

Better Business Through Compliance



2017 Compliance Forum
26 June 2017

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Reasons for complaints



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Today's objectives

- ✓ Lessons learned from past complaints
- ✓ About the complaint process
 - What to do when a member receives a complaint
 - Discover how to avoid complaints



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Most common complaints

Focus areas:

- Quality control
- Audit deficiencies
- Engagement quality control review
- Professional conducts– Integrity and professional behaviour

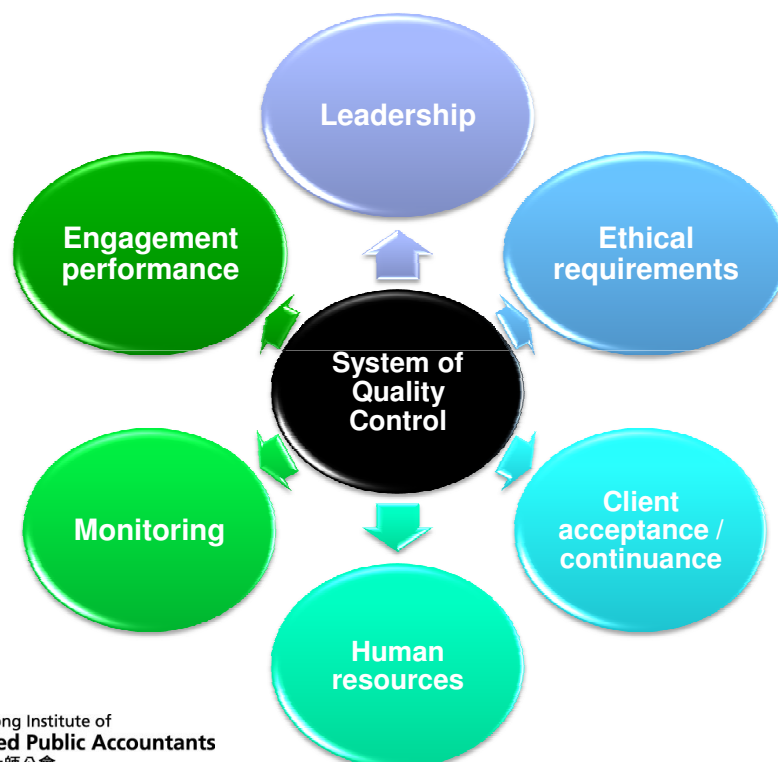
Quality Control

HKSQC 1: Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements

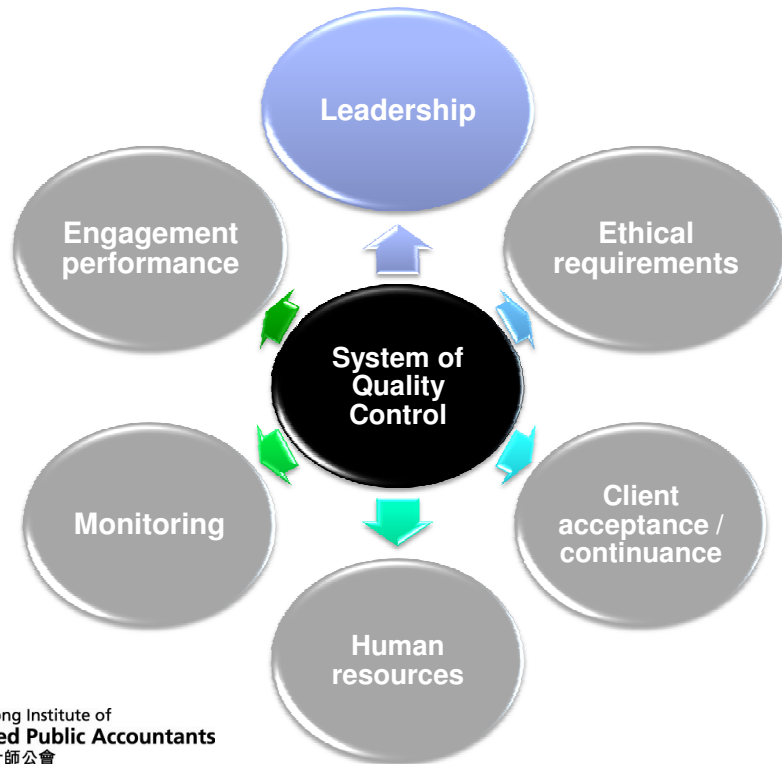
Why quality control matters



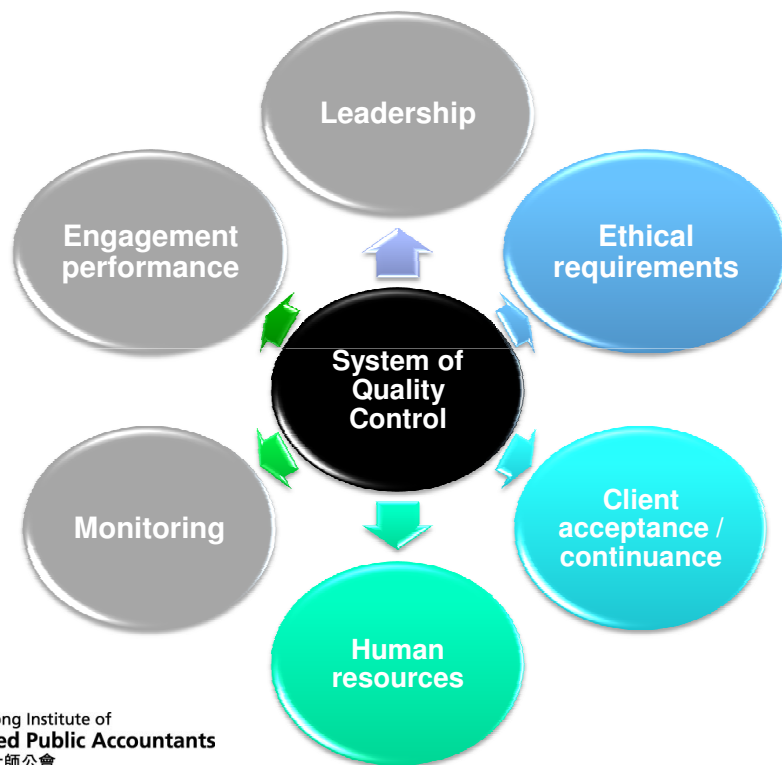
Elements of a System of Quality Control



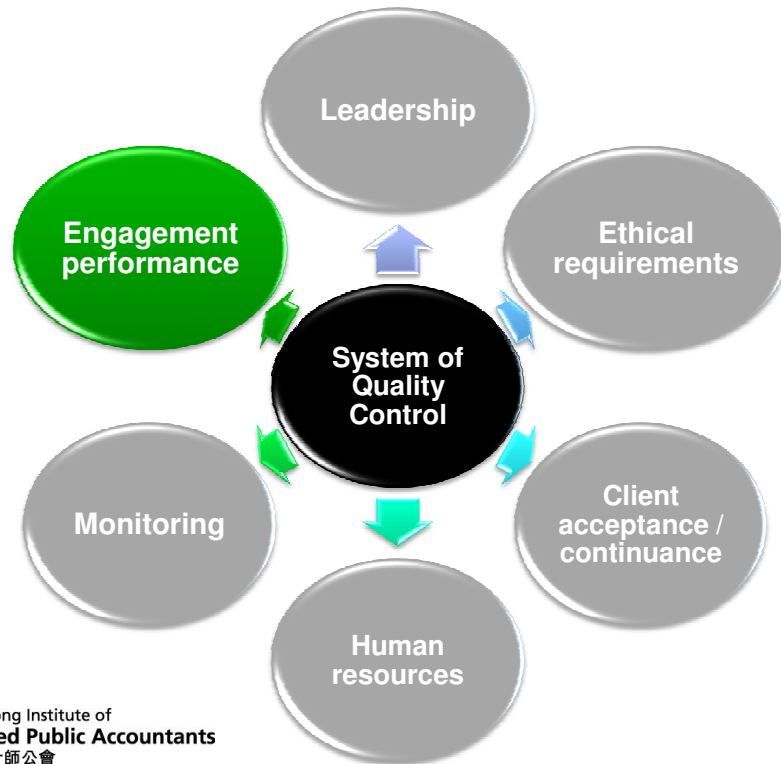
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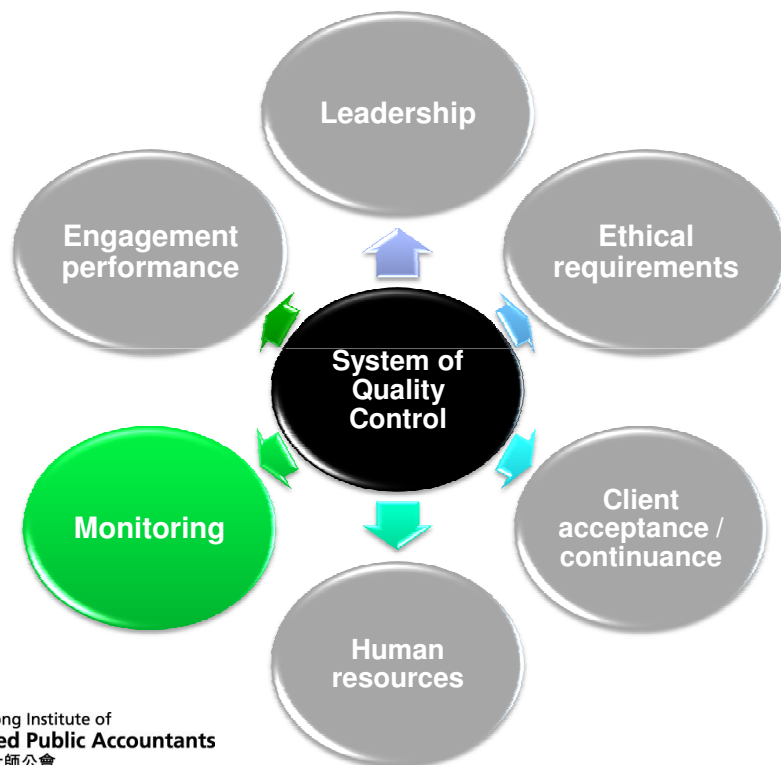
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Elements of a System of Quality Control

