

2023 Oversight Report on HKICPA's Performance of Specified Functions

Policy, Registration and Oversight

November 2023



About the AFRC

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

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

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Executive summary

This is the fourth report of the Accounting and Financial Reporting Council (AFRC) on the assessment of the performance by the Hong Kong Institute of Certified Public Accountants (the Institute or the HKICPA) of specified functions that fall under the AFRC's oversight. Notably, this is the first oversight report that covers new specified functions of the HKICPA added to the AFRC's purview following further reform of the accounting profession, which came into effect on 1 October 2022.¹

HKICPA and the accounting profession

High-quality financial reporting and audit is integral to the effective functioning of Hong Kong's capital markets. Trust and confidence in the ecosystem are highly dependent on the effectiveness of the functions performed by the HKICPA.

As the statutory organisation responsible for registering and training certified public accountants (CPAs), the HKICPA holds an influential role in ensuring the sustainable development of the profession. It has an important duty of ascertaining that only qualified candidates who possess the necessary integrity, knowledge, and skills are granted the CPA designation. It is also responsible for nurturing the growth and competence of accountants by providing ongoing high-quality continuing professional development (CPD) training to equip CPAs with new and updated skills.

The HKICPA's role as the standard setter for accounting, auditing, and professional ethics standards supports Hong Kong's position as a leading international financial centre. By setting and monitoring high-quality standards, the HKICPA promotes best practices, instills confidence among investors, fosters market stability, and enhances the competitiveness of Hong Kong's capital markets.

AFRC's approach

In carrying out its oversight responsibilities, the AFRC maintains a constructive, consistent, and forward-looking approach. Our primary objective is to provide high-level guidance to the HKICPA conducive to raising its effectiveness. Our overarching goal is to protect the public interest and to cultivate trust in the system.

¹ The AFRC now oversees all other statutory functions discharged by the HKICPA, including the registration of CPAs, provision of training to CPAs, and standard setting.

Overview of findings

The AFRC has identified 11 findings in the 2023 oversight assessment: seven relating to registration, three relating to standards setting and one relating to providing training to CPAs. Detailed information on each finding can be found in the respective sections of this report. Annex 1 provides a summary of all findings and recommendations.

In our assessment of the findings, we have sought to understand their impact and underlying causes. Our focus is to provide observations that are strategic, relevant, and high-level to allow the HKICPA with operational flexibility in their implementation.

Our analysis of the findings has led to a conclusion that addressing the following three themes will drive meaningful improvement:

- (a) Embracing a holistic approach;
- (b) Optimising resource utilisation; and
- (c) Enhancing quality control.

Embracing a holistic approach

Every staff member of the HKICPA contributes to fulfilling the Institute's regulatory duties and strategic objectives. Such contributions are more effective if the staff understand their responsibilities in the context of the whole organisation. By embracing a more holistic approach, the HKICPA can deliver better outcomes.

Finding 7 pinpoints an instance related to public interest entity (PIE) auditor registration, which provides an example of a situation where better understanding of responsibilities within the broader context may have prevented a breach of PIE auditor registration requirements. In this instance, the HKICPA staff member was notified about the cessation of a sole directorship of a PIE auditor. However, the staff member did not recognise that the number of registered persons at the PIE auditor had fallen below the statutory minimum and hence was no longer eligible to continue its operations as a PIE auditor. As a result, the firm was allowed to carry out PIE audits in breach of registration requirements.

If the team had considered the potential implications of a change in directorship, and followed up with the auditor in question, the breach could potentially have been avoided. Promoting critical-thinking and embracing a holistic approach will minimise the risk of such occurrences in the future.

A holistic approach to staff development will also likely lead to positive outcomes in the performance evaluation of Qualification Programme (QP) workshop facilitators (Finding 3), handling CPAs with convictions or sanctions (Finding 5), standard setting (Findings 8 to 10), and reviewing feedback received on CPD training (Finding 11).

Optimising resource utilisation

We acknowledge the challenges resource constraints may have on certain initiatives of the HKICPA. They are apparent in, among others, addressing the high non-compliance rate in CPD compliance audits (Finding 1), insufficient verification of compliance of authorised employers (AEs) and authorised supervisors (ASs) (Finding 4), and a delay in updates of professional standards (Finding 10).

It is important to note that resource constraints are common in many organisations, including those in the accounting profession. Strategic thinking is needed to proactively identify and implement best possible solutions while maintaining performance and quality standards. This may involve re-prioritisation, reallocation of resources, process optimisation, automation, or other innovative approaches.

Enhancing quality control

We recognise the commitment of the HKICPA to high-quality performance of its statutory duties. Several of this year's findings suggest that enhancing various aspects of quality control will lead to meaningful performance improvements.

In particular, Finding 8 emphasises the importance of ongoing monitoring and assessment to address gaps in quality control. It concerns a draft consultation document, which despite much time and effort, suffered from gaps in analysis and the coverage of the subject. Ongoing and comprehensive quality monitoring will prevent such occurrences in the future.

Inadequate quality control contributed to issues highlighted in several other findings. Its effect is most apparent in QP exam paper (Finding 2) and verification of compliance of AEs and ASs (Finding 4), which can be addressed through the implementation of improved policies and procedures. Finding 6, concerning the handling of a fit and proper issue in the registration of a CPA is indicative of the potential for cultivating a robust quality-oriented culture.

Looking ahead

As set out in the HKICPA Strategic Plan 2020-2022 and Strategic Plan 2023, safekeeping of its constitution, governance and organisation is a consistent theme which the HKICPA continues to address. Further progress along this direction is vital for the effective implementation of the HKICPA's statutory duties. The AFRC is committed to maintaining a close dialogue with the HKICPA to raise the standards of the accounting profession and contribute to its sustainable development.

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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 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 2022 to 31 March 2023
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
EP	Engagement partner
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
GAA member bodies	Global Accounting Alliance is a forum of 10 of the world's professional accountancy bodies whose members practice in major capital markets around the world
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 HKICPA established by section 10(1) of the PAO
IAASB	International Auditing and Assurance Standards Board
IASB	International Accounting 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
New specified functions	The statutory functions performed by the HKICPA that are within the remit of AFRC's oversight function under the AFRCO from 1 October 2022
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

PIE auditor	Has the same meaning as in section 3A of the AFRCO, i.e. an auditor who undertakes a PIE engagement (who, before doing so, is required to be registered or recognised as a PIE auditor under the pre-amended AFRCO)
PIE engagement	Has the same meaning as in Part 1 of Schedule 1A of the AFRCO, i.e. any of the following types of engagement carried out by an auditor for the preparation of: <ul style="list-style-type: none"> a) an auditor's report on a PIE's financial statements/ annual accounts required by section 379 of the Companies Ordinance (Cap. 622), the Listing Rule or any relevant code; b) a specified report required to be included in a listing document for the listing of a corporation's shares or stocks or for the listing of a collective investment scheme; or c) an accountant's report required under the Listing Rule to be included in a circular issued by a PIE for a reverse takeover or a very substantial acquisition
Pre-amended Specified Functions	The statutory functions performed by the HKICPA that are within the remit of AFRC's oversight function under the pre-amended AFRCO
QCSRP	Quality control system responsible person
QEB	Qualification and Examination Board
QP	Qualification Programme
RC	Registration Committee, previously named as Registration and Practising Committee
SME-FRF & SME-FRS	Small and Medium-sized Entity Financial Reporting Framework and Financial Reporting Standards
SOP	Standard operating procedures
Specified Committees	AASC, EC, FRSC, PDC, QEB and RC
Statement 1.500	Statement 1.500 Continuing Professional Development

Section 1

Overview

1.1 Introduction

1.1.1 This Report summarises the key findings and recommendations of the AFRC’s assessment (2023 Assessment) of the HKICPA performance of the functions as set out in section 1.2 below. The 2023 Assessment covers the period from 1 April 2022 to 31 March 2023 (the Assessment Year).

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) and the pre-amended AFRCO² to oversee the performance of certain specified functions of the HKICPA.

1.2.2 Between 1 April 2022 and 30 September 2022, these specified functions comprised: registration of local auditors of PIEs; setting standards of professional ethics, and auditing and assurance practices for local PIE auditors; and setting CPD requirements for local PIE auditors (the pre-amended specified functions).

1.2.3 The commencement of the AFRCO on 1 October 2022 broadened the scope of our oversight to cover all of the HKICPA’s statutory functions (the new specified functions), which 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.

