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Founded in 1913

香港華人會計師公會

The Society of Chinese Accountants & Auditors

(在香港註冊成立之有限公司)

(Incorporated in Hong Kong as a company limited by guarantee)

19 September 2014

Division 4

Financial Services Branch

Financial Services and the Treasury Bureau

15/F, Queensway Government Offices

66 Queensway

Hong Kong

Dear Sirs

**Re: Proposals to Improve the Regulatory Regime for Listed Entity Auditors
Consultation Paper (“Consultation Paper”)**

In response to the Consultation Paper issued by the Financial Services and Treasury Bureau (“FSTB”) in June 2014, we would like to submit our comments for your consideration.

The Society of Chinese Accountants and Auditors (“SCAA”) is an incorporated body of professional accountants in Hong Kong established since 1913. Our members are practising accountants and representing a significant number of practising firms of accountants, most of which are small and medium sized, in Hong Kong. Our primary objectives include:

- to provide a professional development channel for all practising accountants in Hong Kong,
- to assist members to maintain high standards of professional conduct, and
- to provide services to its members and their members’ staff, and to advance the theory and practice of accountancy.

As a long standing and member care organisation, we realise that the Consultation Paper may have a significant impact on our members. In view of this, SCAA held a members’ forum to discuss the Consultation Paper on 22 July 2014. Mr. Patrick Ho, Deputy Secretary (Financial Secretary) for FSTB, was invited to deliver a briefing session in such forum in order to enable our members to understand the proposal thoroughly and to express their preliminary views on the Consultation Paper. Subsequent to the members’ forum held on 22 July 2014, we had organised another members’ forum on 1 September 2014 (the “Forum”) to conduct a survey (the “Survey”) by going through 21 questions selected from those as set



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out in the Consultation Paper. The Forum was attended by more than 50 participants. During the Forum, we distributed the form with the questions selected (the "Form") to our members and encouraged them to complete, sign and return the Form to SCAA at the reception desk for passing the same to your office on their behalf. After the close of the Forum, 10 copies of the Form (without signature, name and membership number) were collected by SCAA. The results of the Survey are summarised in Appendix I.

Based on the results of the Survey conducted and the verbal comments collected from attendees during the Forum and consultation to other practitioners not attended the Forum, we would like to highlight the following findings and comments for your consideration:

Question	Answer
1	<p>While we do agree to the proposed objective of the reform, i.e. "to enhance the independence of the regulatory regime for auditors of listed entities", we also highlight the Consultation Paper has suggested that such objective "continues to be appropriate in the local context".</p> <p>In our understanding, in current local context there should be no restriction on any practising unit/practitioner to accept an audit engagement subject to the relevant requirements under the Code of Ethics for Professional Accountants issued by the HKICPA. However, the Consultation Paper has proposed that an auditor shall not be engaged for listed entity audit unless the auditor has registered with the FRC.</p> <p>We strongly oppose to the pre-registration requirement imposed on auditors prior to their taking up of any listed entity audit engagement for the following reasons:</p> <ul style="list-style-type: none">- Not consistent with current practice;- Auditors will be differentiated into two categories, i.e. Registered with the FRC and Unregistered with the FRC;- A new set of criteria will be created by the FRC for the practising units to observe when they take up their first listed entity audit engagement; and- Removing fair competition in the market. <p>Currently, Big Four firms take up most of the audit engagements in the</p>



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Question	Answer
	market while only a small portion of listed entities are audited by non-Big Four firms. If pre-registration prior to taking up audit engagement for listed entity is imposed, small-and-medium sized practising unit newcomers will probably be restricted to enter into the market. We expect that any change as suggested by the Consultation Paper should not eliminate any auditors from the listed entity audit market as under current practice. We agree that the FRC should only take actions against auditors after they have been appointed as auditor of the listed entity under the new regime. Furthermore, should registration be enforced, it should allow practitioners, who wish to be registered, to do so without preset conditions other than that "he has to be a fit and proper person to be registered as a listed entity auditor" as set out in paragraph 3.19.
2 and 3	We propose that public interest entities (PIEs) should not be mentioned in the legislation. The proposal should cover listed entities only.
4	Yes.
5(a) and (b)	Yes.
6 to 11	Please see Answer to Question 1.
12 to 15	No comment.
16	Agree.
17 and 18	No. Under current practice, the HKICPA has been performing its statutory functions and exercising its statutory powers. If the FRC exercises its oversight power, it may also have impact on the non-listed entity auditors. Our concern is that if the FRC introduces some measurements to regulate the listed entity and its auditors, these may inevitably be applied to non-listed entities and its auditors unless the measurements introduced by the FRC will only be specifically applicable to the listed entities only.
19 to 21	Yes.
22	No comment.
23	Further elaboration on certain contents, such as "reasonable time" and "within the time", as set out in paragraph 6.17 of the Consultation Paper is required.
24 to 27	Yes.



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Question	Answer
28	Please define in details the scope of "all audit and assurance engagements undertaken by listed entity auditors with listed entities" and clarify that this does not include internal control review, corporate finance work and financial due diligence etc.
29	Yes.
30	No. For fairness, the body who initiates the investigation and prosecution should not be the same body to make judgment whether the listed entity auditor is guilty or not. A third party who is not involved in the investigation should handle the judgement to ensure fairness to all parties concerned.
31	We strongly disagree with the disciplinary action outlined in paragraph 7.27(g) as the 'real' punishment is not the penalty but civil action of such mistake. Therefore, we suggest the maximum penalty should not exceed the amount which is the <u>lower</u> of HK\$5,000,000 or three times of the fee received.
32 to 41	Yes.
42	The change in the regulatory system is designed to enhance investor confidence and protection and, therefore, it should be more appropriate to source future funding for the FRC through transaction levies, which are market cap based. Moreover, to give sufficient comfort over accountability and prudent financial management of the FRC, the government, if not continuing as a funding party, should have a representative on the Council of the FRC in addition to the FRC's annual budget being approved by the Secretary for FSTB.
43(a) and (b)	Yes but subject to our comment on Question 42 above.
43(c)	Subject to our comment on Question 42 above, we consider that levies for listed entity auditors should be directly proportional to the fee income arising from listed entity audit engagements in the previous calendar year, as fee charged varied substantially from firm to firm.
44 and 47	Yes.

We should be pleased to discuss with you in further details if so necessary. Please contact the undersigned via email at info@scaacpa.com.hk, fax at (852) 2526 6434 or telephone at (852) 2869 6680. You may also contact our Mr Philip Fung, Practice Management

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Committee Chairman of SCAA, via email at philip.fung@lak-associates-cpa.com, fax at (852) 2810 7555 or telephone at (852) 2526 5511.

Yours faithfully

Stella Choy

President

The Society of Chinese Accountants and Auditors