

Alert

Updates on financial reporting, auditing and ethics



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Dear practising members,

Practice review scope and selection after audit regulatory reform

On 1 October 2019 the Financial Reporting Council (Amendment) Ordinance takes effect, giving the Financial Reporting Council (FRC) more powers to regulate auditors of listed companies in Hong Kong.

Practice review scope

The FRC will take on the responsibilities for inspections of public interest entities (PIE) engagements, as defined in the ordinance, completed by PIE auditors on or after 1 October 2019. Those PIE engagements include annual audits, specified reports and accountants' reports on a listed or "seeking to be listed" corporation or collective investment scheme. All non-PIE engagements, as well as those PIE engagements falling outside the definition in the ordinance, which are carried out by a practice unit registered with the Institute (referred to below as "in-scope audit engagements") still remain under the remit of the Institute's practice review programme. These activities include statutory audits and compliance reports on subsidiaries and regulated entities within a listed group.

The Institute will continue to cover all active practice units under its practice review programme but its remit will change to regulation of non-PIE engagements and anti-money laundering and counter-terrorist financing (AML / CTF) compliance monitoring. The Institute may also still select PIE engagements completed prior to 1 October 2019 for practice review.

Practice selection

Following the above changes, the Institute will continue to apply a mixed risk-based-cycle approach for selection of practice units for reviews. Within that approach, the Institute will retain its goal to review all active practice units at least every 6 years to improve the effectiveness of its practice review system and to benchmark to the review cycles used by many regulators worldwide. The frequency of practice reviews of practice units with audit and assurance clients (AA clients) will be shortened based on the following factors:

1. Size – based on the number of non-PIE AA clients and practising partners or directors
2. Complexity – based on the number of regulated non-PIE AA clients in the following categories:
 - a. “authorized institutions” as defined under the Banking Ordinance
 - b. “insurers” as defined under the Insurance Companies Ordinance
 - c. “insurance brokers” as defined under the Insurance Companies Ordinance
 - d. “licensed corporations” and “associated entities” as defined under the Securities and Futures Ordinance

Based on these factors, all active practice units with AA clients will be separated into categories and will be subject to practice reviews by the Institute according to the following review frequencies:

	Practice units	Frequency of reviews
Standard	With 500 or fewer non-PIE AA clients and with 10 or fewer regulated non-PIE AA clients	6 year cycle (ultimately when achievable based on resources available)
Tier 1	With more than (i) 500 non-PIE AA clients or (ii) 10 regulated non-PIE AA clients	3 year cycle
Tier 2	With more than (i) 1,000 non-PIE AA clients and (ii) 10 regulated non-PIE AA clients	1.5 year cycle
Tier 3	With more than (i) 1,000 non-PIE AA clients; (ii) 20 regulated non-PIE AA clients and (iii) 50 practising partners or directors	Annually

As well as the above factors, the Institute will consider other practice-specific information when determining the review frequency of individual practice units. These factors include:

1. Previous regulatory history – based on past practice review results and regulatory actions taken by the Institute and other regulators
2. Other risk factors identified through the Institute’s regulatory system
3. A small number of reviews randomly selected every year

Whenever practicable, the Institute will include an AML / CTF compliance monitoring review within a full scope on-site practice review visit or a desktop review of an active practice unit with AA clients. The Institute will also carry out a separate AML / CTF compliance monitoring review for an active practice unit without AA clients.

Under the new audit regulatory regime, the Institute will carry out reviews of the quality control system and in-scope audit engagements of an active practice unit in its practice review. There might be overlap between the review work of the inspection programme of the FRC and the practice review programme of the Institute with regard to the quality control system and non-PIE engagements within a listed group audited by a PIE auditor. The Institute and the FRC will liaise about developing a protocol to coordinate the review work of both bodies and minimize the duplication of review work and inconvenience to practice units. Details of such arrangements will be communicated.



If you have any questions, please contact the QA hotline 2287-7850 or email qualityassurance@hkicpa.org.hk.

Sincere regards,

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