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

- 1.2.4 In addition, under Part 2 of Schedule 1 of the Anti-Money Laundering and Counter-Terrorist Financing Ordinance (Cap. 615) (AMLO), starting from 1 October 2022, the AFRC became a regulatory body of the accounting profession with regards to AML/CFT. The AFRC also assumed 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 new specified functions as stipulated in paragraph 1.2.3(d).
- 1.2.5 The focus of the 2023 Assessment and this report is on the new specified functions.
- 1.2.6 During the assessment, certain findings relating to the pre-amended specified functions came to the AFRC's attention, and such findings were communicated to the HKICPA. We cover those findings in this report only if there is a strong public interest element.
- 1.2.7 The AFRC also evaluated the follow-up actions taken by the HKICPA on previous findings, including the three assessments covering the 12-month periods ending on 31 March 2020, 2021 and 2022, respectively referred to as the "2020 Assessment", "2021 Assessment", and "2022 Assessment".
- 1.2.8 Under section 10(1A) of the pre-amended AFRCO and 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.
- 1.2.9 The Revised Statement of Protocol on Oversight Arrangements between the AFRC and the HKICPA sets out the oversight arrangements as follows:
- (a) 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 HKICPA established by section 10(1) of the PAO (HKICPA Council);
 - 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 2023 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 27 meetings of the Specified Committees and reviewed the relevant meeting papers and minutes;
 - (c) Reviewed the quarterly reports submitted by the HKICPA (four in total); 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 chairpersons of the Specified Committees.

1.4 Structure of the report

1.4.1 In presenting the assessment results, we focused on each of the five specified functions. A separate section containing relevant findings is devoted to each function:

- (a) Nomination, selection, and appointment of Specified Committees' members (*Section 2*)
- (b) Registration (*Section 3*)
- (c) Setting CPD requirements for CPAs (*Section 4*)
- (d) Standard setting (*Section 5*)
- (e) Provision of CPD training to CPAs (*Section 6*)

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 (where applicable), and finishing with new findings and recommendations of the AFRC from the 2023 Assessment, and the response from the HKICPA.

Section 2

Nomination, selection, and appointment of Specified Committees' members

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

- 2.2.1 In the 2021 Assessment, we identified a lack of evaluation of the performance of the chairperson and members of a Specified Committee.
- 2.2.2 In the 2022 Assessment, we identified that the HKICPA provided insufficient information to the Nomination Committee in the process of selection and re-appointment of committee members.
- 2.2.3 In response to our findings in paragraph 2.2.1, we noted in the 2023 Assessment that the HKICPA had communicated the procedures and criteria for the performance evaluation of chairpersons and members of all Specified Committees in their appointment letters in 2022. These procedures and criteria were applied in the 2022 performance evaluation of chairpersons and members of all Specified Committees.

- 2.2.4 In addition, the HKICPA has revised the performance evaluation form to include questions that are more relevant to gauge whether the committee chairperson/member being evaluated has the requisite skills and knowledge. As a result, evaluators are required to:
- (a) Make reference to the skills and/or knowledge expected of the committee chairpersons/members; and
 - (b) Assess whether the committee chairpersons/members have demonstrated each of the expected skills and/or knowledge.
- 2.2.5 The revised performance evaluation form was approved by the HKICPA Council on 25 May 2023 and will be used for performance evaluation in the next cycle. We have no further comments on the revisions to the performance evaluation form and will review its implementation in our next on-site assessment.
- 2.2.6 Regarding our findings in paragraph 2.2.2, we selected and reviewed samples in the 2023 Assessment and noted that in the evaluation summary submitted to the Nomination Committee and the HKICPA Council, the HKICPA has provided both the summary of the performance feedback from the committee chairpersons/members and the views of the HKICPA's management on the nomination of committee chairpersons and members. We have no further comments on the follow-up actions.

2.3 Findings and recommendations from the 2023 Assessment

- 2.3.1 There were no new findings relating to the nomination, selection, and appointment of Specified Committees' members in the 2023 Assessment.

Section 3

Registration

3.1 Scope and approach

3.1.1 Our oversight assessment covers the HKICPA's performance in relation to the new specified functions for the period starting 1 October 2022, 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 We also assessed the HKICPA's performance in relation to the registration of local PIE auditors for the period from 1 April to 30 September 2022 as it was a pre-amended specified function.

3.1.3 Our assessment includes an evaluation of the HKICPA's policies and procedures, as summarised in A4.2 to A4.28 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

3.2.1 In the 2021 Assessment, we identified the following findings in relation to the CPD compliance audit for responsible persons of registered PIE auditors:

- (a) The CPD compliance audit was performed only after the renewal of the HKICPA membership which might lead to unqualified persons being registered; and

(b) The HKICPA did not sufficiently check the underlying documents to verify the claims, including attendance and hours, made by CPAs.

- 3.2.2 In relation to 3.2.1(a) above, the HKICPA has revised the timing of the CPD compliance audit for responsible persons of registered PIE auditors. Starting from the 2022, CPD compliance audit for the period from 1 December 2019 to 30 November 2022, the performance of compliance audit will commence in December every year, immediately following the renewal, instead of six months after the renewal.
- 3.2.3 The proposed revisions of the work plan were approved by the RC in December 2022, and the HKICPA commenced the 2022 CPD compliance audit in December 2022.
- 3.2.4 The HKICPA conducted a review of its CPD compliance audit process in May 2022 to address our finding as highlighted in paragraph 3.2.1(b). As a result of this review, the HKICPA revised the CPD Record Form for CPAs to include an explanation as to why the CPD activities undertaken are relevant to their professional development. Additionally, it amended its process to ensure thorough checking of all underlying documents during CPD compliance audits to verify the claims made by the CPAs, including attendance and hours.
- 3.2.5 We noted that the revised process has been applied and the follow-up actions have adequately addressed our findings.

3.3 Findings and recommendations from the 2023 Assessment

Finding 1: High non-compliance rate in continuing professional development compliance audits

- 3.3.1 As part of the annual renewal, CPAs are required to make declarations relating to their compliance with relevant CPD requirements.
- 3.3.2 The AFRC believes CPD plays a vital role in ensuring the development and maintenance of professional competence among CPAs. It is unacceptable if CPAs perceive it as a mere box-ticking exercise. CPD compliance audits are essential to ensure that CPAs fulfill the prescribed requirements for continuing professional development.
- 3.3.3 The 2021 CPD compliance audit, covering the period from 1 December 2018 to 30 November 2021, was conducted by the HKICPA from June 2022 to February 2023. The failure rate tripled compared to the previous year, increasing from 10.7% to 31.5%. The failure rate for CPAs not holding a practising certificate (35.7%) was higher than for practising certificate holders.

- 3.3.4 Section 27(1)(a)(iii) of the Professional Accountants Ordinance (PAO) empowers the HKICPA to remove CPAs who had been registered by mistake or in consequence of misleading or false declarations in relation to their CPD compliance.
- 3.3.5 However, we note that CPAs who fail to meet the CPD requirements are granted more time to make up for the shortfall, and also face a higher probability of being selected for CPD compliance audit in the next audit period. If they fail to make up for the shortfall within the prescribed time, 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.
- 3.3.6 At the RC meeting that we observed, committee members expressed concerns about the high non-compliance rate. Some committee members suggested increasing the sample size.
- 3.3.7 However, the HKICPA's management mainly attributed the notable increase in the non-compliance rate to the enhanced audit process, which now involves a thorough examination of the underlying documents in CPD compliance audits. The HKICPA's management also considers that the primary reason for the high non-compliance is a lack of understanding of the CPD or record retention requirements by CPAs. Therefore, the management of the HKICPA holds the view that the issue could be more effectively addressed by enhancing communication with CPAs.
- 3.3.8 The HKICPA's management considered that significant resources are required to perform the manual validation and was reflected in their RC paper dated 23 February 2023 which states that "any further increase in the sample size will strain its ability to deal with other priority work".
- 3.3.9 The 2021 CPD compliance audit covered 726 individuals, or 1.5% of all CPAs. The sample size was determined by the HKICPA's management with an endorsement from the RC in May 2022, based on survey results from the Global Accounting Alliance³ (GAA) member bodies collected in January 2022.
- 3.3.10 The survey results indicated that the percentage of members selected for audit by the GAA member bodies in the most recent year ranged from 0.3% to 3%, on par with the HKICPA. The non-compliance rates observed in the audits of these GAA member bodies ranged from 0% to 14.5%. It is worth noting that while the non-compliance rate of the HKICPA was at par (10.7%) during the time of the survey, it has since then increased significantly and now stands at a significantly higher level (31.5%) compared to the audit results of other GAA member bodies.

