



(在香港註冊成立之有限公司)

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

30 March 2009

Ms. Winnie Cheung
The Chief Executive and Registrar
Hong Kong Institute of Certified Public Accountants
37/F Wu Chung House
213 Queen's Road East
Wan Chai, Hong Kong

Email: admission@hki CPA.org.hk

Dear Winnie

Consultation Paper on Proposed Changes on the Practising Certificate Regime

In response to your Consultation Paper on Proposed Changes on the Practising Certificate Regime (“Consultation Paper”) issued in January 2009, we would like to submit our comments on the Consultation Paper.

The Society of Chinese Accountants and Auditors (“SCAA”) is an incorporated body of professional accountants in Hong Kong established since 1913. Our members are practicing accountants and representing a significant number of practicing firms of accountants 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.

SCAA is used to support the stability and harmony of the Hong Kong community and the same within and outside the accounting profession. We are known to support all the changes and measures which aim at the above purposes and are beneficial to the Hong Kong community and the accounting profession and, of course, we are also known to object all proposed changes and measures which may violate such purpose and may not be beneficial to the local community and the accounting profession.

On 6 March 2009, we held a members' forum to seek our members' views on your Consultation Paper. The forum was attended by 150 members of SCAA representing similar number of firms of practising accountants in Hong Kong. We have also conducted a survey on the nineteen questions raised in the Consultation Paper. A summary of the survey findings from 127 members is also enclosed in this letter as Appendix 1. The key comments from our Council together with our survey findings are summarised below.



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Disagreement on Certain Proposals

During the discussions supported with the survey findings, our members in the forum showed particular disagreement, before having thorough consideration, to propose in:

- Expanding the location of ordinary residence to include both Hong Kong and other locations for practising certificate issuance (Question 1);
- Recognising auditing experience from Mainland China as local experience (Question 3);
- Empowering your Council to attach conditions to the practise certificate to be issued to members whose practising certificate has previously been cancelled pursuant to a disciplinary order (Question 14); and
- Allowing practising only in the name of a firm/corporate practice (Question 16).

We are of the opinions that the first two of these proposals should only be practical and effective when your institute can agree with the relevant authority in Mainland China to have reciprocal recognition and extend the same quality assurance and control mechanism to all such experience. Otherwise, it seems that your institute has no right and authority to maintain the same quality assurance and control. Over 90% of our members in the forum disagreed these two proposals.

We, as professional accountants, are of opinion that you might have known the concept of substance over form in accounting for a long while. Whether an accountant is practising in its own name or in the name of a firm/corporate practice is a form issue. Whether an accountant is having a good quality control system is a substance issue. The form of practise of an accountant should and would not affect their quality control system in substance. The only consequence for such requirements if implemented is to demand an accountant practising in its own name to pay for an additional fee to obtain another practising certificate to operate its practise in the name of a firm/corporate practice.

In consequence, our members in the forum showed strong disagreement on the above proposals, in particular the expansion of location of ordinary residence and practising experience. We urge your Council to sincerely and seriously consider the above proposals once again and immediately withdraw the above proposals.

No Consensus on Certain Proposals

Our members' views on certain proposals in your Consultation Paper are quite diversified, including the proposals raised in Question 2, 4, 8, 10 and 18. Our survey also only shows a slightly higher than 50% of members agree or disagree these proposals. In other words, there is no clear consensus on these proposals.

In consequence, we suggest your Council to re-consider the proposals, which have not yet gained sufficient supports to justify the changes, and suspend and further deliberate the proposals.



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Agreement on Certain Proposals

We, as shared above, are known to support all the changes and measures which aim at maintaining the stability and harmony of the Hong Kong community and the accounting profession and are beneficial to the Hong Kong community and the accounting profession. We together with our members in the forum are thus supportive to those proposals and changes which can reduce the burden of the practising accountants and maintain or enhance their operational efficiency.

