicpa.org.hk/about\_us/committee\_info.php?committee\_id=34&year=2024).

6 HKICPA, [Financial Reporting Standards Committee Terms of Reference \(2024\)](https://app1.hkicpa.org.hk/about_us/committee_info.php?committee_id=8&year=2024) (https://app1.hkicpa.org.hk/about\_us/committee\_info.php?committee\_id=8&year=2024).

7 HKICPA, [Auditing and Assurance Standards Committee Terms of Reference \(2024\)](https://app1.hkicpa.org.hk/about_us/committee_info.php?committee_id=40&year=2024) (https://app1.hkicpa.org.hk/about\_us/committee\_info.php?committee\_id=40&year=2024).

8 HKICPA, [Professional Development Committee Terms of Reference \(2024\)](https://app1.hkicpa.org.hk/about_us/committee_info.php?committee_id=165&year=2024) (https://app1.hkicpa.org.hk/about\_us/committee\_info.php?committee\_id=165&year=2024).



## QEB

A3.5 The QEB<sup>9</sup> acts as the “Examination Board” under section 40(1) of Professional Accountants By-Laws (Cap. 50A) (**By-Laws**).

As delegated by the HKICPA Council, its role covers:

- (a) Providing advice on tactical goals and priorities for the QP Programme; and
- (b) Approving (i) examination papers, timing and results of the QP and other professional examinations of the HKICPA; (ii) accreditation and module exemption outcomes; (iii) study materials and learning outcomes, (iv) authorisations of employers/supervisors relating to QP candidates’ practical experience, as well as (v) the appointment and remuneration of the parties involved in the QP, accreditation and examination processes.

## RC

A3.6 The RC<sup>10</sup> is appointed under section 20 of By-Laws to examine the qualifications of an applicant and advise the HKICPA Council as to whether the applicant should be registered or rejected. In addition, the RC is also responsible for:

- (a) The provision of advice to the HKICPA Council on the renewal of various registration agreements with overseas accountancy bodies; and
- (b) The prescription of CPD requirements for CPAs.

## Ascertaining the qualification for, and registering CPAs

A3.7 Under section 24(1) of the PAO, to be registered as a CPA, the applicant needs to prove to the satisfaction of the HKICPA Council that he or she:

- (a) Is a fit and proper person as a CPA;

9 HKICPA, [Qualification and Examinations Board Terms of Reference \(2024\)](https://app1.hkicpa.org.hk/about_us/committee_info.php?committee_id=176&year=2024) (https://app1.hkicpa.org.hk/about\_us/committee\_info.php?committee\_id=176&year=2024).

10 HKICPA, [Registration Committee Terms of Reference \(2024\)](https://app1.hkicpa.org.hk/about_us/committee_info.php?committee_id=33&year=2024) (https://app1.hkicpa.org.hk/about\_us/committee\_info.php?committee\_id=33&year=2024).

- (b) Has passed the QP examinations prescribed by the HKICPA or is a member of an accountancy body with which there is in force a mutual recognition agreement; and
- (c) Has complied with practical experience requirements prescribed by the HKICPA Council.

A3.8 Under section 28(2) of the PAO, for renewal of CPA registration, the applicant needs to satisfy the HKICPA Council that he or she:

- (a) Is a fit and proper person as a CPA; and
- (b) Has complied with the CPD requirements prescribed by the HKICPA Council.

### **Setting CPD requirements for CPAs**

A3.9 Under section 28(2) of the PAO, the HKICPA Council is empowered to prescribe the CPD requirements for CPAs.

A3.10 Compliance with CPD requirements is a condition for the renewal of registration as a CPA and/or issuance and renewal of a practising certificate by the AFRC.

A3.11 The CPD requirements prescribed by the HKICPA are set out in Statement 1.500 Continuing Professional Development, which applies to all CPAs.

### **Standard setting**

A3.12 Pursuant to section 18A of the PAO, the HKICPA Council is empowered to issue or specify any Standards on Professional Ethics, and Accounting and Auditing and Assurance Practices required to be observed, maintained or otherwise applied by any CPA.

A3.13 The HKICPA issued the Code to set out the ethical requirements for all CPAs (i.e. the Standards on Professional Ethics).

A3.14 The Standards on Accounting Practices include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations (**HKFRS**), Hong Kong Accounting Standards, Interpretations, and SME-FRF & SME-FRS.

A3.15 The Standards on Auditing and Assurance Practices issued by the HKICPA include:

- (a) Hong Kong Standards on Quality Management;
- (b) Hong Kong Framework for Assurance Engagements;
- (c) Hong Kong Standards on Auditing;
- (d) Hong Kong Standards on Review Engagements;
- (e) Hong Kong Standards on Assurance Engagements;
- (f) Hong Kong Standards on Investment Circular Reporting Engagements;
- (g) Hong Kong Standards on Related Services; and
- (h) Practice Notes and Auditing Guidelines, which are locally developed by the HKICPA.

