

HKICPA Adopts International Audit Independence Rules

The Hong Kong Institute of Certified Public Accountants (HKICPA) has adopted as local ethical standards the audit independence rules set out in the Code of Ethics for Professional Accountants issued by the International Federation of Accountants, an organisation of national professional accountancy organisations which has 159 member bodies (including the HKICPA) in 118 countries representing 2.5 million professional accountants worldwide.

The new audit independence rules provide a conceptual approach which takes into account threats to independence, accepted safeguards and the public interest. Auditors are required to:

- a. consider independence before and throughout each engagement;
- b. consider whether any threats to independence exist;
- c. where threats are identified, consider whether there are safeguards that exist or may be applied to eliminate the threats or reduce them to an acceptable level; and
- d. where safeguards are found to be inadequate, decline or discontinue the engagement.

Five categories of threats to audit independence and three categories of safeguards that auditors should put in place to mitigate threats in order to preserve their independence are identified:

Threats to independence	Safeguards to mitigate threats
✓ self-interest threat	✓ created by the profession, legislation or regulation
✓ self-review threat	✓ within the client
✓ advocacy threat	✓ within the audit firm's own systems and procedures
✓ familiarity threat	
✓ intimidation threat	

"Professional independence is a concept fundamental to the accountancy profession. It is in the public interest and therefore required by the new audit independence rules that auditors be independent of their clients," said **HKICPA President Mr. David Tak-kei Sun**. "As we celebrate our 30th year of professional excellence, it is important to bear in mind that upholding quality in everything we do is the key to our continuing success," he added.

Mr. Mark Fong, Chairman of the HKICPA Ethics Committee which is tasked with the responsibility to adopt the international audit independence rules in Hong Kong, said, "This is a major achievement in the HKICPA's convergence of local ethical standards with international ethical standards. The principles-based approach to audit independence is robust to address all the practical situations. This compares to rules that are often arbitrary, may be interpreted differently by different users and can never address all the practical situations."

The new HKICPA audit independence rules will be applicable to audit engagements for financial periods beginning on or after 1 January 2004.

The new audit independence rules are available at the HKICPA's website at:

- a. < <http://www.hkicpa.org.hk/professionaltechnical/ethics/standards/index.php> >
under Statement 1.203A "Independence for assurance engagements"
- b. < <http://www.hkicpa.org.hk/professionaltechnical/ethics/guidance/index.php> >
under Guidance 1.308 "Independence for assurance engagements".

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Issued by the HKICPA. For further information, please contact Ms. Florence Chan or Ms. Cynthia Lee of the Public Relations Section of the HKICPA on 2287 7228. The HKICPA is the only statutory licensing body of accountants in Hong Kong responsible for the regulation of the accounting profession, with over 21,000 members. The HKICPA issues on a regular basis Professional Standards on various aspects of accounting practice, and these are required to be observed by professional accountants.