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

- 3.3.11 The AFRC also notes the HKICPA has never exercised the power under section 27(1)(a)(iii) highlighted in paragraph 3.3.4 against CPAs as a result of the CPD compliance audit. In addition to facing a higher probability of being selected for a CPD compliance audit in the next audit period, the only other consequence for non-compliance of a CPA with the CPD requirement has been the requirement to rectify the shortfall before the individual's renewal is approved. The AFRC considers that this may send a wrong signal to CPAs and gives the impression that the CPD requirements are flexible.

Our recommendations

- 3.3.12 In addition to effectively communicating the CPD requirements to CPAs, the HKICPA should explore additional strategies to improve CPAs' compliance with CPD requirements. For example, as the HKICPA mandates non-complying CPAs to rectify the shortfall, conducting audits on a larger number of CPAs can provide greater assurance of overall compliance with CPD requirements.
- 3.3.13 More importantly, to send a correct signal to all CPAs, the HKICPA should consider how it can more effectively enforce its powers as vested in the PAO, for example by removing the name of CPAs who made false declarations in relation to their CPD compliance from the register. Implementing both actions will enhance the overall CPD compliance among CPAs and ensure that more CPAs fulfill the required standards.

HKICPA's response:

The annual CPD audit process and results are fully assessed by the HKICPA's management and considered by the RC. The HKICPA's management assessment involves ongoing reviews of the efficiency and effectiveness of the audit process.

The 2021 CPD compliance audit process was revised to address the AFRC's previous findings. While the HKICPA understands that the increase in the percentage of audit failures requires some explanation, it is considered that the majority of the 2021 audit failures arose as a result of the new requirement to produce all supporting documents for verifiable CPD activities undertaken in the past three years. While a number of CPAs selected for audit indicated that they had not kept the necessary evidence as proof of their CPD activities, according to the new requirements, most provided further explanations and made a declaration that they had undertaken the relevant CPD activities. Nevertheless, our analysis treated these cases of technical breach as non-compliance, which required rectification.

Recognising this as a root cause for the increase in the failure rate, together with a gap in understanding of the current CPD requirements by some CPAs, the RC agreed that, rather than further increasing the audit sample at this stage, strengthening communication and education in relation to CPD requirements could be an effective way of dealing with the issue. It should be noted that to help improve general compliance, the HKICPA also issued monthly e-circulars and articles in “A Plus” on CPD compliance and CPD compliance audit requirements.

The above helps to explain why the sample size was not increased in the 2022 CPD compliance audit. On this basis, extensive efforts and resources were invested in strengthening education and communication to CPAs regarding the CPD requirements and the importance of CPD compliance, ahead of the 2023 CPD compliance audit.

The reasons for CPAs’ non-compliance with CPD requirements are thoroughly assessed by HKICPA’s management. CPAs who do not pass the CPD audit are not allowed to renew registration the following year, pursuant to section 28(2)(c) of the PAO. The HKICPA’s management will endeavour to work with CPAs to improve compliance. CPAs are also given notice in the membership annual return, that any false declaration regarding CPD compliance will result in their registration not being renewed. The HKICPA considered there were no suspected cases of false declarations falling under section 27(1)(a)(iii) of the PAO.

Finding 2: Quality control of Qualification Programme exam papers needs enhancement

- 3.3.14 The purpose of the QP exam is to assess students’ level of competence as a prerequisite for qualifying for registration as CPAs. Hence, it is crucial that the exam paper is clear, has the correct focus and scope, and represents an appropriate level of difficulty. Rigorous and effective quality control is essential to ensure the effectiveness and fairness of the examination.
- 3.3.15 The current quality control process includes, among others, a pre-exam trial sitting, where two individuals who have passed previous exams (“Trial Sitters”) undertake the exam under simulated exam conditions with strict confidentiality measures in place. The results of the trial exam and the feedback from the Trial Sitters allow the HKICPA to gauge the appropriateness of the exam paper, including aspects such as difficulty, clarity, and achievability within the prescribed time. Following the trial sitting, the HKICPA will revise the exam paper accordingly where necessary.
- 3.3.16 During our assessment year, the AFRC reviewed the results of two of the five exam modules comprising the Professional and Capstone Levels of the QP. The review shows that both Trial Sitters experienced difficulty with one of the two modules, which was reflected in their low scores.

- 3.3.17 Following the trial sitting for the module, the HKICPA made revisions to the exam paper based on the Trial Sitters' performance and feedback. However, even after the revision, candidates' performance in the actual exam module was poor, as reflected in a low passing rate.
- 3.3.18 The AFRC acknowledges that many factors contribute to the pass rate and that the performance of the Trial Sitters is not a precise indicator of the level of difficulty or clarity of the exam paper. However, the AFRC is concerned that as an element of the current quality control process, the trial sitting arrangement may not be fully effective in identifying issues with the level of difficulty and clarity of the QP exam papers.
- 3.3.19 The AFRC notes a lack of established criteria to determine when significant modifications to the exam papers are required based on the Trial Sitters' performance and their feedback. We also note that the feedback was solicited from Trial Sitters before they knew their results, which may have reduced its effectiveness.

Our recommendations

- 3.3.20 The HKICPA should establish a set of criteria that would trigger the need for significant modifications of an exam paper and consider conducting additional trial exams, where applicable. These criteria could include, among other factors, maximum and minimum score thresholds in the trial exam. Such criteria should also be reviewed periodically to ensure its on-going effectiveness.
- 3.3.21 The HKICPA should establish a performance threshold for trial sitting and if the performance of a Trial Sitter falls outside the threshold, the HKICPA should provide the Trial Sitter with the relevant trial exam results and gather a second round of feedback. This would enable Trial Sitters to provide more meaningful feedback, including comments on the clarity and appropriateness of the questions and answers.

HKICPA's response:

The whole quality assurance procedures for exam paper setting involve a range of quality control measures, which includes the trial exam and its associated processes, spanning a minimum duration of six months. These procedures were concluded as appropriate in the context of the recent peer review of GAA bodies.

The trial exam performance, comments from Trial Sitters, and other considerations are considered by a panel of independent experts for assessing whether any modifications need to be made before the exam paper is used.

The HKICPA will establish a set of criteria to determine the process for making significant modifications of exam papers and incorporate them into the trial exam performance guidelines review. Any significant modification of the exam paper will be documented and communicated to the relevant experts for their review and confirmation of whether the modified paper is suitable. The HKICPA will set up specific conditions to trigger an additional trial exam on the modified examination question with due consideration on meeting the overall exam implementation timeline.

In order to enhance this quality control arrangement while maintaining required security, a post-trial exam meeting can be held with Trial Sitters whose performance fall outside the normal thresholds, to understand their exam preparation process, the root-cause of their performance, as well as their difficulties faced during the trial exam in order to identify any needs for enhancing the clarity and appropriateness of questions and answers of the exam papers.

Finding 3: Absence of a pre-defined baseline for acceptable performance and additional support for Qualification Programme workshop facilitators

- 3.3.22 QP workshops serve two purposes. Not only do they equip students with technical knowledge and skills, but they also form a part of the QP assessment process, and test students' level of competence. Such competence is a prerequisite for qualifying for registration as a CPA.
- 3.3.23 The role of a QP workshop facilitator is of paramount importance, especially when a workshop is delivered by only one facilitator. While the four Professional Level workshops and the Capstone workshop are delivered by two facilitators, extra attention should be paid to the Introductory Workshop, which is delivered by one facilitator.
- 3.3.24 The HKICPA solicits feedback on facilitators' performance from workshop participants and observers (if any), and translates into an overall performance score. During the assessment year, we noted that the HKICPA allocates facilitators to QP workshops based on their past performance and availability. However, there is no pre-defined baseline for acceptable performance of QP workshop facilitators.
- 3.3.25 Although the HKICPA attempts to avoid assigning low-scoring facilitators to conduct QP workshops, this may not always be feasible due to availability constraints. Consequently, despite disappointing scores in previous performances, low-scoring facilitators may still be assigned to conduct workshops and grade QP students.

- 3.3.26 This situation is exacerbated by the fact that facilitators are not informed of their performance feedback. Besides, no additional support or training is available to assist workshop facilitators with poor performance records to improve.
- 3.3.27 The QP workshop facilitator plays a crucial role in the CPA registration process by grading QP students. This grading process ensures that only candidates who possess the necessary knowledge and skills can pass the QP exam and become CPAs. Therefore, any decline in effectiveness and quality of QP workshops can have far-reaching consequences. This may ultimately impact the overall quality of the CPAs.