## **Annex 4**

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

#### **Nomination, selection, and appointment of Specified Committee's members**

- A4.1 The HKICPA's procedures for the nomination, selection, and appointment of committee members are set out in its Internal Procedures Documentation for the Nomination process, which are summarised below.
- (a) The director-in-charge of the Specified Committee determines the criteria for the composition of the committee based on the HKICPA's "Committee Composition Criteria" which include "expected skills and/or knowledge".
  - (b) Each year, the HKICPA issues an open invitation to all CPAs to apply to be a member of the Specified Committees and sends specific invitations to lay members. Interested individuals are requested to submit details of their qualifications, and a self-assessment on how their skills, knowledge and experience are relevant and may potentially contribute to the "expected skills and/or knowledge" of the committee.
  - (c) A copy of the "Expectations on the Performance of Committee Chairs and Members" as well as the policy and criteria for evaluating members' performance will be provided to the chairpersons and members of committees when they are appointed, in order to ensure that members understand what is expected of them, and their performance will be evaluated.
  - (d) To be re-appointed, existing committee members are required to complete a self-evaluation. Additional feedback will be provided by the chairpersons of the relevant committees and collected by the respective HKICPA departments.
  - (e) For the re-appointment of committee chairpersons, feedback on the chairpersons' performance is provided by committee members and collected by the respective HKICPA departments. Similarly, the performance evaluation form contains questions as to whether the chairperson is recommended for re-appointment.

- (f) The director-in-charge of the committee prepares the proposed composition of the respective committee with a summary of key considerations and submits to the Nomination Committee of the HKICPA. The proposed composition is prepared based on the information as set out in paragraphs A4.1(b) to (e) and the HKICPA management's comments on the performance of the members and the chairpersons. The performance evaluation results of committee chairperson and members being considered for reappointment would also be submitted to the Nomination Committee for consideration. The Nomination Committee of the HKICPA reviews such proposed composition and makes a recommendation to the HKICPA Council.
- (g) The HKICPA Council considers and approves the proposed committee composition recommended by the Nomination Committee.

## **Ascertaining the qualification for, and registering CPAs**

### *Conducting examinations*

- A4.2 As highlighted in A3.7(b), currently there are two main pathways to register as a CPA:
- (a) Completion of the QP examinations; or
  - (b) Through mutual recognition between the HKICPA and other accountancy bodies.
- A4.3 The QP comprises three progressive levels, including the Associate Level (Modules 1 – 10), Professional Level (Modules 11 – 14) and Capstone.
- A4.4 Module exemption at the Associate Level can be awarded on the basis of the academic programme(s) completed. Degree holders may be exempted from a maximum of 10 modules, while sub-degree holders may be exempted from a maximum of five modules (Modules 1 – 5). Module exemption can also be obtained through the study of programmes accredited by the HKICPA.
- A4.5 Upon completing the Associate Level, students can advance to the Professional Level, and upon completion of the Professional Level, they can proceed to the Capstone, which is the final level of QP.

- A4.6 Prior to the start of the Professional Level, students are required to complete a full-day online Introductory Workshop. Each module of the Professional Level includes a one-day online workshop and an open-book examination. The Capstone comprises three full-day workshops (face-to-face for workshops in Hong Kong and online for workshops in the Mainland China) and an open-book final examination.
- A4.7 QP workshops include simulations, case studies and performance tasks. They not only provide students with technical knowledge and skills, but also serve as part of the QP assessment process to evaluate students' achievement of the prescribed learning outcomes. Meeting the performance indicator of all workshops is a prerequisite for completing the QP.
- A4.8 The HKICPA recruits and assigns facilitators to conduct the QP workshops. Introductory Workshop is delivered by one facilitator, while the workshops for each module of the Professional Level and the Capstone workshops are delivered by two facilitators. The facilitators are responsible for grading the students' workshop performance.
- A4.9 Passing all examinations at the Professional Level and at Capstone is also a prerequisite for qualifying for registration as CPA.
- A4.10 To ensure the appropriateness (such as difficulty, clarity and achievability within the prescribed time) of an exam paper, the HKICPA undertakes a number of quality control procedures including conducting a trial exam for each exam paper at the Professional Level and at Capstone.
- A4.11 After submitting the answer books, the Trial Sitters are requested to complete a comment sheet to rate the difficulty and clarity of the exam paper; and provide narrative comments for the HKICPA's consideration.
- A4.12 If the performance of Trial Sitters falls below the performance threshold, the corresponding trial exam results will be provided to the Trial Sitters and a second round of feedback will be obtained from them.
- A4.13 The results of the trial exam and the feedback from the Trial Sitters will be reviewed by the delegated exam-setting group for adjusting the exam paper accordingly.

