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As other professions in Hong Kong, the accountancy profession is now adopting "self regulatory mechanism", which is administered by the Institute. This model has its advantages as the regulator is familiar with the profession to prevent that the profession is supervised by non-professionals. Let consider an extreme case, if the regulator had no idea of how to assess "a true and fair view", how could it judge the competency of an auditor?

On the other hand, as the regulator is also one of the practitioners, it gives rise to suspicion of conflicts of interests or bias in its judgment. Credibility is weakened as a result. As an enhancement, the Institute transferred the powers of investigating misconducts of listed company auditors to the FRC in 2007, while it retained the powers of registration, inspection, disciplinary enforcement, standard setting and continuing education.

The enhancement is not good enough, however. Because of the global trend, the self-regulatory mechanism is said to be out-dated. In addition, Hong Kong does not fulfill the entry requirements of IFIAR membership. A reform is necessary to meet the international standards. Since accounting scandals of large corporations such as Enron and WorldCom, there has been a global call for an overhaul of auditor regulatory system. As Hong Kong is one of the international financial centres, we have to follow suit.

The consultation paper proposed to set up an independent oversight board to take over the regulatory roles of inspection and disciplinary enforcement, while the FRC will still be responsible for investigation, while the Institute will retain the remaining three functions under the oversight of IOB.

Does it mean that the new mechanism is going to sort out all the issues? It may be not. Hong Kong is unique in its regulation of non-local auditors. To attract mainland and oversea companies to go public in Hong Kong, the Hong Kong Exchange allows qualified non-local corporations to appoint non-local auditors. In 2012, 17 non-local auditors served 24 Hong Kong-listed companies, including H-share companies which have been allowed to appoint mainland auditors approved by the Ministry of Finance and China Securities Regulatory Commission. There have been twelve of those mainland auditors up to now.

Under the new regulatory regime, the Institute shall maintain the register of all auditors, including those non-local auditors, who have however been exempted under the grandfather clause. In future, the new mechanism will be applicable for new auditors. However, the proposal has not specified how inspection, investigation and disciplinary enforcement will be maintained for those auditors. It will leave to the future IOB to make the decision.

This is an important matter of great public interest. If investors' interests had been threatened because of non-local auditors and the local legislations would not impose any penalties on them, could Hong Kong maintain its status of one of international financial centres? In an earlier case of Standard Water, the SFC tried to acquire the working papers of its mainland auditors but obstacles stood in the way. As a CPA, I hope the situation will be improved and both the local and non-local auditors will be treated fairly.

In addition, there will be far-reaching impact of the new regulatory system. While it now targets at listed companies, it may also extend to non-listed restricted companies such as

insurance and stock brokers since they are also public interest entities in stricter sense. In respect of the proposed maximum penalties of \$10 million, it is disproportionate to the revenue earned and risks taken by auditors. As a result, the SMPs will not engage with those jobs and the market will be monopolized by big firms. Public interests will be jeopardized.

I have recently attended a seminar in which a Singaporean speaker shared with us the local experience of the transition from self-regulation to independent oversight. He reminded Hong Kong of the importance of speaking up for the profession lest unfair measures will be introduced to the disadvantage of the development of the profession.