Other Comments

We would like to draw your attention to the proposal to require any former practising certificate holder who has ceased practice, or whose practising certificate has not been renewed or has been cancelled, or whose membership has been removed should be treated as a new application meeting the requirements of a first time applicant (Question 12). Even our members in the forum showed supportive to the proposal asked in Question 12 but there are still a number of our members disagreed with this proposal. We have also noticed a lot of other accountants which may not be our members disagreeing this proposal as it will forfeit their immediate right to commence their own practice. In consequence, we sincerely urge your Council to seriously consider such proposal during the financial tsunami and in view of the current market sentiment.

We understand that nearly all proposals in the Consultation Paper would require the amendment of the current legislation and rules that would have impact on all practising, non-practising and prospective accountants. Even after your extension in January 2009 to end of March 2009, the consultation comment period still last 85 days only. For your reference, the paragraphs 35 and 42 in the "Due Process Handbook for the IASB" of the International Accounting Standards Committee Foundation of March 2006 can be referred and the IASB normally allows a period of 120 days for comment on a discussion paper and exposure draft. The IASB even allows a longer period on major projects. While the proposals of the Consultation Paper require the amendment of the current legislation, there is no reason to believe that the proposals are not major. We have also not noticed any urgency for the proposals. Thus, we are still not convinced why the consultation comment period would comparatively be such limited. We urge your Council to allow a longer comment or consultation period for all of your major proposals and projects and allow all the stakeholders to have sufficient time to deliberate and evaluate the proposals and projects.

We should be glad to discuss with you our comments in further details if so required. Please contact me or our Council at our email address at info@scaacpa.com.hk, facsimile no. (852) 2526 6434 or telephone no. (852) 2550 8965.

Yours sincerely

Ivy Chua
President, The Society of Chinese Accountants and Auditors

cc: The Council of The Hong Kong Institute of Certified Public Accountants

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Survey on "Consultation Paper on Proposed Changes to the PC Regime" issued in January 2009

	Please choose one by using <input checked="" type="checkbox"/>		Any other comments
	Agree	Disagree	
Question 1: Do you agree that the current requirement for PC holders to be ordinarily resident in Hong Kong should be expanded to being ordinarily resident in both Hong Kong and Mainland China to facilitate cross border practice?	[10]	[104]	
Question 2: Do you agree that first-time PC applicants should possess one year of local auditing experience within the previous two years (instead of three years) prior to the date of the PC application?	[62]	[49]	
Question 3: Do you agree that auditing experience from Mainland China (instead of just Hong Kong) should also be recognised?	[9]	[103]	
Question 4: Do you agree that a requirement should be added to the proforma for testimonial from the employer audit practice to confirm that the experience gained by the applicant for first PC issuance will permit him to take on responsibility that involves making significant judgements in an audit as defined in IFAC's IES 8?	[57]	[46]	
Question 5: Do you agree that the requirement for four years auditing experience should remain unchanged? (If not, what period do you recommend and why?)	[113]	[3]	
Question 6: Do you agree that a fit and proper consideration should be required for all PC applicants?	[71]	[28]	
Question 7: Do you agree that the Institute should move away from annual re-application for a PC to a simpler annual renewal of a PC process?	[99]	[6]	
Question 8: Should existing PC holders be required to satisfy the one-year recent local auditing experience gained in Hong Kong or China by declaring annually that they have been involved in audits of historical financial information in the past year either as engagement leaders or professionals responsible for significant judgements in an audit (as defined in IES 8)?	[59]	[42]	
Question 9: Do you agree that a transitional period should be given to existing PC holders to satisfy the one-year recent local auditing experience requirement for renewing their PC? Is the proposed transitional period of two years sufficient? (If not, how long should it be?)	[72] [67]	[15] [15]	
Question 10: Do you agree that a fit and proper consideration and the proposed declaration should be required for all PC annual renewals?	[61]	[46]	

Survey on "Consultation Paper on Proposed Changes to the PC Regime" issued in Jan. 2009

