

# **Guideline on Notification of Changes in Auditor Appointments**

(With effect from 1 February 2021)

# Financial Reporting Council

## Guideline on Notification of Changes in Auditor Appointments

### Summary

1. This Guideline is published by the Financial Reporting Council (“**FRC**”) under section 13 of the Financial Reporting Council Ordinance (Cap 588) (“**FRCO**”) and sets out the requirements for auditors to notify the FRC of changes in PIE auditor appointments. The FRC determines the frequency of inspection of PIE auditors based on the number of PIE auditor appointments and therefore current and accurate information on such appointments is required under section 21E(1)(a) of the FRCO for the FRC to make such determinations.
2. This Guideline applies to the following PIE auditors (“**relevant PIE auditors**”):
  - (a) a practice unit registered under Division 2 of Part 3 of the FRCO (registered PIE auditor); and
  - (b) a Mainland auditor recognized under section 20ZT of the FRCO.
3. This Guideline does not apply to overseas auditors recognized under Division 3 of Part 3 of the FRCO (other than Mainland auditors recognized under section 20ZT of the FRCO). The recognition of such an overseas auditor is specific to the overseas entity making the application for recognition and the overseas entity concerned must inform the FRC, within 14 days after the

overseas auditor has accepted the appointment to carry out a PIE engagement or after such appointment is terminated, of such acceptance or termination. Further notification by overseas auditors is therefore not required under this Guideline.

4. In this Guideline, the terms “PIE”, “PIE engagement” and “PIE auditor” shall have the same meanings as defined under the FRCO.

#### FRC’s power of inspection

5. Under section 21B of the FRCO, the FRC may direct an inspector to carry out an inspection in relation to any PIE engagement (as defined in Part 1 of Schedule 1A of the FRCO) completed by a PIE auditor, including in particular the following type of PIE engagement under section 1 of Part 1 of Schedule 1A:

The preparation of an auditor’s report on a PIE’s annual financial statements or annual accounts required to be prepared under section 379 of the Companies Ordinance (Cap 622)<sup>1</sup>, the Main Board or GEM Listing Rules<sup>2</sup> or any relevant code issued by the Securities and Futures Commission<sup>3</sup> (“specified PIE engagement”).

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<sup>1</sup> Under section 396 of the Companies Ordinance (Cap 622), a company is required to appoint the auditor of the company for a financial year by a resolution passed at an annual general meeting.

<sup>2</sup> Rule 13.88 of the Main Board Listing Rules and Rule 17.100 of the GEM Listing Rules require an issuer at each annual general meeting to appoint an auditor to hold office until the next annual general meeting.

<sup>3</sup> Likewise, for listed collective investment schemes, under the SFC Code on Unit Trusts and Mutual Funds Section II Chapter 5 5.15 and 5.17, the management company of a scheme is required to appoint, at the outset of the scheme and upon any vacancy, an auditor for the scheme, and must cause the scheme’s annual report to be audited by the auditor.

6. As stated in the FRC's Inspection Policy Statement, PIE auditors that audit more than 100 PIEs will be inspected annually and the remaining PIE auditors at least once in every three-year cycle.

### Principles

7. In order to determine the frequency of inspection of a PIE auditor, the FRC requires up to date information from relevant PIE auditors on the number of PIEs for whom they have been appointed as auditor to perform the specified PIE engagement and any changes to those appointments.
8. For the purpose of selecting specified PIE engagements for inspection purposes, the FRC also requires information from relevant PIE auditors on the names of the PIEs for whom they have been appointed as auditor to perform the specified PIE engagements.
9. Under section 21E(1)(a) of the FRCO, the FRC has the power to require, by written notice, any PIE auditor to provide relevant information to the FRC for determining the frequency of inspection to be carried out in relation to the PIE auditor.
10. The purpose of this Guideline is to lay down stipulations for relevant PIE auditors to follow, to enable the FRC to receive accurate and timely information referred to in paragraphs 7 and 8 above.

## Requirements

11. This Guideline obliges relevant PIE auditors to provide written notice to the FRC of any of the following events, no later than 7 business days after the date of such events:
  - (a) a new appointment to take office as an auditor of a PIE, including a new appointment approved by shareholders in a general meeting and a new appointment by the directors of a PIE to fill a casual vacancy; and
  - (b) any cessation to hold office as an auditor of a PIE, including resignation or retirement by the PIE auditor or termination by the PIE of the appointment.
  
12. Where a written notice is required under paragraph 11 above, the notice shall be addressed to the Department of Inspection, Financial Reporting Council and is to include:
  - (a) The name and address of the relevant PIE auditor;
  - (b) The stock code and name of the PIE;
  - (c) The date of the event as specified in paragraph 11 (a) or (b) above; and
  - (d) For outgoing auditors, the most recent financial period for which the relevant PIE auditor completed a specified PIE engagement.
  
13. A PIE auditor is not obliged to notify the FRC of appointments to conduct PIE engagements defined in sections 2 and 3 of Part 1 of Schedule 1A of the FRCO.

14. For the purpose of paragraph 11 (a), the date of the new appointment shall be the date on which the appointment to take office as auditor formally takes effect, irrespective of whether an engagement letter has been signed or become effective between the PIE and the relevant PIE auditor. Examples of the date of the new appointment include the effective date of the resolution of a PIE's directors to fill a casual vacancy; the date of the general meeting at which a resolution is passed appointing an auditor, or where the resolution specifies that the appointment is to take effect at a future date, that date; and, for an incumbent auditor, the date of initial listing whereby an entity becomes a PIE.
15. For the purpose of paragraph 11 (b) above, the date of cessation shall be the date on which the relevant PIE auditor formally ceases to hold office as auditor of the PIE, whether by way of resignation, retirement or termination. Examples of the date of cessation include the date of the general meeting at which a resolution is passed to remove an incumbent auditor with immediate effect; the date of the annual general meeting at which an incumbent retires; and the day on which a written notice is given to the PIE informing it of resignation or, if the notice specifies that a resignation will take effect at a future time, at that time. For the avoidance of doubt, a relevant PIE auditor shall not be deemed to have ceased holding office as an auditor of a PIE by virtue only of the fact that an engagement letter has expired or the relevant PIE auditor has completed a specified PIE engagement by signing the auditor's report.
16. The purpose of this Guideline is to enable the FRC to have accurate and timely information on the number and names of PIE auditor appointments and there

is no obligation to notify the FRC under paragraph 11 above where there has been no change to the appointment of the auditor holding office as such. Thus there is no need to notify the FRC of the following events:

- (a) any re-appointment to continue in office as auditor of a PIE; or
- (b) any confirmation by shareholders in a general meeting of an appointment of an auditor by the directors of a PIE to fill a casual vacancy.

17. Failure by any relevant PIE auditor to comply with this Guideline:

- (a) may cause the FRC to consider whether such failure adversely reflects on the relevant PIE auditor's ability to comply with regulatory obligations; and
- (b) may cause the FRC to consider imposing requirements under section 21E(1) on the relevant PIE auditor to provide the information referred to in paragraphs 11 and 12 above.

18. This Guideline shall take effect on 1 February 2021.

Department of Inspection  
Financial Reporting Council