

Outline of the AFRC's Inspection Process for PIE Auditors

Introduction

1. Under Part 3A of the Accounting and Financial Reporting Council Ordinance (Cap. 588) ("**AFRCO**"), the Accounting and Financial Reporting Council ("**AFRC**") is empowered to carry out inspections in relation to PIE engagements completed by PIE auditors ("**Regulatees**") on or after 1 October 2019 for the purpose of ascertaining whether the Regulatees have complied with, or are likely to be able to comply with (i) a provision of the AFRCO, or (ii) a professional standard. A PIE auditor is a recognized or registered PIE auditor.
2. Under Part 3AA of the AFRCO, the AFRCO is empowered to carry out inspections in relation to practice units for the purpose of determining whether the practice units have observed, maintained or applied a PAO professional standard(s).
3. A registered PIE auditor is also a practice unit and is therefore subject to the AFRC's inspection powers under both Parts 3A and 3AA of the AFRCO.
4. Pursuant to section 2(1) of the AFRCO, professional standards include PAO professional standards. Professional standards include the "Code of Ethics for Professional Accountants" published by The Hong Kong Institute of Certified Public Accountants, which contain the "Guidelines on Anti-Money Laundering and Counter-Terrorist Financing for Professional Accountants" ("**AML/CTF Guidelines**"). Therefore, inspections under both Parts 3A and 3AA of the AFRCO may consider compliance with the AML/CTF Guidelines.
5. For information about the AFRC's inspection powers, please refer to the AFRC's (i) "Policy Statement for Inspection of PIE Auditors with respect to PIE Engagements"; (ii) "Policy Statement for Inspection of Practice Units with respect to engagements other than PIE Engagements"; and (iii) "Policy Statement for Inspection of Practice Units with respect to compliance with Anti-Money Laundering and Counter-Terrorist Financing Requirements" which are available on the AFRC's website (www.afrc.org.hk).
6. This document is intended to provide a brief overview of the AFRC's process for inspections under both Parts 3A and 3AA of the AFRCO in relation to Regulatees, which has been designed to ensure that all Regulatees are treated fairly and impartially.
7. For an outline of the AFRC's inspection process in relation to practice units that are not registered PIE auditors, please refer to the "Outline of the AFRC's Inspection Process for Practice Units that are not PIE Auditors", which is available on the AFRC's website (www.afrc.org.hk).

Definitions

8. In this document, the following terms have the meanings defined in the AFRCO as set out below (the definitions in the AFRCO shall prevail in case of any inconsistency):