Our recommendations

- 3.3.28 The HKICPA should establish a clear baseline for acceptable performance for QP workshop facilitators and provide additional training or support to help low-scoring facilitators improve their performance. Feedback should also be shared with the facilitators, so as to raise their awareness of areas that require improvement.

HKICPA's response:

As part of the HKICPA's ongoing review and improvement process on the existing workshop facilitator management mechanism, a revised mechanism was approved by the QEB in May 2023. The updated approach aims to enhance the quality of facilitation by implementing specific criteria for evaluating facilitator's performance. Under the revised mechanism, facilitators will be classified into tiers according to their past performance with a pre-defined score, and workshop assignments will be made according to the prescribed criteria for each tier. To maintain facilitation quality, facilitators placed in the lowest tier will immediately be removed from the workshop facilitators' pool. Additionally, facilitators will receive feedback on their performance from all stakeholders following completion of each examination session, to assist with their continuous improvement.

Notwithstanding the underperforming workshop facilitators will be removed under the revised mechanism, the HKICPA will continue to monitor the facilitation quality and provide the workshop facilitators with necessary support, including but not limited to periodic updates on the best practices in facilitation and providing relevant resources and materials with practical tips for conducting workshops.

Finding 4: Insufficient verification of compliance of Authorised Employers and Authorised Supervisors with the Practical Experience Codes and Guidelines

- 3.3.29 Under the Practical Experience Framework prescribed by the HKICPA, all QP students must attain at least three years of practical experience before they are eligible to register as a CPA. Such practical experience may be gathered during the employment with an AE. Alternatively, if not employed by an AE, the student may be supervised by an AS. Training Records of QP students must be signed off by AEs/ASs.
- 3.3.30 Because accredited AEs/ASs play an important role in the transition of a QP student into a CPA, it is crucial that they comply with the Practical Experience Codes and Guidelines (PE Code). Such compliance includes exhibiting professional and ethical practices, commitment to identifying training and development needs of QP students, providing development opportunities, and monitoring and reviewing students' performance.
- 3.3.31 To become an accredited AE/AS, applicants need to declare their compliance with the PE Code by completing a binary questionnaire at the time of application. The HKICPA also assesses if applicants have any outstanding ethical or professional issues by checking disciplinary records.
- 3.3.32 Authorisation visits are key for validating compliance with the PE Code by AE/AS applicants or accredited AEs/ASs. The HKICPA conducts on-site or virtual visits on a sample basis to verify applicants' compliance with the PE Code prior to authorising their accreditation.
- 3.3.33 The authorisation status of each AE/AS remains valid for five years. Hence, to ensure the ongoing compliance with the PE Code by accredited AEs/ASs, the HKICPA performs authorisation visits on a sample basis.
- 3.3.34 The HKICPA initially planned to conduct 80 authorisation visits in 2023, which would have covered 2% of all accredited AEs/ASs as of March 2023. After the plan was approved by the QEB, the HKICPA decided to further reduce the number of planned visits by 25%, from 80 to 60, citing resource constraints. The revised plan was also approved by the QEB.

- 3.3.35 The 60 planned visits cover AEs/ASs responsible for supervising 40% of all QP students registered under the HKICPA's Practical Experience Framework. This was achieved by including large audit firms, which employ and oversee the lion share of QP students. However, these large audit firms typically have an institutionalised approach to training and supervision, with relatively low risk of non-compliance. Conversely, smaller-sized AEs or individual ASs, with fewer QP students, carry a higher risk of non-compliance. However comparatively few of them are covered by the authorisation visits. As a result, the coverage may not be sufficient to achieve a satisfactory level of assurance.
- 3.3.36 For AEs/ASs not covered by authorisation visits, the HKICPA relies on reviewing disciplinary records and on self-reported binary declarations provided during the initial application and annual monitoring process.
- 3.3.37 A non-compliant AE/AS could lead to QP students not being able to attain the appropriate practical experience or receive adequate training, and development opportunities. This may result in the admission of CPAs with insufficient competence levels, which would in turn negatively impact the quality of registered CPAs.

Our recommendations

- 3.3.38 The HKICPA should strengthen its verification process to ensure a satisfactory level of assurance regarding the compliance of accredited AEs/ASs with the PE Code. This could be achieved by increasing the number of AEs/ASs selected for authorisation visits, enhancing the risk factors considered during sample selection, or implementing other necessary measures.

HKICPA's response:

The HKICPA would request additional information from the new/renewal AE/AS applicants when there are doubts about their suitability. During the assessment period, the HKICPA has not encountered any cases of accrediting a non-compliant AE/AS that has prevented QP students from obtaining the necessary practical experience or receiving inadequate training and development opportunities.

In respect of strengthening quality control procedures, the HKICPA will develop other measures to increase sample size for review and assessment on the compliance with the PE Code.

Finding 5: No referrals of CPAs with self-declared convictions or sanctions by other regulators have been made to the AFRC for consideration of regulatory action

3.3.39 Since the transfer of responsibilities from the HKICPA to the AFRC concerning CPA misconduct, the HKICPA has not referred any CPAs who have reported convictions or sanctions by other regulators to the AFRC for consideration regarding possible regulatory action.

3.3.40 The HKICPA was responsible for the investigation and discipline of CPAs prior to the further reform. Therefore, even in the absence of formal requests for referral, the HKICPA should be aware of the importance of prompt referrals of such cases to the relevant regulator (i.e. the AFRC, subsequent to the further reform) for necessary regulatory actions. Although the Memorandum of Understanding between the HKICPA and the AFRC (MOU), which constitutes a basis for formal requests for such referrals, has not been finalised, its absence should not preclude the HKICPA from referring such cases to the AFRC as delays on regulatory actions may harm public interest.

Our recommendations

3.3.41 The HKICPA should establish a mechanism to refer CPAs who have reported convictions or sanctions by other regulators to the AFRC in a timely manner.

HKICPA's response:

Throughout the period of preparing the MOU, the legal departments of both organisations were aware that such records are sensitive personal data and should be handled with care. Even for referring such information to the AFRC for regulatory action, the HKICPA believes a proper system including a formal request should be in place to enhance accountability for the cross-organisation transfer of such information.

The HKICPA will provide the list of CPAs who have reported convictions or sanctions by other regulators to the AFRC once the MOU is agreed or a formal request has been received from the AFRC.

Finding 6: Overlooking of a fit and proper issue resulting in an ineligible CPA being registered by mistake

- 3.3.42 To be registered as a CPA, an applicant must prove to the satisfaction of the HKICPA that the applicant possesses good character and is a fit and proper person to be a CPA.
- 3.3.43 It came to our attention that during the 2023 renewal process, a renewal applicant self-declared a fit and proper matter that involved a criminal conviction which was under appeal.
- 3.3.44 Despite the self-declaration, the HKICPA mistakenly considered that the matter was still under investigation and did not seek additional information from the applicant. As a result, the renewal application was proposed for approval.
- 3.3.45 The renewal application was later reviewed and approved by a manager and then a director of the Membership and Admission Department in December 2022. Consequently, the applicant's CPA membership was renewed with effect from 1 January 2023.
- 3.3.46 Considering the nature, seriousness, and recency of the fit and proper issue, the renewal application should have been rejected.
- 3.3.47 The mistake was only discovered three months later after the HKICPA had processed the renewal applications of another two applicants who were co-defendants in the same case. A removal order was issued in March 2023.

Our recommendations

- 3.3.48 The HKICPA should reiterate the importance of maintaining a critical mindset in handling registration applications. To avoid the re-occurrence of such an issue, the HKICPA should also conduct additional training to increase the team's awareness and caution when handling registration applications.

HKICPA's response:

In the one renewal case mentioned by the AFRC, the HKICPA's management had identified the mistake during its own fit and proper assessment procedures and took appropriate remedial actions, including reporting the matter to the RC at the meeting. It was found that details of the member's self-declaration were not clear to enable the HKICPA staff to immediately identify the fit and proper issue. Nevertheless, HKICPA's management had provided further training to the team immediately after the matter was discovered.