### *Assessing practical experience*

- A4.14 To qualify as a CPA, an individual must attain the required practical experience under the HKICPA's Practical Experience Framework. Practical experience involves both input and output-based features. "Input" refers to the time input requirements as set out in A4.15 whereas "output" refers to the competence requirements achieved.
- A4.15 QP students must acquire at least three years of relevant practical experience under the supervision of an AE or AS that is accredited by the HKICPA.
- A4.16 To register as an AE or AS, an applicant needs to complete and submit an online application form with a self-assessment on the compliance with PE Code and supporting documents for verification purposes.
- A4.17 The self-assessment is a set of binary questions on whether the applicant complies with each of the fifteen guidelines under the PE Code. For any item(s) for which the answer is "no", details of the non-compliance, remediation plan and target completion date need to be provided.
- A4.18 The HKICPA will review the application forms including the self-assessments completed by the applicants and the supporting documents. The HKICPA will conduct site visits or desk-based reviews for applicants on a risk-based approach. Upon the satisfaction of the HKICPA, authorisation will be granted. The authorisation status will remain valid for five years and subject to renewal.
- A4.19 Visits or desk-based review will be also conducted during the five-year authorisation period, and the frequency of these visits or desktop review will be determined based on a risk-based approach. The HKICPA may terminate the AE/AS registration if it is of the view that the AE/AS is unfit to continue.
- A4.20 The purpose of the visit and desk-based review is to assess the AE/AS applicants' compliance with the principles outlined in the PE Code.

*Dealing with applications relating to the registration of CPAs*

- A4.21 For an individual to be registered as a CPA, the HKICPA needs to satisfy that he or she is “a fit and proper person to be a CPA”.
- A4.22 All applicants are required to complete a fit and proper declaration in their CPA registration applications. The fit and proper declaration is a set of binary questions confirming the existence of fit and proper matters. For any items for which the answer was “yes”, applicants need to provide further explanation with supporting documents, if any.
- A4.23 The HKICPA staff member will follow up with the applicants who have self-reported fit and proper issues and request for additional information if necessary.
- A4.24 According to the Guidelines on fit and proper assessment, depending on the type and severity of the fit and proper issues, the applications will be determined by the HKICPA’s management, or if the nature is more severe, by the RC.
- A4.25 As part of the renewal process, CPAs are required to declare in the application forms their compliance with relevant CPD requirements. The HKICPA conducts CPD compliance audit on a sample basis to verify the accuracy of the declaration.
- A4.26 The 2022 CPD compliance audit, covering the period from 1 December 2019 to 30 November 2022, was conducted from December 2022 to March 2024.
- A4.27 CPAs who have a CPD shortfall are granted additional time to make up for it, and also face a higher probability of being selected for CPD compliance audit in future audits. If they fail to make up the shortfall within prescribed time frame, their CPA registration will not be renewed, pursuant to section 28(2)(c) of the PAO. For CPAs who fail the CPD compliance audit, their registration may be removed under section 27(1)(a)(iii) of the PAO. However, the HKICPA has never enforced this against any CPAs.



## Standard setting

A4.28 As stated in the Preface to the Hong Kong Quality Management, Auditing, Review, Other Assurance and Related Services Pronouncements (**Auditing Preface**), Preface included in the Code of Ethics for Professional Accountants (**Ethics Preface**) and Preface to Hong Kong Financial Reporting Standards (**Financial Reporting Preface**), it is the HKICPA's policy to achieve convergence of the Standards on Professional Ethics, and Accounting, Auditing and Assurance Practices, as far as practicable, with the respective pronouncements issued by the IESBA, IASB and IAASB.

A4.29 The HKICPA's procedures for setting the Standards on Professional Ethics, and Accounting, Auditing and Assurance Practices are set out in the following policy documents:

- (a) The SOP for standards setting which were reviewed by the AASC, EC and FRSC;
- (b) Auditing Preface, which describes the due process in adopting the IAASB pronouncements and in developing local practice notes;
- (c) Ethics Preface, and the documents regarding the due process for adoption of IESBA pronouncements and the due process for the development of local ethics standards that are available at the HKICPA's website; and
- (d) Financial Reporting Preface, which describes the due processes in setting HKFRS and SME-FRF & SME-FRS.

A4.30 The HKICPA reviews and updates the SOP for standard setting on an annual basis.