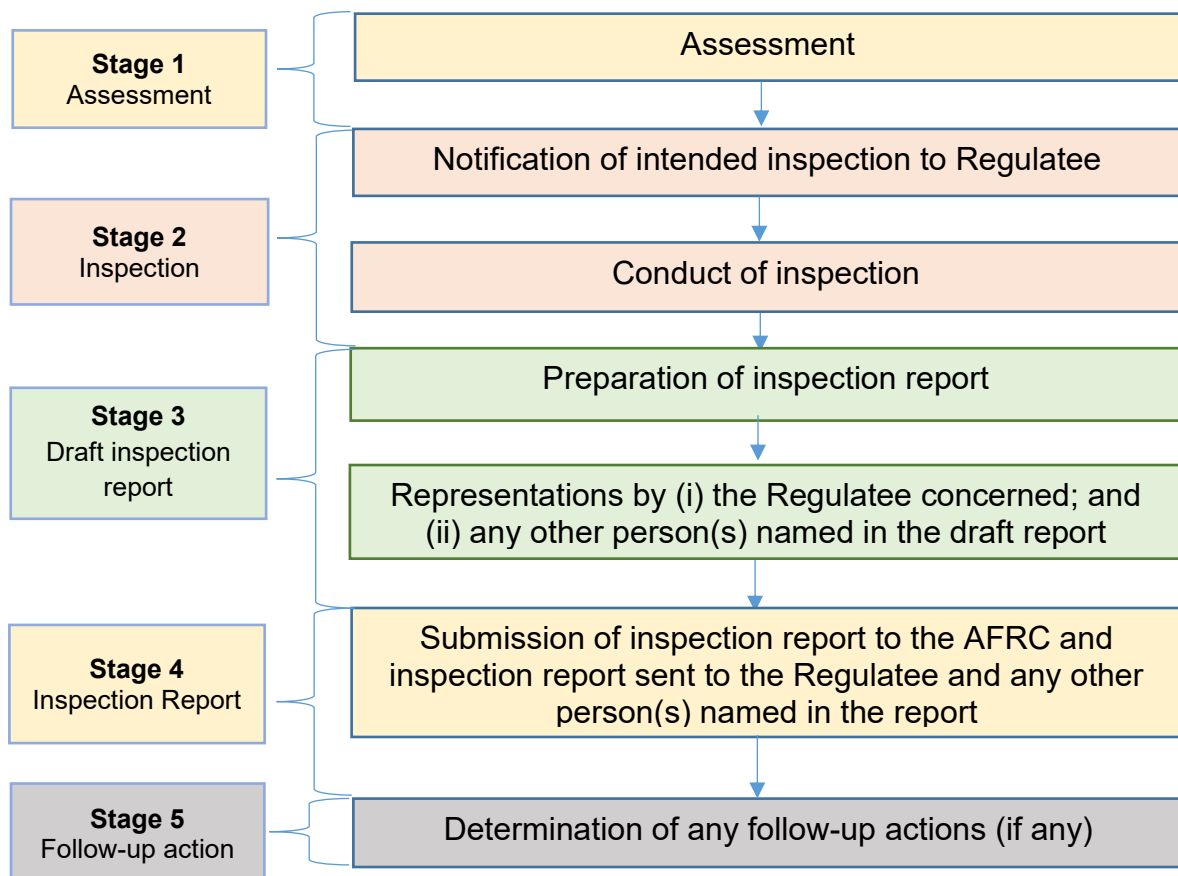
Terms	Meanings defined in the AFRCO	Section under the AFRCO
certified public accountant (“CPA”)	A CPA means a person registered as a certified public accountant by virtue of section 22 of the Professional Accountants Ordinance (Cap. 50) (“PA Ordinance”).	2(1)
CPA firm	A CPA firm means: <ul style="list-style-type: none"> • a CPA (practising) who practises accountancy on the accountant's own account under a firm name registered under Division 2 of Part 2A of the AFRCO; or • a firm of CPAs (practising) that practises accountancy in partnership and is registered under Division 2 of Part 2A of the AFRCO. 	2(1)
CPA inspector	An CPA inspector means a person appointed as a CPA inspector under section 20ZZA of the AFRCO.	2(1)
certified public accountant (practising) (“CPA (practising)”)	A CPA (practising) means a CPA holding a practising certificate.	2(1)
corporate practice	A corporate practice means a company registered as a corporate practice under Division 3 of Part 2A of the AFRCO.	2(1)
PAO professional standard	A PAO professional standard means any statement of professional ethics, or standard of accounting, auditing or assurance practices, issued or specified, or deemed to have been	2(1)

	issued or specified, under section 18A of the PA Ordinance.	
inspector	An inspector means a person appointed as an inspector under section 21A of the AFRCO.	2(1)
Listing Rules	<p>The Listing Rules mean:</p> <ul style="list-style-type: none"> • the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited; or • the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited, <p>approved by the Securities and Futures Commission under section 24 of the Securities and Futures Ordinance (Cap. 571), and as in force at the material time.</p>	2(1)
public interest entity (“ PIE ”)	A PIE means a listed corporation the listed securities of which comprise at least shares or stocks, or a listed collective investment scheme.	3(1)
PIE auditor	A PIE auditor means a registered or recognized PIE auditor.	3A
PIE engagement	<p>A PIE engagement means any of the following types of engagements for the preparation of:</p> <ul style="list-style-type: none"> • an auditor’s report on a PIE’s financial statements/ annual accounts required by section 379 of the Companies Ordinance (Cap. 622), the Listing Rules or any relevant code; • a specified report required to be included in a listing document for the listing of a corporation’s shares or stocks or for the listing of a collective investment scheme; or • an accountant’s report required under the Listing Rules to be included in a circular 	3A; Part 1 of Schedule 1A

