

Policy Statement for Inspection of PIE Auditors with respect to PIE Engagements

Introduction

1. The Accounting and Financial Reporting Council (“**AFRC**”) is an independent body established under the Accounting and Financial Reporting Council Ordinance (Cap. 588) (“**AFRCO**”).
2. Under Part 3A of the AFRCO, the 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.
3. Please note that a registered PIE auditor is also a practice unit (as defined in section 2(1) of the AFRCO) and is therefore subject to the AFRC’s inspection powers under Part 3AA of the AFRCO (other than any PIE engagements conducted by a registered PIE auditor). For details of the AFRC’s policy for inspections of practice units with respect to engagements other than PIE engagements, please refer to the “Policy Statement for Inspection of Practice Units with respect to engagements other than PIE Engagements”, which is available on the AFRC’s website (www.afrc.org.hk).

Definitions

4. In this Policy Statement, 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
inspector	An inspector means a person appointed as an inspector under section 21A of the AFRCO.	2(1)
Listing Rules	The Listing Rules mean: <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 	2(1)

	of the Stock Exchange of Hong Kong Limited, 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.	
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	A PIE engagement means any of the following types of engagements for the preparation of: <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 issued by a PIE for a reverse takeover or a very substantial acquisition. 	3A; Part 1 of Schedule 1A
professional standard	A professional standard means: <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 Professional Accountants Ordinance (Cap. 50) (“PA Ordinance”); • any standard on professional ethics, or accounting, auditing or assurance practices, issued or specified by the International 	2(1)

	<p>Accounting Standards Board, the International Auditing and Assurance Standards Board or the International Ethics Standards Board for Accountants;</p> <ul style="list-style-type: none"> • 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. 	
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)
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)
registered responsible person	<p>A registered responsible person means any of the following individuals whose name is recorded in the PIE auditors register as a responsible person of a registered PIE auditor:</p> <ul style="list-style-type: none"> • an engagement partner; • an engagement quality control reviewer; or • a quality control system responsible person. 	2(1)

Purpose of this document

5. The purpose of this Policy Statement is to provide an overview of the legal regime of the inspection function of the AFRC for Regulatees.
6. For details of the AFRC's inspection process in relation to 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).

Objectives of an inspection

7. The AFRC is entrusted with the statutory duty to regulate the accountancy profession. An effective regulatory regime of the accountancy profession is crucial for the business community and is essential for maintaining Hong Kong's status as an international financial centre. This is particularly the case for auditors of PIEs, as investors may rely upon the audited financial statements of PIEs when making decisions.
8. Pursuant to section 21B of the AFRCO, the AFRC may direct an inspector to carry out an inspection in relation to the PIE engagements completed by a Regulatee on or after 1 October 2019 for the purpose of ascertaining whether the Regulatee has complied with, or is likely to be able to comply with (i) a provision of the AFRCO, or (ii) a professional standard. ([Section 21B of the AFRCO](#))
9. The objectives of an inspection are to monitor and promote audit quality. An inspection focuses on how a Regulatee conducted PIE engagements and on the effectiveness of a Regulatee's quality control system to determine whether the applicable professional standards and legal and regulatory requirements have been complied with.

Circumstances in which inspections may be conducted

10. Pursuant to section 21B of the AFRCO, an inspection may be carried out by the AFRC in relation to the PIE engagements completed by a Regulatee on or after 1 October 2019 to ascertain whether the Regulatee has complied with, or is likely to be able to comply with: ([Section 21B of the AFRCO](#))
 - (a) a provision of the AFRCO; or
 - (b) a professional standard.

11. Pursuant to section 2(1) of the AFRCO, professional standards include but are not limited to 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. Professional standards include the “Code of Ethics for Professional Accountants” published by The Hong Kong Institute of Certified Public Accountants, which contains the “Guidelines on Anti-Money Laundering and Counter-Terrorist Financing for Professional Accountants”. ([Section 2\(1\) of the AFRCO](#))
12. The AFRC may specify that an inspection is for the purpose of ascertaining compliance with a particular professional standard(s).
13. The AFRC may also determine the practices and procedures to be followed for the inspection.
14. Pursuant to section 21E of the AFRCO, the AFRC may require a Regulatee to provide various information for: ([Section 21E of the AFRCO](#))
 - (a) determining the frequency of inspections;
 - (b) specifying the professional standard(s) the compliance with which is/are to be ascertained in an inspection; or
 - (c) determining the practices and procedures to be followed for the inspection.