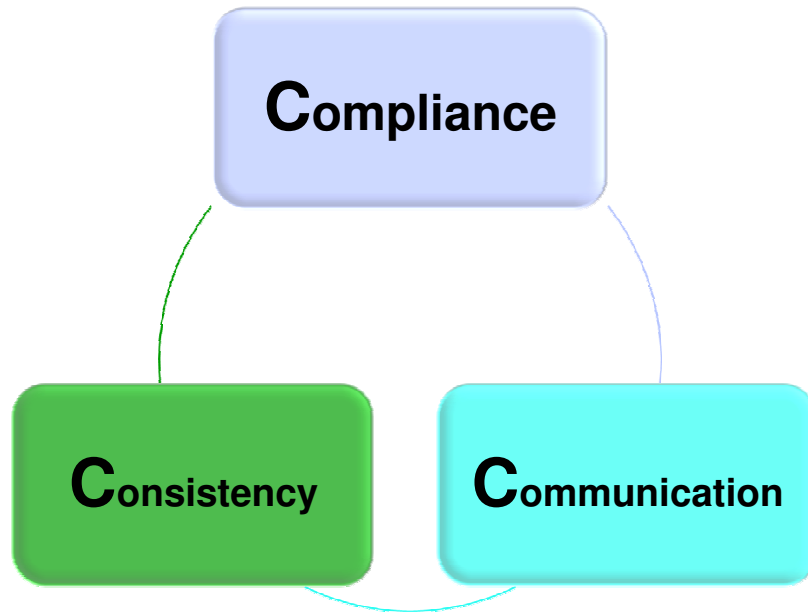


Elements of a System of Quality Control





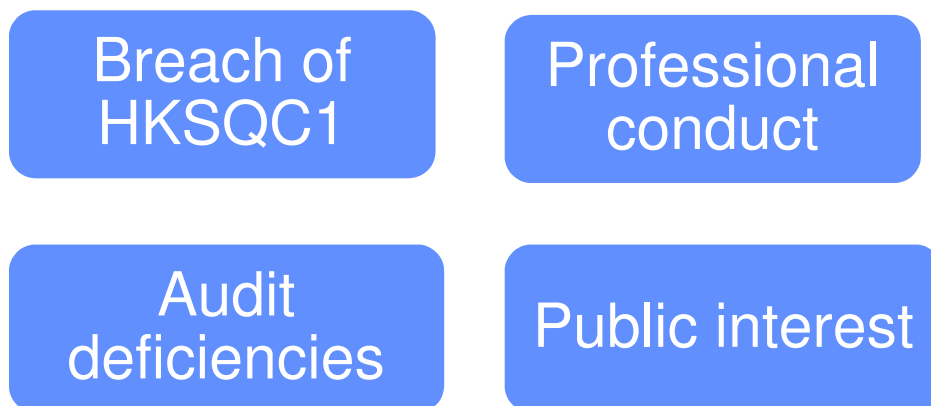
3 C's to Effective Quality Control



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Common findings



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Common findings: Disciplinary case 1

Breach of HKSQC1

- Monitoring
- Client acceptance and continuance
- Engagement performance

Audit deficiencies

- Practice reviewer inspected 2 audit engagements
- Lack of audit evidence and documentation (HKSA 230 and 500)
- Breach of HKSA 240, 315, 320, 530

Public interest

- Deficiencies in compliance audit of a securities broker



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Aggravating factors:

Repeated failures found in the follow up visit and breach of multiple professional standards raised concerns on the Practice's abilities to provide quality audits.

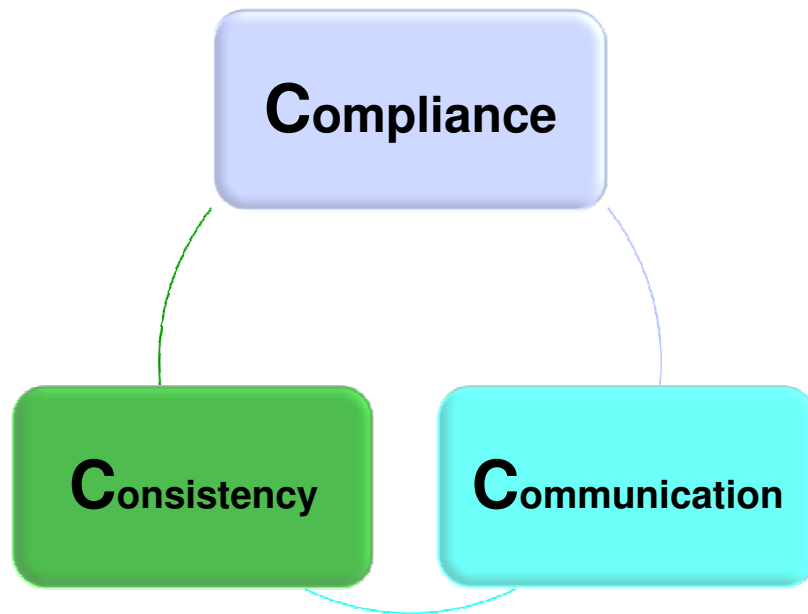


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Engagement performance - 3 C's



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Common findings: Disciplinary case 2

Breach of
HKSQC1

- Monitoring

Professional
conduct

- s.110 of COE violation due to false/misleading statements in practice review electronic self-assessment questionnaire ("EQS")
- s.130 of COE violation due to failure to maintain professional knowledge on HKSQC 1 requirements



