

Alert

Updates on financial reporting, auditing and ethics



Issue 29 (May 2019)

Dear practising members,

Initiatives and measures to strengthen actions to deal with non-compliance

This Alert follows on from [Alert Issue No. 27](#), drawing practising members' attention to important features of the results of complaints arising from practice reviews.

We consider it useful to issue this alert to once again remind practices of the initiatives and measures introduced in the practice review programme to strengthen actions to uphold audit quality. A summary of all such initiatives and measures is provided in the [2018 Quality Assurance Report](#).

This Alert sets out some of the matters which the Practice Review Committee ("PRC") will take into account when determining whether the non-compliance matters identified warrant a complaint being raised even on a first time review.

I. Practices with Top 5 findings

In 2014, a [letter](#) was sent to all practices setting out the PRC's decision to take stronger action against practices where one or more of the Top 5 findings are identified. The Top 5 findings are: (1) no or insufficient quality control policies and procedures; (2) no or ineffective monitoring; (3) inappropriate audit methodology; (4) unsatisfactory subcontracting arrangements; and (5) misuse of modified reports.

Since the issue of this letter, a number of cases that featured Top 5 findings have been referred for disciplinary actions.

If a practice is found to have made little or no attempt to avoid these issues then non-compliance will be regarded as serious professional misconduct and result in disciplinary action – even for a first time review.

II. Adding and creating working papers and false information

Adding and creating working papers in reaction to a practice review notification is unprofessional and unacceptable. Such behaviour creates serious doubts as to whether sufficient and appropriate audit evidence has been obtained before an audit report is issued. If such instances are identified, we will extend our review scope to spot check additional audit engagements.

Providing false information intentionally in an attempt to influence the chance of being selected for or to influence the result of a practice review is unethical. As part of our standard procedures, we shall check information provided during the practice review to confirm whether it reflects the actual circumstances.

The above acts, particularly if they involve dishonesty, will raise concerns about two of the fundamental principles of our profession as detailed in the [Code of Ethics - integrity and professional competence and due care](#). The PRC has decided to take disciplinary actions against a number of practices that were found to have committed such acts with a clear intent to significantly disrupt the practice review process.

III. Failure to cooperate

Practices shall cooperate to accommodate a practice review site visit and to provide any record or other documents which the practice reviewer reasonably believes is or may be relevant to the practice review. We have encountered a few cases where practices were not cooperative and had taken actions that deliberately hindered the practice review process – even after the PRC issued an instruction ordering the practices to be cooperative after a dispute being raised under the provision of the Professional Accountants Ordinance. Such behaviour is considered by the PRC to be professional misconduct as it prevents the PRC from performing its statutory function and undermines the Institute's ability to uphold quality. The PRC has raised complaints against a number of practices that were uncooperative in the practice review process.

Practising members should take note of the above and ensure these situations to not arise, or face the possibility of a complaint being raised by the PRC. Practising members should be aware that the PRC takes matters that cause concerns over the basic duty of an auditor, such as issuing an audit or assurance report without evidence of work to support the opinion, and over the fundamental principles of integrity and professional competence and due care very seriously. If those matters are found in a practice review, the PRC will have no hesitation to raise a complaint against the responsible CPA even in a first time practice review.

If you have any questions, please contact the QA hotline 2287-7850 or email quality.assurance@hki CPA.org.hk.

Sincere regards,

Chris Joy
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