Finding 7: (Pre-amended specified function) Failure to identify and report a potential breach of PIE auditor registration requirements in the pre-amended AFRCO

- 3.3.49 During the 2023 Assessment process, it came to our attention that the HKICPA failed to recognise that a registered PIE auditor may have breached certain provisions of the pre-amended AFRCO. The registered PIE auditor did not have any qualified registered engagement partners (EPs) and quality control system responsible persons (QCSRPs) as required by the pre-amended AFRCO from 1 January to 24 May 2022.
- 3.3.50 With effect from 1 January 2022, the sole director of the registered PIE auditor in question ceased his directorship, rendering the individual ineligible to serve as the registered EP and QCSRP of the registered PIE auditor. The HKICPA received a notification from the registered PIE auditor that such individual had ceased the directorship and the HKICPA had approved the change on 20 January 2022.
- 3.3.51 On 19 May 2022, the registered PIE auditor submitted an application for registering a new director as EP and QCSRP, and the HKICPA approved it on 24 May 2022.
- 3.3.52 In processing these notifications, the HKICPA failed to notice that the registered PIE auditor no longer had any qualified EPs and QCSRPs in place and failed to investigate as to whether and how the registered PIE auditor would be complying with the registration requirements.
- 3.3.53 Consequently, while the registered PIE auditor did not have any qualified EPs and QCSRPs in place during the approximately five month period, it continued to undertake and carry out PIE audit engagements in a breach of the pre-amended AFRCO.
- 3.3.54 The finding has been communicated to the HKICPA. Since the commencement of the AFRCO on 1 October 2022, the AFRC has taken over as the statutory body responsible for the registration of PIE auditors.

HKICPA's response:

The HKICPA recognises this is a serious issue. As soon as the HKICPA was made aware of this issue, the HKICPA's management carried out an assessment to identify the cause of the oversight and found that this was an isolated case caused by an unusual circumstance which led to the mishap. The assessment found no other mistakes of a similar nature. The HKICPA's management is carrying out a review of its current registration processes to identify and apply any appropriate additional mitigating controls.

Section 4

Setting CPD requirements for CPAs

4.1 Scope and approach

- 4.1.1 Our oversight assessment covers the HKICPA's performance in relation to setting CPD requirements, details of which are summarised in A3.9 to A3.11 of Annex 3.
- 4.1.2 Our assessment includes an evaluation of HKICPA's policies and procedures, as summarised in A4.29 to A4.32 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 a previous finding

- 4.2.1 In previous assessments, we identified a lack of specific CPD requirements for registered PIE auditors to ensure that they have the knowledge and skills to discharge their duties in performing PIE engagements. This finding was first raised in the 2020 Assessment.
- 4.2.2 At the time of the 2022 Assessment, the HKICPA was conducting research on the potential types of additional CPD requirements to be prescribed for registered PIE auditors, and planning for engagement with key stakeholders, with the aim of having the revised CPD requirements to be effective from 1 December 2023 based on the work plan approved by the RC.
- 4.2.3 The HKICPA completed the consultation process in July 2023. The revised requirements were approved by the HKICPA Council on 21 September 2023, and published on 31 October 2023. They will be effective in the CPD cycle starting 1 December 2023.
- 4.2.4 Key elements of the revised requirements include:
 - (a) Mandatory CPD requirement for Responsible Persons of registered PIE auditors;
 - (b) At least five of the verifiable hours of CPD activities that are related to PIE engagements per annum; and

- (c) Topics covering any of the following:
- Accounting and auditing standards (in areas related to the PIE engagements carried out by the member and professional scepticism);
 - The Listing Rules issued by The Stock Exchange of Hong Kong Limited;
 - Quality control-related standards (i.e. Hong Kong Standard on Quality Control 1, Hong Kong Standard on Quality Management 1 and 2);
 - Professional ethics relevant to professional accountants in public practice;
 - Regulatory and inspection findings; and
 - The AFRCO.

4.2.5 We have no further comments on the follow-up actions.

4.3 Findings and recommendations from the 2023 Assessment

4.3.1 There were no new findings relating to setting CPD requirements for CPAs in the 2023 Assessment.

Section 5

Standard setting

5.1 Scope and approach

- 5.1.1 Our oversight assessment covers the HKICPA's performance in relation to setting standards on professional ethics, and auditing and assurance practices for the Assessment Year. As a result of the commencement of the AFRCO on 1 October 2022, the scope of our assessment was broadened to cover the HKICPA's performance in setting accounting standards. Details are summarised in A3.12 to A3.15 of Annex 3.
- 5.1.2 Our assessment includes the evaluation of HKICPA's policies and procedures, as summarised in A4.33 to A4.35 of Annex 4. In addition, the AFRC evaluated the HKICPA's follow-up actions on previous findings.

5.2 Evaluation of progress made by the HKICPA on a previous finding

- 5.2.1 According to "International Auditing and Assurance Standards Board (IAASB) Framework for Activities", a standard setter's work "does not stop once a new or revised standard is issued, instead, it has a responsibility to help with facilitating that the changes from new and revised standard(s) are consistently and properly implemented. An implementation support plan should be established shortly after the finalisation of a new or revised standard(s)."⁴
- 5.2.2 In the 2022 Assessment, we determined that the standard operation procedures (SOP) for setting standards on professional ethics and auditing and assurance practices do not cover the planning and monitoring of implementation support activities for new or revised standards. In addition, the SOP does not cover post-implementation review of standards.
- 5.2.3 In response to our finding, the HKICPA revised the relevant SOP, which was endorsed by the AASC on 20 February 2023 and by the EC on 17 March 2023.

⁴ International Auditing and Assurance Standards Board (IAASB), "IAASB Framework for Activities", 4 May 2021, <https://www.iaasb.org/publications/framework-activities>.

- 5.2.4 Regarding the implementation support activities for new and revised standards, the revised SOP sets out details such as the criteria for assessing the nature, timing and extent of support activities, the approval process of the implementation support plan, the requirement for the incorporation of support activities in the work plans of the AASC or EC, and the evaluation mechanism of the outcome of the implementation support activities. We have no further comments on the follow-up actions.
- 5.2.5 Regarding post-implementation review of standards, the revised SOP sets out details such as the criteria and threshold for identifying “significant, contentious or complex” issues, and the detailed procedures of post-implementation review covering data collection, performance of analysis, execution of post-implementation review, and determination of the appropriate follow-up actions.
- 5.2.6 The SOP regarding the post-implementation review for Small and Medium-sized Entity Financial Reporting Framework and Financial Reporting Standards (SME-FRF & SME-FRS), which is within the new specified function, does not specify the criteria and threshold for determining the scope and extent of the post-implementation review, and the HKICPA plans to enhance it in 2024. We will review the enhancement in future assessments.

5.3 Findings and recommendations from the 2023 Assessment

Finding 8: A draft consultation document revising a standard with significant local adaptation did not include all necessary considerations, rationale, or adequate analysis

- 5.3.1 In developing the draft consultation document in relation to the definition of a public interest entity in the Code,⁵ the HKICPA performed research and analysis, and conducted outreach activities with relevant stakeholders, however, we noted the following issues:
- (a) The HKICPA’s analysis in identifying potential additional public interest entity categories was inadequate. In particular, the HKICPA did not consider all options holistically, instead they only considered a limited number of potential additional categories as cited in the International Ethics Standards Board for Accountants (IESBA); and
 - (b) The draft document did not explain how the HKICPA defined the scope of the project or articulate the rationale underlying its proposed refinements to the mandatory public interest entity categories.

⁵ The PIE definition in the Code is different from the PIE definition in the AFRCO, the latter of which includes listed corporations and listed collective investment schemes only. The definition in the Code mandates more stringent auditor independence requirements, which have no effect on the AFRCO. The difference in the definitions between the Code and AFRCO does not affect AFRC’s regulatory power over practice units.

- 5.3.2 The definition of a PIE has significant public interest implications since it identifies entities that are subject to additional auditor independence requirements and may be potentially subjected to more rigorous auditing requirements in the future.
- 5.3.3 The issues above raise questions about the robustness of the HKICPA's quality control process to ensure the standards are fit for purpose.

Our recommendations

- 5.3.4 The HKICPA should maintain a robust quality control process when developing draft consultation documents to ensure that:
- (a) Robust and comprehensive analysis is conducted and clearly articulated within the local Hong Kong context to enable the public to better assess the proposals and provide meaningful feedback;
 - (b) The proposals are formulated with the public interest in mind; and
 - (c) The consultation documents contain adequate and clear articulation of the approach and rationale underlying the proposals.

