

# **Policy Statement for Inspection of Practice Units**

**with respect to engagements other  
than 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 3AA Division 2 of the AFRCO, the AFRC is empowered to carry out inspections in relation to a practice unit (“**Regulatee**”) for the purpose of determining whether the Regulatee has observed, maintained or applied PAO professional standards.
3. 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), and this Policy Statement is not applicable to such inspections. For details of the AFRC's policy for inspections in relation to PIE auditors with respect to PIE engagements, please refer to the “Policy Statement for Inspection of PIE Auditors with respect to PIE Engagements”, which is available on the AFRC’s website ([www.afrc.org.hk](http://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
certified public accountant (“ <b>CPA</b> ”)	A CPA means a person registered as a certified public accountant by virtue of section 22 of the Professional Accountants Ordinance (Cap. 50) (“ <b>PA Ordinance</b> ”).	2(1)
CPA firm	A CPA firm means: <ul style="list-style-type: none"> <li>• 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</li> </ul>	2(1)

	<ul style="list-style-type: none"> <li>a firm of CPAs (practising) that practises accountancy in partnership and is registered under Division 2 of Part 2A of the AFRCO.</li> </ul>	
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 issued or specified, under section 18A of the PA Ordinance.	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 engagement	<p>A PIE engagement means any of the following types of engagements for the preparation of:</p> <ul style="list-style-type: none"> <li>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 (as defined in section 2(1) of the AFRCO) or any relevant code;</li> <li>a specified report required to be included in a listing document for the listing of a</li> </ul>	3A; Part 1 of Schedule 1A

	<p>corporation's shares or stocks or for the listing of a collective investment scheme; or</p> <ul style="list-style-type: none"> <li>• 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.</li> </ul>	
practice unit	<p>A practice unit means:</p> <ul style="list-style-type: none"> <li>• 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;</li> <li>• a CPA firm; or</li> <li>• a corporate practice.</li> </ul>	2(1)
professional person	<p>A professional person means a CPA or a practice unit.</p>	2(1)
registered PIE auditor	<p>A registered PIE auditor means a practice unit registered under Division 2 of part 3.</p>	3A(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, under Part 3AA Division 2 of the AFRCO.
6. For details of the AFRC's inspection process in relation to practice units that are not 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](http://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.

8. The AFRC may direct a CPA inspector to carry out an inspection in relation to a Regulatee for the purpose of determining whether the Regulatee has observed, maintained or applied a specified PAO professional standard. The objectives of such inspections are to monitor and promote the quality of professional accounting work in Hong Kong, by ensuring Regulatees are acting in accordance with PAO professional standards.

### **Circumstances in which inspections may be conducted**

9. Pursuant to section 20ZZB(1)(a) and (1)(b) of the AFRCO, the AFRC may specify a PAO professional standard in relation which an inspection is to be carried out, and direct a CPA inspector to carry out an inspection in relation to a Regulatee for the purpose of determining whether the Regulatee has observed, maintained or applied the PAO professional standard. Pursuant to section 2(1) of the AFRCO, a PAO professional standard means any statement of professional ethics, 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. PAO 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\(1\) and 20ZZB of the AFRCO\)](#)
10. An inspection may cover specific aspects of an engagement of a Regulatee, or the system of quality control and practice of a Regulatee generally.
11. Pursuant to section 20ZZB(1)(c) of the AFRCO, the AFRC may also determine the practices and procedures to be followed for the inspection. [\(Section 20ZZB of the AFRCO\)](#)

### **Powers of a CPA inspector**

12. Pursuant to section 20ZZC of the AFRCO, a CPA inspector has the power to require a specified person (a "**Specified Person**") to: [\(Section 20ZZC of the AFRCO\)](#)
  - (a) produce to the CPA inspector, or give the CPA inspector access to, within the time and at the place specified in the requirement, any specified document in their possession or under their control, that the CPA inspector has reasonable cause to believe to be relevant to the inspection (a "**required document**");

- (b) give to the CPA inspector such explanation or further particulars in respect of the required document as the CPA inspector specifies; and
  - (c) give to the CPA inspector all assistance in connection with the inspection that the Specified Person is reasonably able to give.
- 13. A CPA inspector may also inspect, examine or make copies of a required document, and take any abstract of, or extract from, a required document. ([Section 20ZZC of the AFRCO](#))
- 14. A Specified Person is any of the following persons, whom the CPA inspector has reasonable cause to believe to be in possession of, or in control of, a required document: ([Section 20ZZC of the AFRCO](#))
  - (a) if the practice unit to which the inspection relates is a CPA (practising) who practises accountancy on the accountant's own account, that accountant;
  - (b) if the practice unit to which the inspection relates is a firm of CPA (practising) or a corporate practice, a certified public accountant working in the practice unit; and
  - (c) any person who is employed by, or whose services are engaged by, the practice unit to which the inspection relates.
- 15. A specified document means any record or document specified by the CPA inspector, or any record or document that is of a class or description specified by a CPA inspector. ([Section 20ZZC of the AFRCO](#))
- 16. Regulatees shall cooperate with the AFRC in all of its regulatory processes, including the inspection process, and to comply with any requirements imposed by a CPA inspector under section 20ZZC of the AFRCO. A failure on the part of a professional person without reasonable excuse to comply with a requirement imposed under section 20ZZC constitutes a professional irregularity under section 3B of the AFRCO, and may result in the imposition of disciplinary sanctions. ([Section 3B of the AFRCO](#))

## **Inspection report**

- 17. At the conclusion of an inspection, a CPA inspector is required by section 20ZZD of the AFRCO to prepare and submit to the AFRC a written report. If required by the AFRC, a CPA inspector must also prepare and submit to the AFRC a written report at any other stage of the inspection. ([Section 20ZZD of the AFRCO](#))

18. Before submitting an inspection report to the AFRC, the CPA 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 Practice Units that are not PIE Auditors”, which is available on the AFRC’s website ([www.afrc.org.hk](http://www.afrc.org.hk)), for details in relation to the opportunity of being heard. (Section 20ZZD of the AFRCO)
19. After submitting the inspection report to the AFRC, the CPA inspector will send the same to (i) the Regulatee concerned, and (ii) any other person(s) named in the report. (Section 20ZZD of the AFRCO)

### **Follow-up action**

20. Pursuant to section 20ZZE, the AFRC may, having regard to an inspection report in relation to a Regulatee: (Section 20ZZE of the AFRCO)
- (a) decide no follow-up action is required;
  - (b) require a Regulatee to take a measure or corrective action regarding compliance with a PAO professional standard;
  - (c) direct a CPA inspector to carry out a further inspection under Part 3AA Division 2 of the AFRCO;
  - (d) initiate an investigation under section 20ZZH of the AFRCO; or
  - (e) impose a sanction on, or take an action in relation to, the Regulatee or any CPA to which the inspection relates under sections 37CA or 37I(1A) of the AFRCO.

### **Disclaimer**

21. 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.