	issued by a PIE for a reverse takeover or a very substantial acquisition.	
professional standard	<p>A professional standard means:</p> <ul style="list-style-type: none"> • any statement of professional ethics, or standard of accounting, auditing or assurance practices, issued or specified, or deemed to have been issued or specified, under section 18A of the PA Ordinance; • any standard on professional ethics, or accounting, auditing or assurance practices, issued or specified by the International Accounting Standards Board, the International Auditing and Assurance Standards Board or the International Ethics Standards Board for Accountants; • any standard on professional ethics, or accounting, auditing or assurance practices, comparable to those referred to above which is allowed by the Securities and Futures Commission pursuant to the relevant code or by the Hong Kong Exchanges and Clearing Limited pursuant to the Listing Rules; or • any standard on professional ethics, or accounting, auditing or assurance practices, specified in the Listing Rules. 	2(1)
quality control system	The quality control system, in relation to a practice unit (as defined in section 2(1) of the AFRCO) or registered PIE auditor, means the policies and procedures established and maintained by the practice unit or auditor to ensure that a PIE engagement carried out by the practice unit or auditor complies with the applicable professional standards and legal and regulatory requirements.	2(1)
practice unit	<p>A practice unit means:</p> <ul style="list-style-type: none"> • a CPA (practising) who practises accountancy on the accountant's own 	2(1)

	<p>account under the accountant's own name as registered under section 22(2) of the PA Ordinance;</p> <ul style="list-style-type: none"> • a CPA firm; or • a corporate practice. 	
recognized PIE auditor	A recognized PIE auditor means an overseas auditor recognized under Division 3 of Part 3, including a Mainland auditor recognized under section 20ZT of the AFRCO.	3A(1)
registered PIE auditor	A registered PIE auditor means a practice unit registered under Division 2 of Part 3.	3A(1)

Inspection process



Stage 1

Assessment

9. The AFRC will conduct inspections from time to time. When deciding whether to inspect a particular Regulatee in any particular year, and the ambit of the inspection to be carried out, the AFRC will consider, amongst other things:
- (a) the AFRC's assessment of the risks associated with the Regulatee's practice based on available information (including the results of any prior inspection);
 - (b) the size of the Regulatee, including but not limited to the number of clients and practising partners or directors of the Regulatee during the period;
 - (c) the complexity of the practice and the engagements of the Regulatee;
 - (d) the Regulatee's regulatory history;
 - (e) the period of time since the Regulatee was last inspected by the AFRC;
 - (f) the level of public interest involved in the Regulatee's PIE engagements and engagements that may be subject to inspection under Part 3AA of the AFRCO; and/or
 - (g) the AFRC's available resources.
10. For the AFRC's determination of the frequency of inspection, the AFRC may from time to time require a Regulatee to provide various information, including but not limited to:
- (a) the number of PIE engagements that the Regulatee has undertaken or carried out within a specified period;
 - (b) the full name of the PIEs that have appointed the Regulatee to undertake PIE engagements; or
 - (c) any other information relating to the Regulatee.

Stage 2

- (i) Notification of intended inspection to the Regulatee

11. The AFRC has the power to appoint, in writing, an employee of the AFRC, or any other person with the consent of the Financial Secretary, as an inspector or CPA inspector for the purposes of the AFRCO. An employee of the AFRC or any other person with the consent of the Financial Secretary may be appointed under Part 3A of the AFRCO (as an inspector) and/or Part 3AA of the AFRCO (as a CPA

inspector), to conduct inspections (in respect of PIE engagements or otherwise, as the case may be).

12. Before the start of an inspection, an inspector (or CPA inspector, as the case may be) will notify the Regulatee in writing of the time the AFRC plans to conduct the inspection.
13. An inspector (or CPA inspector, as the case may be) may also request the Regulatee to provide certain basic information to assist in planning the inspection, including but not limited to information about the PIE engagements conducted by the Regulatee, the personnel performing the PIE engagements, and the Regulatee's quality control system.
14. The inspection may be conducted in phases if the AFRC considers it necessary in the circumstances, and an inspector (or CPA inspector, as the case may be) will notify the Regulatee accordingly.

