

Outline of the AFRC's Inspection Process for Practice Units that are not PIE Auditors

Introduction

1. Under Part 3AA 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 practice units ("**Regulatees**") for the purpose of determining whether the Regulatees have observed, maintained or applied a PAO professional standard(s).
2. Pursuant to section 2(1) of the AFRCO, PAO 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 Part 3AA of the AFRCO may consider compliance with the AML/CTF Guidelines.
3. For information about the AFRC's inspection powers, please refer to the AFRC's (i) "Policy Statement for Inspection of Practice Units with respect to engagements other than PIE Engagements"; and (ii) "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).
4. This document is intended to provide a brief overview of the AFRC's inspection process for inspections under Part 3AA of the AFRCO in relation to Regulatees, which has been designed to ensure that all Regulatees other than PIE auditors, are treated fairly and impartially.
5. Please note that a registered PIE auditor is also a practice unit (hence a Regulatee). However, it should be noted that the AFRC has separate powers of inspection under Part 3A of the AFRCO in relation to "PIE engagements" (as defined in section 3A(1) of the AFRCO). This Outline is not applicable to the PIE engagements conducted by PIE auditors. For an outline of the inspection process in relation to such PIE auditors, please refer to the "Outline of the AFRC's Inspection Process for PIE Auditors", which is available on the AFRC's website (www.afrc.org.hk).