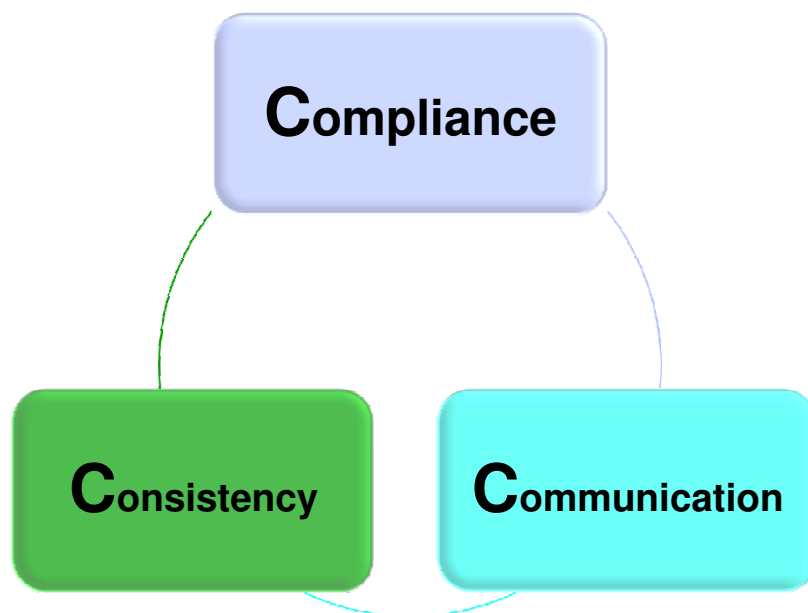
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Aggravating factors:

- ***The Respondent's misunderstanding of HKSQC 1 demonstrated his lack of professional knowledge and skill and/or diligence in carrying out monitoring review.***
- ***The Respondent's false or misleading answers in the EQS raised concerns on his integrity.***