HKICPA's response:

The staff of the the HKICPA and the EC had deliberated the local refinement to the public interest entity definition within the proposed scope for 14 months and the draft consultation document contained extensive details about the EC's rationale for the proposals.

In terms of next steps, management and the EC of the HKICPA have made further changes to the public interest entity exposure draft to address the AFRC's comments once they were received. In addition, the EC has confirmed its plan to conduct the public interest entity project in two phases in order to allow the HKICPA management and the EC sufficient time to properly research, analyse, and deliberate the wide scope of proposed additional public interest entity categories as outlined in the AFRC letter.

Finding 9: Lack of consultation with a relevant regulator when revising Guidelines on Anti-Money Laundering and Counter-Terrorist Financing for Professional Accountants

- 5.3.5 Under Part 2 of Schedule 1 of the AMLO, starting from 1 October 2022, 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.

- 5.3.6 While developing a draft consultation document on revisions to the AML/CTF Guidelines in response to the changes arising from the Anti-Money Laundering and Counter-Terrorist Financing (Amendment) Ordinance 2022, the HKICPA did not formally consult the AFRC in its capacity as a regulator of the accounting profession in relation to AML/CTF before releasing the consultation document to the public.
- 5.3.7 Even though the amended AMLO does not impose any new responsibilities on the regulator, without prior consultation, the AFRC's ability to comment on the draft consultation paper is impeded and the document might have included proposals that were inconsistent with our regulatory approach, potentially causing confusion among market participants.
- 5.3.8 We acknowledge that the legislative process of the AMLO amendments may have imposed time pressure on the revision of the AML/CTF Guidelines. However, this should not have prevented the HKICPA from trying to seek the AFRC's comments before the publication of the consultation paper.
- 5.3.9 Despite the multiple communication channels that the HKICPA has with the AFRC, the formal consultation channel is the only appropriate route for the HKICPA to solicit the AFRC's comments on the draft consultation paper.
- 5.3.10 Separately, in its oversight capacity, as per the Statement of Protocol on Oversight Arrangements, the AFRC observes EC meetings. The purpose of this mechanism is to enable the AFRC to assess the HKICPA's performance on its specified functions. Although the draft consultation document was shared and discussed during one of the EC meetings in which the AFRC was an observer, and there were informal communications between the AFRC and the HKICPA before the public consultation, these did not constitute a formal consultation channel.

Our recommendations

- 5.3.11 The HKICPA should ensure that the relevant regulators are consulted, through appropriate channels, and their comments are addressed before the publication of consultation documents.

HKICPA's response:

The HKICPA is open-minded as to how the AFRC or major stakeholders wish to be involved in the AML/CTF Guidelines setting process. We note the recommendation above and will act upon it accordingly.

Finding 10: Certain standards on professional ethics were not accurate or up to date

- 5.3.12 The HKICPA's proper discharge of its statutory responsibilities in standard setting and ensuring those standards are up to date and fit for purpose is imperative for the effective auditing and financial reporting of companies.
- 5.3.13 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.
- 5.3.14 According to the HKICPA, the outdated requirements in the Code were not consequential, hence a decision was made not to complete the revision before the further reform took effect. Instead, other standard setting projects were prioritised in view of resources available.
- 5.3.15 As a result, certain standards became outdated and inaccurate when the further reform took effect on 1 October 2022. Some examples are outlined below:
- (a) Statement 1.304 *Arrangements to Cover the Incapacity or Death of a Sole Practitioner* was only identified by the HKICPA as redundant and withdrawn on 11 May 2023.
 - (b) Section 800 of Part C of the Code *Use of Designations and Institute's Logo* contained repealed or outdated sections in the PAO and By-Laws. Despite the fact that the HKICPA did not consider that the continued use of the designation was an issue, it did not engage the AFRC to discuss about updating the standard before the further reform took effect. The updated standard was subsequently published on 28 November 2022.
 - (c) The process of updating other sections of the Code, including Section 400 *Unlawful Acts or Defaults by Clients of Members*, Section 500 *Unlawful Acts or Defaults by or on Behalf of a Member's Employer*, Section 700 *Corporate Finance Advice*, and Section 900 *Practice Promotion*, did not commence until November 2022. The HKICPA published the updated sections on 26 July 2023.
- 5.3.16 It is vital for the HKICPA to maintain accurate and up to date standards at all times for proper discharge of its statutory responsibilities in standard setting. There should not be an exception even if the relevant standards may not be considered significant or consequential for practitioners. A failure to do so would undermine the public's confidence in the HKICPA's standard setting function.

Our recommendations

- 5.3.17 The HKICPA should ensure all standards are accurate and up to date at all times. The HKICPA should proactively identify and implement the best possible solutions to overcome any resource limitations and to maintain the quality of standards.
- 5.3.18 Moreover, the HKICPA should review all standards to ensure they are updated as a result of the further reform.

HKICPA's response:

The HKICPA has an established process for reviewing and updating the Members' Handbook which is the basis for addressing the necessary changes arising from the further regulatory reform. In terms of the instances noted above, once the necessary changes were agreed by AFRC, the relevant enforcement agencies and the HKICPA, they were published as a matter of priority.

All updates have now been completed.

Section 6

Provision of CPD training to CPAs

6.1 Scope and approach

- 6.1.1 Our oversight assessment covers the HKICPA's performance in relation to the provision of CPD training to CPAs, which forms part of the new specified functions for the period starting 1 October 2022.
- 6.1.2 Our assessment includes an evaluation of the HKICPA's policies and procedures, as summarised in A4.36 to A4.40 of Annex 4. Since the provision of CPD training only came under the AFRC's oversight in October 2022, no recommendations were made in past assessments.

6.2 Findings and recommendations from the 2023 Assessment

Finding 11: A lack of a robust handling and review mechanism of feedback received on continuing professional development training

- 6.2.1 As its name suggests, CPD training is a mean for practitioners to ensure their skill sets remain up to date and relevant. Providing high-quality and effective CPD training is key to maintaining professional competence of CPAs. As the major provider of CPD training for CPAs, the HKICPA is responsible for ensuring that training is well thought out, fit-for-purpose, and high-quality.
- 6.2.2 The HKICPA collects feedback on CPD training, covering areas such as course content and performance of the presenters. Such feedback, supplied by attendees on a voluntary basis, provides useful recommendations for improving the quality and effectiveness of CPD training. However, the HKICPA does not have a SOP for the systematic handling of such feedback to ensure it can be applied consistently and effectively. Instead, the HKICPA only shares the feedback with speakers upon request, regardless of its content and importance.
- 6.2.3 The HKICPA also does not have a robust mechanism to consider feedback received during evaluation of quality and learning effectiveness of CPD training on a regular and ongoing basis.

- 6.2.4 In the 2023 Assessment, we noted that the HKICPA conducted a one-off exercise in 2022 to evaluate the learning effectiveness of CPD training based on factors including the enrolment number, course rating, and the coverage of each of the training competencies. This resulted in the removal of some duplicative or less effective training courses. However, there was no pre-determined threshold for the assessment of these factors. As a result, we noted some inconsistencies in actions taken, for example, certain courses with low ratings were not removed during this exercise.
- 6.2.5 Since the feedback on CPD training is an important source of information for the evaluation of its quality, the lack of a robust handling and review mechanism of feedback could hinder its usefulness for the identification of improvement needs in CPD training. This could in turn undermine the effectiveness of CPD training in upholding the quality and professional competence of practitioners.

Our recommendations

- 6.2.6 The HKICPA should develop an appropriate mechanism for the handling and review of feedback from attendees of CPD training. The mechanism should facilitate the utilisation of such feedback to identify areas for improvement in CPD training, which will in turn enhance its effectiveness in upholding the quality and professional competence of practitioners.
- 6.2.7 The mechanism should at the minimum cover the following:
- (a) Handling of feedback from attendees
 - Detailed procedures for sharing feedback from attendees with relevant speakers and/or vendors, if any; and
 - The exception policy and relevant approval process for not sharing feedback with relevant speakers and/or vendors.
 - (b) Review mechanism regarding feedback received on CPD training
 - The frequency of review;
 - The criteria and threshold for assessing the feedback implications and what the implications might be (for example, whether to retain a CPD course or trainer);
 - The exception policy and relevant approval process for not adhering to the pre-determined criteria and threshold;
 - The inclusion of a review mechanism in the work plan of the relevant department for ongoing monitoring; and
 - The approval process in relation to the outcome of the review.