## Provision of CPD training

A4.31 The HKICPA provides CPD training, covering major topics such as: (i) accounting and financial reporting; (ii) auditing and assurance; (iii) digitalisation; (iv) environmental, social and governance; (v) ethics; (vi) soft skills; and (vii) valuation. CPD training of different topics are handled by different organising departments within the HKICPA.

A4.32 The HKICPA delivers its CPD training in various formats, including face-to-face events, live seminars/webinars, archived webinars, and off-the-shelf courses.

A4.33 The HKICPA's procedures for the design and development of CPD training are set out in its CPD Training Courses Design & Development Guidelines, which was effective since 29 December 2023. Details are summarised below:

- (a) The needs identification process should be conducted by the curriculum owner, taking into consideration various factors such as expected competencies on CPAs and market updates.
- (b) Organising departments should take the participants' needs into consideration when designing the CPD training.
- (c) Evaluation feedback from all CPD events, including both on-demand e-learning and webinars, as well as face-to-face sessions will be obtained. The evaluation form covers areas such as the course content, instructional method, the pace of training, course materials, and performance of the presenters.
- (d) For face-to-face events and webinars, the feedback from participants will be obtained by seven days after the end of each event and Corporate Communication Department will summarise and provide evaluation ratings for each event or course within seven working days. Organising departments shall then circulate the evaluation summary to speakers within two weeks. For on-demand e-learning courses, which typically last for more than 12 months, organising departments will compile the evaluation results twice a year, including speaker ratings, and share them with the speakers.
- (e) Assessment on the course effectiveness would be performed and reporting to the PDC is needed for courses with ratings below 3.8 out of 5 under the following scenarios:
  - Courses with less than 100 participants and feedback response rate of 6% or above; or
  - Courses with 100 participants or more.
- (f) Organising departments review their CPD course portfolio at least annually to ensure the contents are up-to-date.

## Annex 5

### Glossary

AASC	Auditing and Assurance Standards Committee
AE	Authorised Employer
AFRC	Accounting and Financial Reporting Council
AFRCO	Accounting and Financial Reporting Council Ordinance (Cap. 588)
AML/CTF	Anti-Money Laundering and Counter-Terrorist Financing
AML/CTF Guidelines	Guidelines on Anti-Money Laundering and Counter-Terrorist Financing for Professional Accountants
AMLO	Anti-Money Laundering and Counter-Terrorist Financing Ordinance (Cap. 615)
AS	Authorised Supervisor
Assessment Year	The assessment year from 1 April 2023 to 31 March 2024
Auditing Preface	Preface to the Hong Kong Quality Management, Auditing, Review, Other Assurance and Related Services Pronouncements
By-Laws	Professional Accountants By-Laws (Cap. 50A)
Code	Code of Ethics for Professional Accountants
CPA	Certified public accountant
CPD	Continuing professional development
EC	Ethics Committee
Ethics Preface	Preface included in the Code of Ethics for Professional Accountants

Financial Reporting Preface	Preface to Hong Kong Financial Reporting Standards
FRSC	Financial Reporting Standards Committee
HKFRS	Hong Kong Financial Reporting Standards, which includes all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations
HKICPA	Hong Kong Institute of Certified Public Accountants
HKICPA Council	Council of the HKICPA established by section 10(1) of the PAO
IAASB	International Auditing and Assurance Standards Board
IASB	International Accounting Standards Board
IESBA	International Ethics Standards Board for Accountants
PAO	Professional Accountants Ordinance (Cap. 50)
PDC	Professional Development Committee
PE Code	Practical Experience Codes and Guidelines
PIE	Public interest entity, which has the same meaning as in section 3(1) of the AFRCO, i.e. a listed corporation, or a listed collective investment scheme
QEB	Qualification and Examination Board
QP	Qualification Programme
RC	Registration Committee
SME-FRF & SME-FRS	Small- and Medium-sized Entity Financial Reporting Framework and Financial Reporting Standards

SMP	Small- and medium-sized practices
SOP	Standard operating procedures
Specified Committees	AASC, EC, FRSC, PDC, QEB and RC
Specified Functions	The statutory functions performed by the HKICPA that are within the remit of AFRC's oversight function under the AFRCO
2022 Assessment	The assessment covering the 12-month period ended on 31 March 2022
2023 Assessment	The assessment covering the 12-month period ended on 31 March 2023
2024 Assessment	The assessment covering the 12-month period ended on 31 March 2024

## Contacts



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

**Accounting and Financial Reporting Council**

10/F, Two Taikoo Place, 979 King's Road,  
Quarry Bay, Hong Kong

T (852) 2810 6321

F (852) 2810 6320

E [general@afrc.org.hk](mailto:general@afrc.org.hk)

[www.afrc.org.hk](http://www.afrc.org.hk)

