

Alert

Updates on financial reporting and auditing



Issue 23 (October 2016)

Dear practising members,

New elements in the practice review selection process

In a recent review of past practice review outcomes, concerns were raised by the Standards and Quality Accountability Board, which is responsible for overseeing the Institute's practice review programme, about the outcomes of reviews of practices with less than 20 listed clients. Approximately 70 percent of those reviews could not be closed directly and required follow up actions, including referral to the Financial Reporting Council ("FRC") and disciplinary action. These results are discouraging and worse than those of other listed company auditors. This alert sets out new elements that have been added to the practice review selection process following our consideration of review results for this group.

New elements

Audits of listed clients generally demand a high level of resources and technical knowledge and contain public interest elements. Practices with listed clients are reviewed at least once every three years to recognize the public interest that exists in relation to listed clients. Under the existing practice review programme, Big Four firms are reviewed annually and practices with 20 or more listed clients receive an additional interim review within the three year cycle. Given the practice review outcomes of practices with less than 20 listed clients (referred to below as "relevant practices"), the Practice Review Committee ("PRC"), which is responsible for the Institute's practice review programme, recently agreed to the addition of the following new elements to the practice review selection process:

- 1) Relevant practices that take on their first listed audit client will receive a practice review within a year of the date of the first audit report issued on that listed client.
- 2) Relevant practices that have more than one listed engagement and have been the subject of a referral to the FRC by the PRC or a complaint raised by the PRC or the FRC will receive an interim review within the next normal three year cycle. The interim review will assess how audit quality issues have been addressed by the practice regardless of the status or outcome of disciplinary proceedings and will review at least one further engagement.
- 3) Relevant practices that have significant or regular changes in the number of listed engagements will receive an interim review within the normal three year cycle. In the interim review, at least one listed engagement will be reviewed.

The increased frequency of practice review visits to relevant practices will help identify deficiencies or issues concerning quality control policies and procedures and listed engagements sooner so that remedial actions can be taken on a more timely and effective manner. This however does not reduce the responsibility of relevant practices to



upkeep and monitor their quality control policies and procedures and audit work to ensure that they maintain the quality expected of a listed company auditor.

Potential consequence of an audit failure

In addition to the above changes, practising members should be aware that, due to the public interest nature of listed clients, the PRC has a policy to consider referring all significant findings identified in the review of a listed engagement to the FRC as well as raising a complaint based on those findings. Failings in work carried out on a listed engagement can therefore lead to serious consequences, including withdrawal of practising certificates of individual partners or directors. Practices should carefully consider whether they have the required expertise and manpower resources to deliver a high quality audit and bear in mind the increased risk involved before acceptance of or continuance with a listed entity engagement.

With the implementation of the new elements in the practice review process, it is hoped that the practice review outcomes of relevant practices will be improved in the near future. The Institute's Quality Assurance Department will continue to monitor practice review outcomes and propose further amendments to the process to address new risks identified and, consequently, to improve audit quality.

Sincere regards,

Chris Joy
Executive Director
Hong Kong Institute of Certified Public Accountants

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