HKICPA's response:

The evaluation feedback handling procedure, which has been established for many years, enables us to identify participants' needs and incorporate their feedback into our course planning and development process. This mechanism is an ongoing procedure with continuous monitoring and refinement if necessary.

As part of the HKICPA's ongoing review and improvement process, the HKICPA decided to revise its current feedback handling and review procedure. The PDC was notified of this revision in July 2023. This revision to be completed by December 2023 aims to continuously improve the quality of training courses offered and increase the number of enrolments and would cover the AFRC recommendation.

Section 7

Acknowledgement

- 7.1 We would like to express our appreciation of the HKICPA for its cooperation in conducting the 2023 Assessment.

Annex 1

Summary of findings and recommendations from the 2023 Assessment

A1.1 A summary of our findings and recommendations based on our 2023 Assessment is set out below. Details of findings and recommendations are set out in Section 2 to Section 6 of this Report.

Registration

Findings from the 2023 Assessment	We expect the HKICPA to:
<p>Finding 1</p> <p>High non-compliance rate in continuous professional development compliance audits</p>	<ul style="list-style-type: none"> • In addition to effectively communicating the CPD requirements to CPAs, explore additional strategies to improve CPAs' compliance with CPD requirements. • Consider effective enforcement of its powers as vested in the PAO and remove those CPAs who made false declarations in relation to their CPD compliance to send a correct signal to all CPAs. <p>Paragraphs 3.3.1.-3.3.13</p>
<p>Finding 2</p> <p>Quality control of Qualification Programme exam papers needs enhancement</p>	<ul style="list-style-type: none"> • Establish a set of criteria that would trigger the need for significant modifications of an exam paper and consider the need for conducting additional trial exams where applicable. Such criteria should also be reviewed from time to time to ensure its on-going effectiveness. • Establish a performance threshold for trial sitting and provide the Trial Sitters whose performance falls outside the threshold with relevant trial exam results and gather a second round of feedback, in order to obtain more meaningful feedback on the clarity and appropriateness of the questions and answers. <p>Paragraphs 3.3.14-3.3.21</p>

Findings from the 2023 Assessment	We expect the HKICPA to:
<p>Finding 3</p> <p>Absence of a pre-defined baseline for acceptable performance and additional support for Qualification Programme workshop facilitators</p>	<ul style="list-style-type: none"> • Establish a clear baseline for acceptable performance for QP workshop facilitators. • Provide additional training or support to help low-scoring facilitators improve their performance. • Share feedback with the facilitators so that they are aware of areas that require improvement. <p>Paragraphs 3.3.22-3.3.28</p>
<p>Finding 4</p> <p>Insufficient verification of compliance of Authorised Employers and Authorised Supervisors with the Practical Experience Codes and Guidelines</p>	<ul style="list-style-type: none"> • Strengthen the verification process to ensure a satisfactory level of assurance regarding the compliance of accredited AEs/ASs with the PE Code. This could be achieved by increasing the number of AEs/ASs selected for authorisation visits, enhancing the risk factors considered during sample selection, or implementing other necessary measures. <p>Paragraphs 3.3.29-3.3.38</p>
<p>Finding 5</p> <p>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>	<ul style="list-style-type: none"> • Establish a mechanism to refer CPAs who have reported convictions or sanctions by other regulators to AFRC in a timely manner. <p>Paragraphs 3.3.39- 3.3.41</p>
<p>Finding 6</p> <p>Overlooking of a fit and proper issue resulting in an ineligible CPA being registered by mistake</p>	<ul style="list-style-type: none"> • Reiterate the importance of maintaining a critical mindset in handling registration applications. • Conduct additional training to increase the team's awareness and caution when handling registration applications so as to avoid the re-occurrence of the erroneous registration of CPAs. <p>Paragraphs 3.3.42- 3.3.48</p>

Findings from the 2023 Assessment	We expect the HKICPA to:
<p>Finding 7 (Pre-amended specified function finding)</p> <p>Failure to identify and report a potential breach of PIE auditor registration requirements in the pre-amended AFRCO</p>	<ul style="list-style-type: none"> • Not applicable – The finding has been communicated to the HKICPA. As of 1 October 2022, upon the AFRCO taking effect, the AFRC took over the statutory responsibility of registering PIE auditors. <p>Paragraphs 3.3.49- 3.3.54</p>

Standard setting

Findings from the 2023 Assessment	We expect the HKICPA to:
<p>Finding 8</p> <p>A draft consultation document revising a standard with significant local adaptation did not include all necessary considerations, rationale, or adequate analysis</p>	<ul style="list-style-type: none"> • Ensure a robust and comprehensive analysis is conducted. • Ensure the proposals are formulated with the public interest in mind. • Ensure the consultation documents contain adequate and clear articulation of the approach and rationale underlying the proposals. <p>Paragraphs 5.3.1-5.3.4</p>
<p>Finding 9</p> <p>Lack of consultation with a relevant regulator when revising Guidelines on Anti-Money Laundering and Counter-Terrorist Financing for Professional Accountants</p>	<ul style="list-style-type: none"> • Ensure the relevant regulators are consulted through appropriate channels, and their comments are addressed before the publication of consultation documents. <p>Paragraphs 5.3.5-5.3.11</p>

Findings from the 2023 Assessment	We expect the HKICPA to:
<p>Finding 10</p> <p>Certain standards on professional ethics were not accurate or up to date</p>	<ul style="list-style-type: none"> • Ensure all standards remain accurate and up to date at all times. • Proactively identify and implement the best possible solutions to overcome any resource limitations and to maintain the quality of standards. • Review all standards to ensure they are updated in response to the further reform. <p>Paragraphs 5.3.12-5.3.18</p>

Provision of CPD training to CPAs

Findings from the 2023 Assessment	We expect the HKICPA to:
<p>Finding 11</p> <p>A lack of a robust handling and review mechanism of feedback received on continuing professional development training</p>	<ul style="list-style-type: none"> • Develop an appropriate mechanism for the handling and review of feedback from attendees of CPD training to enable the use of such feedback to identify areas for improvement in CPD training. <p>Paragraphs 6.2.1-6.2.7</p>

Annex 2

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

A2.1 In response to our previous findings and recommendations, 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
1. Performance of chairperson and members of the RPC was not evaluated based on the performance evaluation criteria set by the HKICPA	<p>In progress.</p> <p>The HKICPA conducted performance evaluation of the members of all Specified Committees based on the new performance evaluation procedures and criteria set by the HKICPA for 2022.</p> <p>As committed in the 2022 Assessment, the HKICPA has revised the evaluation form to include questions that are more relevant to gauging whether the committee chairperson/member being evaluated has the requisite skills and knowledge. The revised evaluation form will be used for performance evaluation in 2023.</p> <p>Paragraphs 2.2.3-2.2.5</p>	Further assessment will be made next year.

Previous findings	Status of HKICPA's follow-up actions	Our assessment
<p>2. Insufficient information provided to the Nomination Committee in the selection and re-appointment of committee members</p>	<p>Completed.</p> <p>In the evaluation summary submitted to the Nomination Committee and the HKICPA Council, the HKICPA has provided both the summary of the performance feedback from the committee chairpersons/members and the views of the HKICPA's management on the nomination of committee chairs and members.</p> <p>Paragraphs 2.2.6</p>	<p>No further comment.</p>

Registration of PIE auditors and CPD compliance audit

Previous findings	Status of HKICPA's follow-up actions	Our assessment
<p>3. The CPD compliance audit was performed only after the renewal of the HKICPA membership which might lead to unqualified persons being registered</p>	<p>Completed.</p> <p>The HKICPA has revised the timing of the CPD compliance audit for responsible persons of registered PIE auditors. Starting from the 2022 CPD compliance audit, the compliance audit will commence in December every year, immediately following the renewal, instead of six months after the renewal.</p> <p>Paragraphs 3.2.2-3.2.3</p>	<p>No further comment.</p>

Previous findings	Status of HKICPA's follow-up actions	Our assessment
<p>4. The HKICPA did not sufficiently check underlying documents to verify the claims, including attendance and hours, made by CPAs</p>	<p>Completed.</p> <p>In May 2022, the HKICPA has revised the CPD Record Form for CPAs to include an explanation as to why the CPD activities undertaken are relevant to their professional development, and it has amended its process to ensure thorough checking of all underlying documents during CPD compliance audits.</p> <p>The revised process was applied in the 2021 CPD compliance audit.</p> <p>Paragraphs 3.2.4-3.2.5</p>	<p>No further comment.</p>