Powers of an inspector

15. Pursuant to section 21C of the AFRCO, an inspector has the power to, at any reasonable time: ([Section 21C of the AFRCO](#))
 - (a) enter any business premises of a Regulatee;
 - (b) inspect, and make copies or record details of any record or document related to the PIE engagement(s) under inspection;
 - (c) make inquiries of a Regulatee, or any person whom the inspector has reasonable cause to believe to have the information being sought or to be in possession of any record or document being sought (if such information, record or document cannot be obtained from the Regulatee), concerning (i) the abovementioned record and document, or (ii) an activity that was carried out in the course of or may affect the PIE engagement(s).

16. An inspector may require a Regulatee or any person whom the inspector has reasonable cause to believe to have the information being sought or to be in possession of any record or document being sought (if such information, record of document cannot be obtained from the Regulatee), to (i) give access to the record or document requested, (ii) produce to the inspector within the time and at the place specified the record or document requested, or (iii) answer any question regarding such record or document, or an activity that was carried out in the course of or may affect the PIE engagement(s). An inspector may also, by written notice, require the person to verify his answers by a statutory declaration within the time specified. ([Section 21C of the AFRCO](#))
17. For the purpose of ensuring compliance, an inspector is also empowered under the AFRCO to seek the necessary orders from the Court of First Instance (section 32), and to obtain a Magistrate's warrant (section 34). ([Sections 32 and 34 of the AFRCO](#))
18. Regulatees shall cooperate with the AFRC in all its regulatory processes, including the inspection process, and to comply with any specified requirements of the AFRCO imposed by the inspector pursuant to sections 21C and 21D of the AFRCO. Section 21F of the AFRCO sets out various offences for failure to comply in an inspection process. ([Sections 21C, 21D and 21F of the AFRCO](#))

Inspection report

19. At the conclusion of an inspection, an inspector is required by section 21G of the AFRCO to prepare and submit to the AFRC a written report. If required by the AFRC, an inspector must also prepare and submit to the AFRC a written report at any other stage of the inspection. ([Section 21G of the AFRCO](#))
20. Before submitting an inspection report to the AFRC, the inspector must send a dated draft of the report to (i) the Regulatee concerned, and (ii) any other person(s) named in the draft report, and give them a reasonable opportunity of being heard. 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) for details in relation to the opportunity of being heard. ([Section 21G of the AFRCO](#))
21. After submitting the inspection report to the AFRC, the inspector will send the same to (i) the Regulatee concerned, and (ii) any other person(s) named in the report. ([Section 21G of the AFRCO](#))

Follow-up action

22. Pursuant to section 21H, the AFRC may, having regard to an inspection report in relation to a Regulatee: [\(Section 21H of the AFRCO\)](#)
- (a) decide no follow-up action is required;
 - (b) require a Regulatee (or a registered responsible person, if applicable) to take a measure or corrective action regarding compliance with a provision of the AFRCO or a professional standard in relation to the Regulatee;
 - (c) direct an inspector to carry out a further inspection under Part 3A Division 2 of the AFRCO;
 - (d) initiate an investigation under Part 3A Division 3 of the AFRCO in relation to a Regulatee (or a registered responsible person, if applicable); or
 - (e) impose a sanction on, or take an action in relation to a Regulatee (or a registered responsible person, if applicable) under sections 37D, 37E, 37F or 37I(1) of the AFRCO.
23. The AFRC may also, having regard to an inspection report in relation to a Regulatee, take any other follow-up action in accordance with the AFRCO that the AFRC considers appropriate. [\(Section 21H of the AFRCO\)](#)

Disclaimer

24. 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.