Monitoring - 3 C's



Reminder

Robust policy and procedures

Compliance with HKSQC 1

Adequate staff training

Co-operate with practice reviewer



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AUDIT DEFICIENCIES



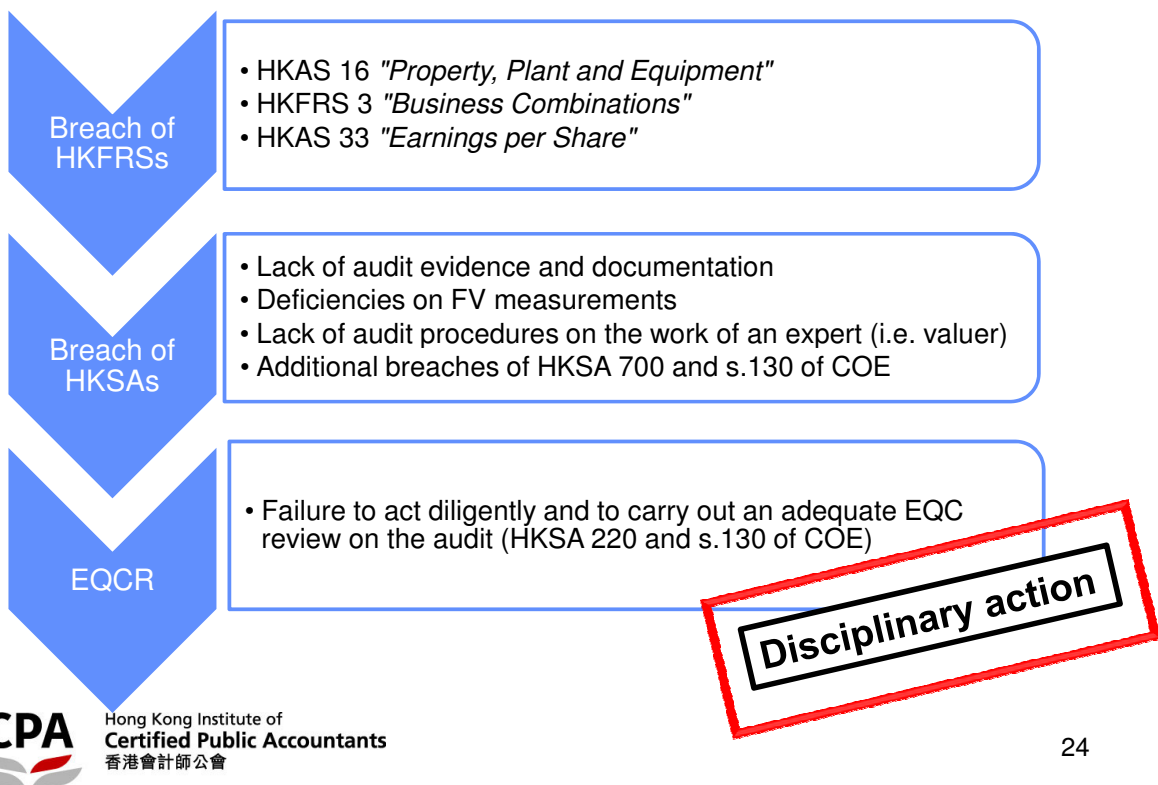
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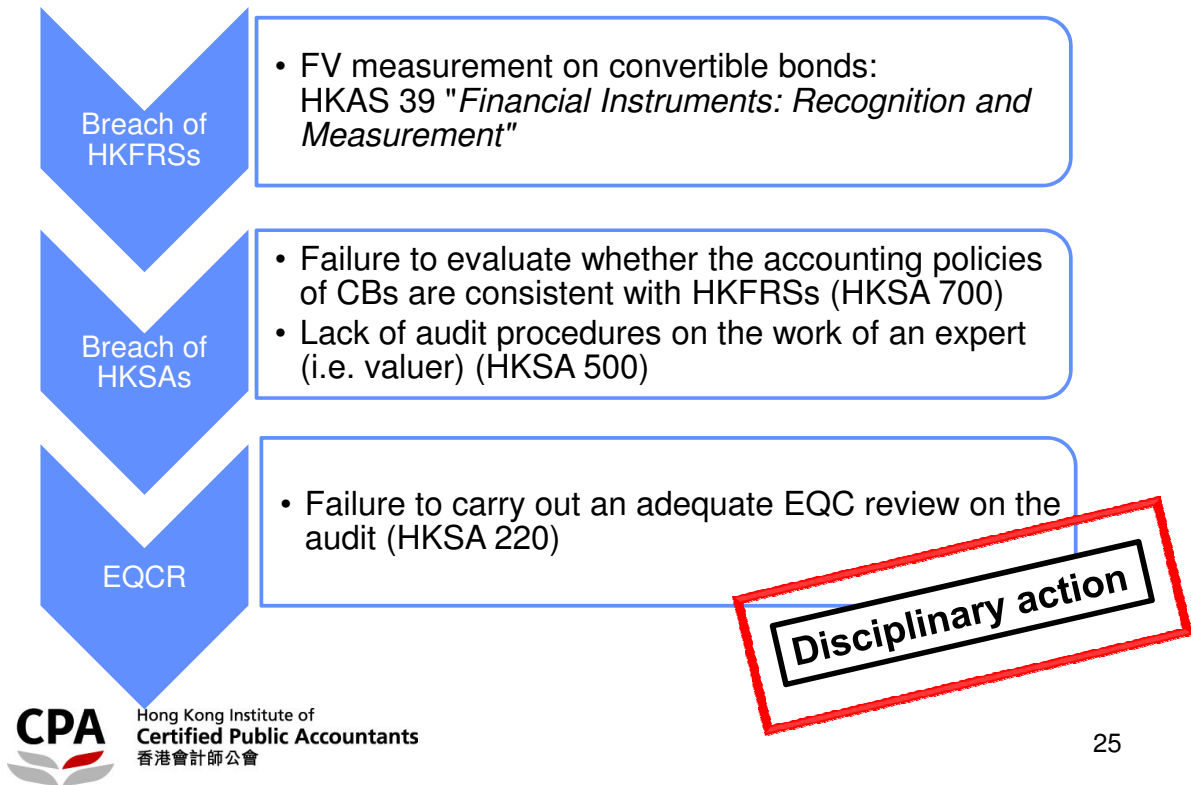
Most common findings

- Insufficient audit evidence
- Lack of audit documentation
- Insufficient audit procedures performed when using the work of expert
- Insufficient audit procedures performed by Engagement Quality Control Reviewer (EQCR)

Audit Deficiencies: Disciplinary case 1



Audit Deficiencies: Disciplinary case 2



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Reminder

Relevant professional standards

HKSA 230 "*Audit Documentation*"

"5. The objective of the auditor is to prepare documentation that provides:

- (a) A sufficient and appropriate record of the basis for the auditor's report; and
- (b) Evidence that the audit was planned and performed in accordance with HKSAs and applicable legal and regulatory requirements."