Setting CPD requirements for registered PIE auditors

Previous findings	Status of HKICPA's follow-up actions	Our assessment
<p>5. No prescription of specific CPD requirements for registered PIE auditors</p>	<p>Completed.</p> <p>The HKICPA completed the consultation process in July 2023. The revised requirements were approved by the HKICPA Council on 21 September 2023, and published on 31 October 2023. They will be effective in the CPD cycle starting 1 December 2023.</p> <p>Paragraphs 4.2.2-4.2.4</p>	<p>No further comment.</p>

Standard setting

Previous findings	Status of HKICPA's follow-up actions	Our assessment
<p>6. The SOP for standards setting does not cover all major standard-setting related activities</p>	<p>In progress.</p> <p>The HKICPA has revised the SOP for setting standards for professional ethics, and auditing and assurance to include detailed procedures on implementation support activities of new and revised standards and post-implementation review of standards/ requirements.</p> <p>The SOP regarding the post-implementation review for SME-FRF & SME-FRS, which is within the new specified function, does not specify the criteria and threshold for determining the scope and extent of the post-implementation review, and the HKICPA plans to enhance it in 2024.</p> <p>Paragraphs 5.2.3-5.2.6</p>	<p>Further assessment will be made next year.</p>

A2.2 For the recommendation where follow-up remains in progress (i.e. item 1 under A2.1), the HKICPA has confirmed that the original timeline provided to the AFRC will be adhered to. For item 6 under A2.1, follow-up actions are required for the standards within the new specified function. We will continue to monitor the status and assess the implementation in the next assessment.

Annex 3

Responsibilities of the HKICPA in relation to the specified functions and its related governance arrangements under the PAO

Power and responsibilities 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 EC⁶, FRSC⁷ and AASC⁸ 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 IAASB.

PDC

- A3.4 With regards to the provision of CPD training to CPAs, the PDC⁹ 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 develops work plans on the provision of professional development activities catering for such needs, and oversees implementation of the work plans.

6 HKICPA, Ethics Committee Terms of Reference (2023). (https://app1.hkicpa.org.hk/about_us/committee_info.php?committee_id=34&year=2023)

7 HKICPA, Financial Reporting Standards Committee Terms of Reference (2023). (https://app1.hkicpa.org.hk/about_us/committee_info.php?committee_id=8&year=2023)

8 HKICPA, Auditing and Assurance Standards Committee Terms of Reference (2023). (https://app1.hkicpa.org.hk/about_us/committee_info.php?committee_id=40&year=2023)

9 HKICPA, Professional Development Committee Terms of Reference (2023). (https://app1.hkicpa.org.hk/about_us/committee_info.php?committee_id=165&year=2023)

QEB

A3.5 The QEB¹⁰ acts as the “Examination Board” under section 40(1) of 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 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 process.

RC

A3.6 The RC¹¹, previously known as the Registration and Practising Committee prior to 1 October 2022, acts as the “Registration Committee” appointed under section 20 of By-Laws. As delegated by the HKICPA Council, its role covers:

- (a) The examination of the qualifications of an applicant, and provision of advice to the HKICPA Council as to whether the applicant should be registered or rejected; and
- (b) The provision of advice to the Council on the renewal of various recognition agreements with overseas accountancy bodies.

The RC is also responsible for the prescription of CPD requirements for CPAs.

Registration

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;
- (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.

¹⁰ HKICPA, Qualification and Examinations Board Terms of Reference (2023). (https://app1.hkicpa.org.hk/about_us/committee_info.php?committee_id=176&year=2023)

¹¹ HKICPA, Registration Committee Terms of Reference (2023). (https://app1.hkicpa.org.hk/about_us/committee_info.php?committee_id=33&year=2023)

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 AFRC.

A3.11 The CPD requirements prescribed by the HKICPA are set out in Statement 1.500 Continuing Professional Development (Statement 1.500), 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 of Ethics for Professional Accountants 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 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 Committees' members

A4.1 The HKICPA's procedures for the nomination, selection, and appointment of committee members are set out in its Internal Procedural Documentation for the Nomination Process, which are summarised below.

- (a) The director-in-charge of the Specified Committee determines the criteria for the composition of the committee based on HKICPA's "Committee Composition Criteria" which include "expected skills and/or knowledge".
- (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 evaluations 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.

Registration

Conducting examinations

- A4.2 As highlighted in A3.8b, 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 1 – 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 Professional Level includes a one-day online workshop and an open-book examination. The Capstone comprises of 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 For the trial exam, two HKICPA students who have passed the previous exam sessions are invited to confidentially attempt the trial exam paper under simulated exam conditions.
- A4.12 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 HKICPA's consideration.
- A4.13 The HKICPA will mark the answer books and prepare a trial sit report summarizing the results of the trial exam and the feedback from the Trial Sitters. The delegated exam-setting group will review the trial report and adjust 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.

- 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 conduct on-site or visual visits for selected 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 will be also conducted during the five-year authorisation period, and the frequency of these visits 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 is to assess the AE/AS applicants’ compliance with the principles outlined in the PE Code.
- A4.21 During the visit, the HKICPA will review the information submitted by the AEs/ASs and conduct interviews with the AEs/ASs and QP student(s)

Dealing with applications relating to the registration of CPAs

- A4.22 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”.
- A4.23 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.
- A4.24 HKICPA staff member will follow up with the applicants who have self-reported fit and proper issues and request for additional information if necessary.
- A4.25 Depending on the type and severity of the fit and proper issues, the applications will be approved by HKICPA’s management, or if the nature is more severe, by the Registration Committee.
- A4.26 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.
- A4.27 The 2021 CPD compliance audit, covering the period from 1 December 2018 to 30 November 2021, was conducted from June 2022 to February 2023.

A4.28 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.

Setting CPD requirements for CPAs

A4.29 The HKICPA has adopted the International Education Standard (IES) 7 *Continuing Professional Development (Revised)* and IES 8 *Professional Competence for Engagement Partners Responsible for Audits of Financial Statements*, which were issued by International Federation of Accountants (IFAC), in formulating the CPD requirements for CPAs.

A4.30 IES 7 and IES 8 provide flexibility to member bodies of IFAC to prescribe specific or additional CPD or learning outcomes for professional accountants working in specialist areas, specialist roles or areas of high risk. For prescribing such specific or additional local requirements, the HKICPA identifies current or emerging issues and conducts research, outreach, or analysis to assess the need for such requirements.

A4.31 Statement 1.500 prescribes the CPD requirements. Pursuant to paragraph 9 of Statement 1.500, all CPAs are required to undertake and record relevant CPD that will allow them to develop and maintain a level of professional competence that is commensurate with their role as a CPA.

A4.32 Pursuant to paragraphs 10 and 16 of Statement 1.500, all CPAs, except those exempted from complying with CPD requirements, are required to:

- (a) complete at least 120 hours of relevant professional development activity in each rolling three-year period, of which 60 hours shall be verifiable (i.e. supported by evidence for the specific number of hours of CPD activity that has been undertaken);
- (b) complete at least 20 hours of relevant professional development activity in each year;
- (c) measure learning activities to meet the above requirements (including evaluation of the adequacy and relevancy of CPD activities); and

- (d) maintain records and documentary evidence sufficient to support their attendance or completion of CPD activities for a minimum of five years, and produce such records and documentary evidence when they are selected for an audit conducted by the HKICPA. Records of CPD activities include details of the provider of the programme, learning objectives, course outlines and timetables, instructional materials, case studies and certificates of completion.

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

Standard setting

A4.33 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.

A4.34 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.

A4.35 The HKICPA reviews and updates the SOP for standard setting on an annual basis.

Provision of CPD training to CPAs

A4.36 The HKICPA provides CPD training for CPAs, 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.

A4.37 The HKICPA provides CPD training through face-to-face sessions, webcast, and off-the-shelf training provided by vendors.

A4.38 The HKICPA identifies the training needs from four major sources:

- (a) Training topics suggested provided by committee members of any committees within the HKICPA;
- (b) Training topics suggested by participants of CPD training as indicated in the course evaluation forms;
- (c) AFRC disciplinary cases; and
- (d) The one-off training needs analysis conducted in 2022.

A4.39 After each CPD training, participants are invited to complete an evaluation form. The evaluation form covers areas such as the course content, instructional method, the pace of training, course materials, and performance of the presenters.

A4.40A summary of feedback received, including both quantitative and qualitative feedback, is prepared subsequent to each course which would be subject to assessment by the relevant staff for follow-up actions, if needed.

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