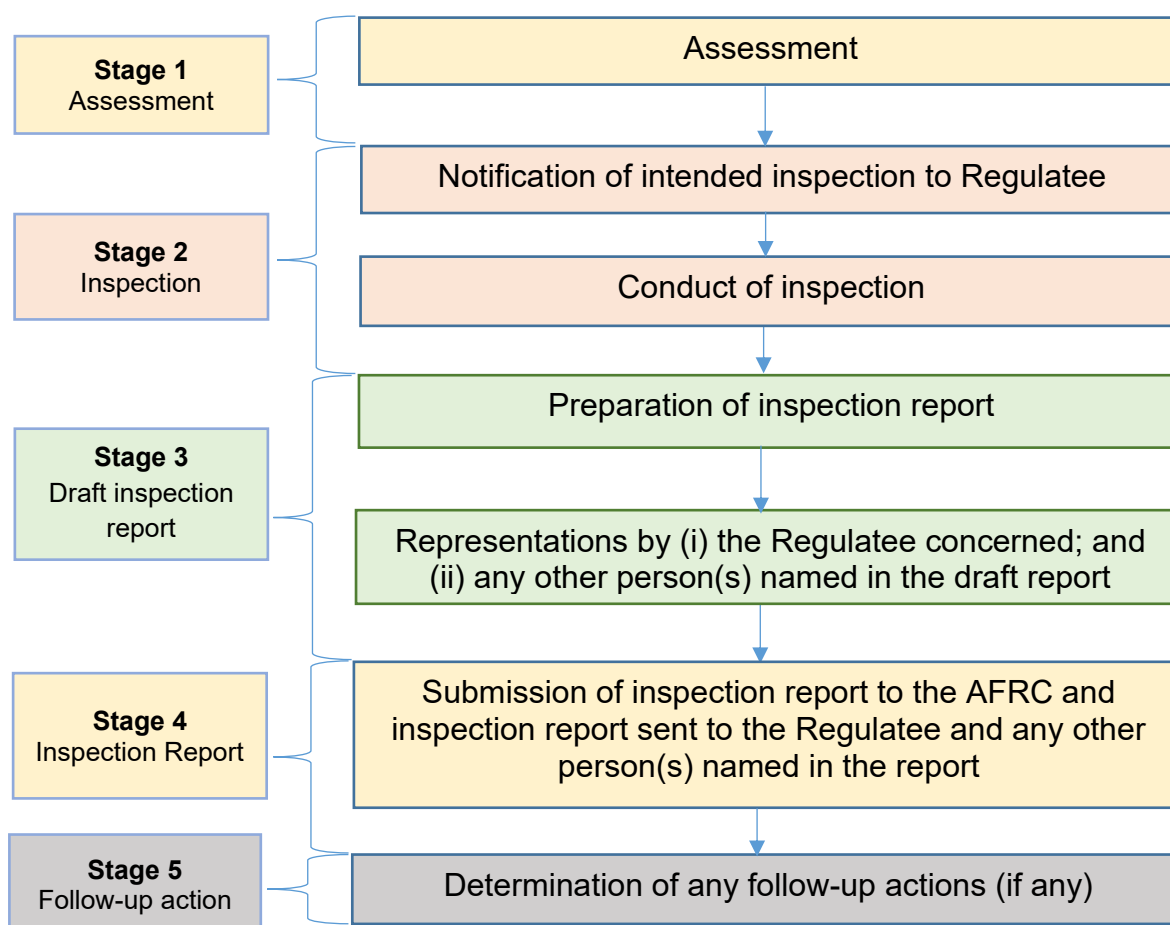
Definitions

6. 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.	
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 account under the accountant's own name as registered under section 22(2) of the PA Ordinance; • a CPA firm; or • a corporate practice. 	2(1)
registered PIE auditors	A registered PIE auditor means a practice unit registered under Division 2 of Part 3.	3A(1)

Inspection process



Stage 1

(i) Assessment

7. 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 that 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; and/or

(f) the AFRC's available resources.

8. For the AFRC's determination of the frequency of inspection, the AFRC may from time to time require a Regulatee to provide information relating to the Regulatee and its practices.

(ii) Manner of inspection

9. The CPA inspector will conduct an inspection in relation to a Regulatee either by way of (i) an on-site inspection, or (ii) a desktop review. Desktop review is generally carried out for practice units which do not have certain predetermined risk factors, e.g., whether or not the practice unit audits licensed corporations or brokerage clients or more than a certain number of audits, etc.

10. In the context of an on-site inspection, the CPA inspector will conduct the inspection at the Regulatee's registered office or other registered place of business.

11. In the context of a desktop review, the inspection takes place remotely at the AFRC's office by way of the CPA inspector reviewing such information, records and documents of the Regulatee as requested.

Stage 2

- (i) Notification of intended inspection to Regulatee
- 12. 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 a CPA inspector for the purposes of the AFRCO.
- 13. Before the start of an inspection, a CPA inspector will notify the Regulatee in writing of the time and manner the AFRC plans to conduct the inspection.
- 14. A CPA inspector may also request the Regulatee to provide certain basic information to assist in planning the inspection, including but not limited to information about the Regulatee's clients, engagements, personnel and quality control system.
- 15. The inspection may be conducted in phases if the AFRC considers it necessary in the circumstances, and a CPA inspector will notify the Regulatee accordingly.
- (ii) Conduct of inspection

On-site inspection

- 16. The on-site 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 CPA inspector will be provided with adequate office facilities and the Regulatee's assistance to enable the inspection to be performed effectively and efficiently.

Desktop review

- 17. A desktop review will be carried out by the CPA inspector at the AFRC's office.
- 18. Notwithstanding the manner of inspection, the Regulatee shall comply with its statutory duties and fully cooperate with the CPA inspector at all times during the inspection, including but not limited to:
 - (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

19. At the conclusion of an inspection, the CPA inspector will prepare an inspection report, which will be submitted to the AFRC (see Stage 4). If required by the AFRC, the inspector 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

20. The CPA inspector must give the Regulatee and any other person(s) named in the 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.

21. 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. Such a meeting will only be held if the CPA inspector considers fairness in the circumstances requires it.

22. The Regulatee and any Other Named Persons may make such representations to the CPA inspector 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

23. When all representations have been received or the deadline for making representations has otherwise passed, the CPA inspector will consider any representations from the Regulatee and any Other Named Persons which have been submitted. The CPA inspector may modify the draft inspection report in the light of such representations.

24. The CPA inspector shall then finalise the inspection report, and submit the final inspection report to the AFRC. After submission, the CPA inspector will send the final inspection report to the Regulatee and any Other Named Persons.

25. 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

26. 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 20ZZE of Part 3AA of the AFRCO (and if so what actions to take).

Disclaimer

27. 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.