HKSA 500 "*Audit Evidence*"

"4. The objective of the auditor is to design and perform audit procedures in such a way as to enable the auditor to obtain sufficient appropriate audit evidence to be able to draw reasonable conclusions on which to base the auditor's opinion."

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Compliance with auditing standards



Reminder

Objectives and requirements of:

- ✓ **HKSA 230** Audit Documentation
- ✓ **HKSA 500** Audit Evidence
- ✓ **HKSA 620** Using the Work of an Auditor's Expert
- ✓ **HKSA 700** Forming an Opinion and Reporting on Financial Statements



EQCR:

- ✓ **HKSA 220** Quality Control for an Audit of Financial Statements

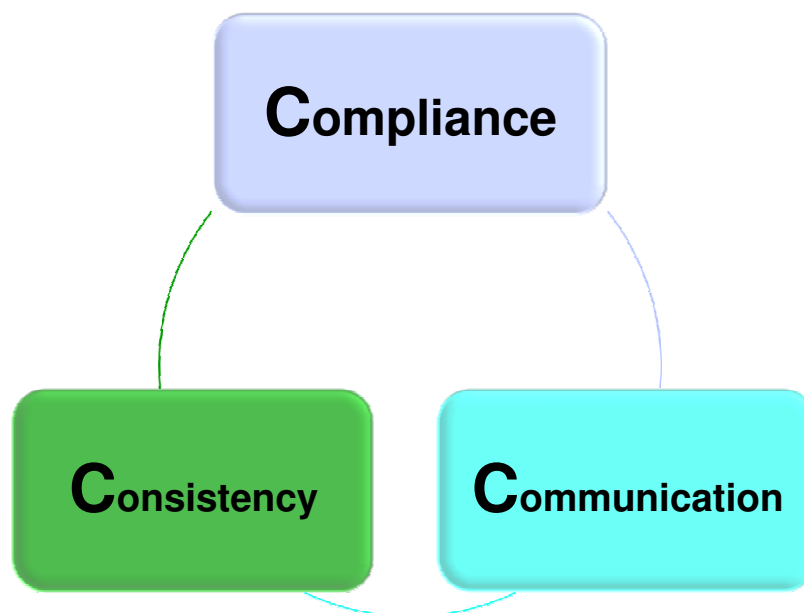


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Audit Deficiencies- 3 C's



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AUDIT DOCUMENTATION



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Why is Proper Documentation so important?

Assisting in planning
and performing the
audit

Evidence of audit
procedures performed

Documenting
judgment involved in
forming the audit
opinion

Facilitating
engagement
reviewers

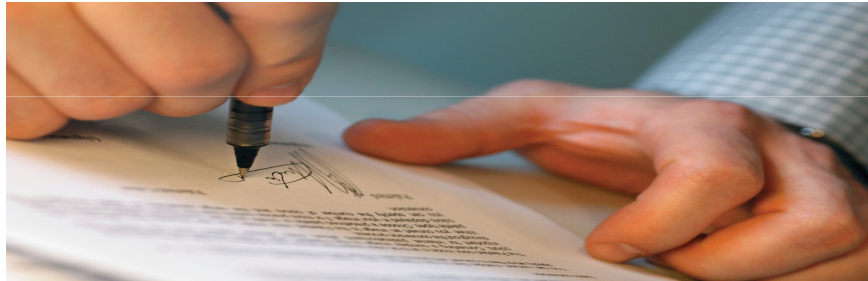
Recording matters of
continuing
significance for
future audits



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Good audit documentation is appropriately organized, and provides a record of the work done, the audit evidence obtained, the significant professional judgments applied, and the conclusions reached



The auditor shall prepare audit documentation on a timely basis



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Audit Documentation

Practical application – audit documentation

Common questions:

1. Who owns the Audit File?
2. Are copies of entity records examined required to be kept on the audit file?
3. Does each page of the audit file need to be initialled and dated by the preparer and then by the reviewer?
4. Should all considerations and use of professional judgments be documented?
5. Are preliminary drafts of financial statements required to be kept if materially inconsistent with the final financial statements?