	<u>Please choose one by using √</u>		<u>Any other comments</u>
	<u>Agree</u>	<u>Disagree</u>	
Question 11: Do you agree that the requirement to declare their commencement of practice for annual renewal can be removed?	[82]	[11]	<hr/>
Question 12: Do you agree that any former PC holder who has ceased practice, or whose PC has not been renewed or has been cancelled, or whose membership has been removed should be treated as a new application meeting the requirements of a first time applicant?	[59]	[30]	<hr/>
Question 13: Do you agree that individuals whose PC was cancelled pursuant to a disciplinary order should be eligible to reapply for a PC only after the expiry of the membership removal or PC cancellation period stated in the disciplinary order?	[111]	[8]	<hr/>
Question 14: Do you agree that Council should be empowered to attach conditions to the PC to be issued to members whose PC has previously been cancelled pursuant to a disciplinary order?	[20]	[58]	<hr/>
Question 15: Do you agree that all references to "full time practice" in section 10 of the PAO should be removed?	[92]	[33]	<hr/>
Question 16: Do you agree that the concept of a registered audit member practice should be introduced with individuals allowed to practise only in the name of a firm / corporate practice so registered with the Institute?	[36]	[66]	<hr/>
Question 17: Do you think that the current requirement for a corporate practice to identify the director responsible for an audit engagement in the engagement letter and the audit report should be extended to firms? (If not, please explain your reasons why it should not be extended.)	[75]	[25]	<hr/>
Question 18: Should the current ratio of PC holder partner / director and non-PC holder partner / director of a CPA firm / corporate practice be relaxed from 2 : 1 to 51% : 49%?	[52]	[36]	<hr/>
Question 19: Do you agree that firms and corporate practices should be allowed to appoint authorised signatories who are fulltime employees of the practice and PC holders registered with the Institute, to sign audit reports on behalf of the practice? Should sole proprietorship firms / sole-practising member corporate practices be allowed to appoint no more than one non-employee authorized signatory?	[69]	[29]	<hr/>
	[42]	[47]	<hr/>

Any further comment:

Name (optional):

Any other comments

<u>No.1</u>	<ul style="list-style-type: none"> • Approval may be granted on a case to case basis • Please make ordinarily resident more specific or change the name • Macau? Taiwan? • Should be consistent One Nation Two Systems • Too wide scope • HK resident can be defined by having financial & family ties in HK. CPA working in PRC can have this status even work more than 1/2 year in PRC
<u>No.2</u>	<ul style="list-style-type: none"> • It may discourage newly/recently qualified accountants to be engaged in the auditing profession
<u>No.3</u>	<ul style="list-style-type: none"> • Whether HKICPA has to conduct practice review in Mainland China's counterparts offices? • Limit to listed co in PRC • Audit is only premature in the audit of unlisted clients. As most of audit experience are gained from the audit of the books of accounts of unlisted clients. Therefore the audit experience in the PRC is not up to satisfactory level. • Strongly disagree • Agree when PRC adopt IFRS fully • Convergence at the listing level only- not on all level of companies. Underlying and principles are different Can HKICPA regulate to this reciprocal arrangement esp those office in PRC. • Subject to the audit on IAS
<u>No.4</u>	<ul style="list-style-type: none"> • Significant judgement?
<u>No.5</u>	<ul style="list-style-type: none"> • First time & not reapplication • Six years
<u>No.6</u>	<ul style="list-style-type: none"> • For integrity & character "Yes", others "No" • What is fit & proper • The criteria for fit & proper consideration should be detailed set down in PAO • Must define "fit & proper". How to regulate to ensure "fit & Proper"
<u>No.7</u>	<ul style="list-style-type: none"> • Subject to name change only
<u>No.8</u>	<ul style="list-style-type: none"> • The auditing experience as indicated in Question 8 should be confined to experience gained in Hong Kong only. • Auditing experience should not be a pre-requisite for a PC holder • If you only do tax or consulting for over 1 year you will lost your licence • HK experience
<u>No.9</u>	<ul style="list-style-type: none"> • 3 years • remain the existing • 4 years • number of years should be more than 5 years
<u>No.10</u>	<ul style="list-style-type: none"> • It appears that "fit and proper" has not been clearly stated in the Professional Accountants Ordinance at this stage. Accordingly, why PC holders are needed to make such a declaration? • For integrity & character "Yes", others "No" • Please clarify what is meaning of fit and proper • Define fit & proper • How to define "Fit & Proper" • Not clearly defined • Difficult to define fit and proper • If under investigate may not be a fit & proper CPA. Need HKICPA to define what is "Fit & Proper" before discuss • Must define "fit & proper". How to regulate to ensure "fit & Proper"