(ii) Conduct of inspection

15. The inspection will normally be conducted by way of an onsite inspection. The inspection fieldwork will be carried out at a reasonable time (usually during office hours), and at the Regulatee's registered office or other registered place of business. It is expected that the inspector (or CPA inspector, as the case may be) will be provided with adequate office facilities and the Regulatee's assistance to enable the inspection to be performed effectively and efficiently.
16. The Regulatee shall comply with their statutory duties and fully cooperate with the AFRC at all times during the inspection, including but not limited to:

For an inspection in relation to a PIE engagement under Part 3A of the AFRCO

- (a) giving access to the records or documents requested by the inspector;
- (b) producing to the inspector within the time and at the place specified the records or documents requested by the inspector; and
- (c) answering any question regarding records or documents, or any activity that was carried out in the course of, or which may affect, the PIE engagement(s).

For an inspection in relation to practice unit under Part 3AA of the AFRCO

- (a) produce or give access to the CPA inspector any specified document in such person's possession or control that the CPA inspector has reasonable cause to believe to be relevant to the inspection;
- (b) give the CPA inspector such explanation or particulars in respect of the specified document required; and

- (c) give the CPA inspector all assistance in connection with the inspection that such person is reasonably able to give.

Stage 3

(i) Preparation of inspection report

17. At the conclusion of an inspection, the inspector (or CPA inspector, as the case may be) will prepare an inspection report, which will be submitted to the AFRC (see Stage 4). If required by the AFRC, the inspector (or CPA inspector, as the case may be) will prepare an inspection report at any other stage of the inspection and submit the report to the AFRC.

(ii) Representations by the (i) Regulatee and (ii) Other Named Persons

18. The inspector (or CPA inspector, as the case may be) must give the Regulatee and any other person(s) named in a draft inspection report (the "**Other Named Persons**") a reasonable opportunity to be heard in respect of the matters set out in the draft inspection report, before inspection report is submitted to the AFRC. This will be done by allowing the Regulatee to make representations in respect of the draft inspection report. The Regulatee and any Other Named Persons will be informed of this right when the draft inspection report is sent to them for this purpose.
19. Under normal circumstances, the Regulatee and any Other Named Persons will be given 21 days to make any representations in writing. However, if the Regulatee or any Other Named Persons considers it necessary to make oral representations, they may request a meeting with the inspector (or CPA inspector, as the case may be). Such a meeting will only be held if the inspector (or CPA inspector, as the case may be) considers fairness in the circumstances requires it.
20. The Regulatee and any Other Named Persons may make such representations to the inspector (or CPA inspector, as the case may be) as they consider appropriate. However, if the Regulatee or any Other Named Persons does not agree with the contents set out in the draft inspection report, they should identify the matters with which they disagree and explain why they disagree. They should further provide any evidence in their possession which may substantiate their representations.

Stage 4

Submission of inspection report

21. When all representations have been received or the deadline for making representations has otherwise passed, the inspector (or CPA inspector, as the case may be) will consider any representations from the Regulatee and any Other Named Persons which have been submitted. The inspector (or CPA inspector,

as the case may be) may modify the draft inspection report in the light of such representations.

22. The inspector (or CPA inspector, as the case may be) shall then finalise the inspection report, and submit the final inspection report to the AFRC. After submission, the inspector (or CPA inspector, as the case may be) will send the final inspection report to the Regulatee and any Other Named Persons.
23. If it is necessary, the Regulatee will be asked to make a proposal to the AFRC in respect of the remedial actions the Regulatee intends to take in response to the inspection report.

Stage 5

Follow-up actions

24. Having regard to the final inspection report, and the Regulatee's proposed remedial actions (if any), the AFRC will determine whether to take any follow-up actions under section 21H of Part 3A and/or section 20ZZE of Part 3AA of the AFRCO (and if so what actions to take).

Disclaimer

25. This document provides a summary for reference only. It is not legal advice. Regulatees should seek their own legal advice. In the event of any inconsistency between this document and the AFRCO, the AFRCO shall prevail.