No.11	
No.12	<ul style="list-style-type: none"> • It would be unfairly to the former PC holder. He/she should not be treated as a new application at all. • Hidden agenda? • Existing already does the same thing
No.13	<ul style="list-style-type: none"> • Should specify
No.14	<ul style="list-style-type: none"> • Need to specify the conditions & an appeal system be set up and the condition must relate to cause of disciplinary order • Relevant conditions • If Council is empowered to attach conditions to the PC, the member concerned should be given a right to appeal. • Specific which type of disciplinary order & which conditions • Transparency needed • Re his fault • Appeal system • Condition(s) to be imposed should be related to previous disciplinary action only • Too wide • What are the conditions • Qualify condition • Unless specify conditions or allow appeal process • Condition should be only related disciplinary action • Conditions not clearly defined? Lack of transparency • If imposed, the conditions should be restricted to the disciplinary order • Conditions should be more specific • But subject to clarification and should be restricted related issue only • Clarify the details of conditions • Conditions must be related and restricted to conducts disciplinary • What conditions? • Clearly define conditions • HKICPA should specify what conditions are likely to apply. HKICPA pls define types of "condition". Conditions need to have an appeal procedure • Except appeal procedure enacted • Please clarify the conditions • Should be clarify the "empowered" to what extent • The conditions imposed by the council should be clearly defined • Should specify
No.15	
No.16	<ul style="list-style-type: none"> • Registered audit member should be allowed to practise in own name, not in name of a firm. • Waive firm registration fee • Why doctors and lawyers can have PC holder practice in own name. Why not accountants? • Agree if no need to pay more fees to HKICPA than Sole Proprietorship • Unnecessary • Unless only one firm normal fee paid but not both • Use firm name. Substance over form. Charities need natural person to sign off by honorary auditors.
No.17	<ul style="list-style-type: none"> • The whole firm is liable but not only individual • Too many information disclosed. Not necessary • Minimize the damage • Unnecessary. Liability of firm is joint and several • Partners in a firm are joint and severally liable unless the laws is changed • Once reports are signed. Partners are J & S liable • Risk control limited control

No.18	<ul style="list-style-type: none"> • In case of a partnership of two persons only, the ratio be 50%:50% only? • Should be 50% to 50% available to all • Practice should identify this to client
No.19	<ul style="list-style-type: none"> • Doesn't matter • Sole prop should allow more non-CPA persons authorized signatory. Practice based on firm is expensive
Any further comments	<ul style="list-style-type: none"> • Practising in name of a firm will trigger further cost annually such as registration fees, etc. • What is the financial burden if we accept "China Matter"? Do we have to set up many offices in China? Just see how expensive our HK office. • Fees paid to HKICPA for a Corporate Practice is too much. Should reduce significantly. • To maintain a CPA Corporate Practice is too expensive in HK in terms of fees paid to HKICPA • This consultation paper has not been thoroughly prepared and explained. Should re-do the consultation paper • The issue of 2 payment of PC/personal & co PC • HKICPA should only charge PC holder fee but not firm fee also • The sole practitioner with firm name should not be required to pay two types of fee • 會費太貴, Consultation 太急 • Suggested receives \$4,000 membership /PC fee for sole prop, instead of \$8,000 • Small practice, one man co, one licence one fee • Voting of these questions should be limited to the existing PC holders only