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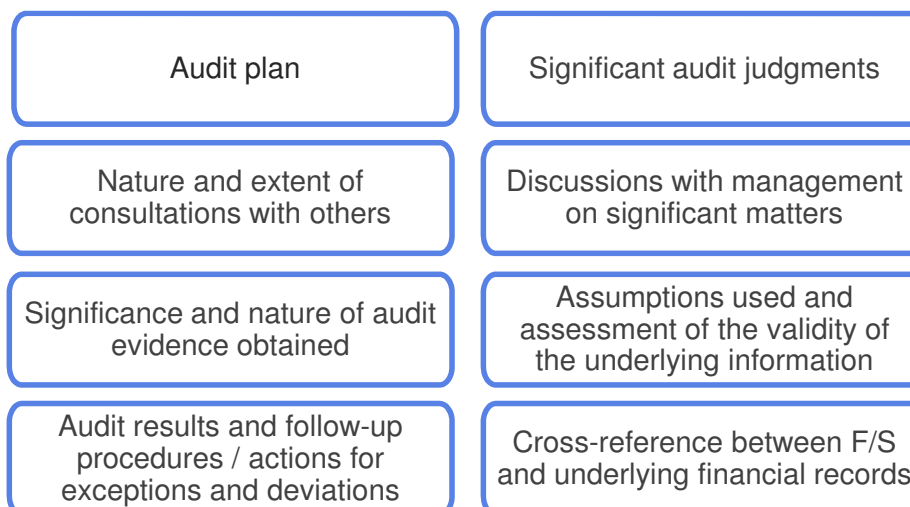
Typical Audit Documentation

Risk assessment phase



Typical Audit Documentation (cont'd)

Risk response phase



Typical Audit Documentation (cont'd)

Reporting

Completed audit programs	Copy of F/S and auditor's report with cross-referenced to audit file chapters
Evidence of file reviews	Reasons for departure from HKSA's and alternative procedures performed
Summary of corrected / uncorrected audit misstatements	Correspondence with management and those charged with governance
Actions taken and conclusions reached for significant audit matters	Date of auditor's report

File completion



- After the audit report date, the final assembly of audit files should take place on a timely basis. An appropriate time limit within which to complete the assembly of the final audit file is ordinarily not more than 60 days after the date of the auditor's report. (Refer to HKSQC 1 and HKSA 230 for more details)

Other Documentation Matters

Standalone nature

- Audit documentation should stand by itself
- Not supplemented by oral explanations or documents outside the audit file chapters

Communications with management or those charged with governance

- Taking notes for verbal communications over significant audit matters
- Inclusion of emails, text messages or other types of correspondence addressing significant matters as and when necessary

The Experienced Auditor

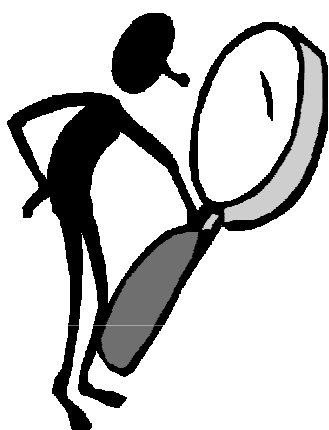


The audit documentation should be such that an experienced auditor, who has had no previous connection with the audit, is able to understand (i.e., without the need for verbal explanations):

- The nature, timing, and extent of the audit procedures performed to comply with the applicable legal, regulatory and professional requirements;
- The results of the audit procedures and the audit evidence obtained; and
- The nature of significant matters arising and the conclusions reached

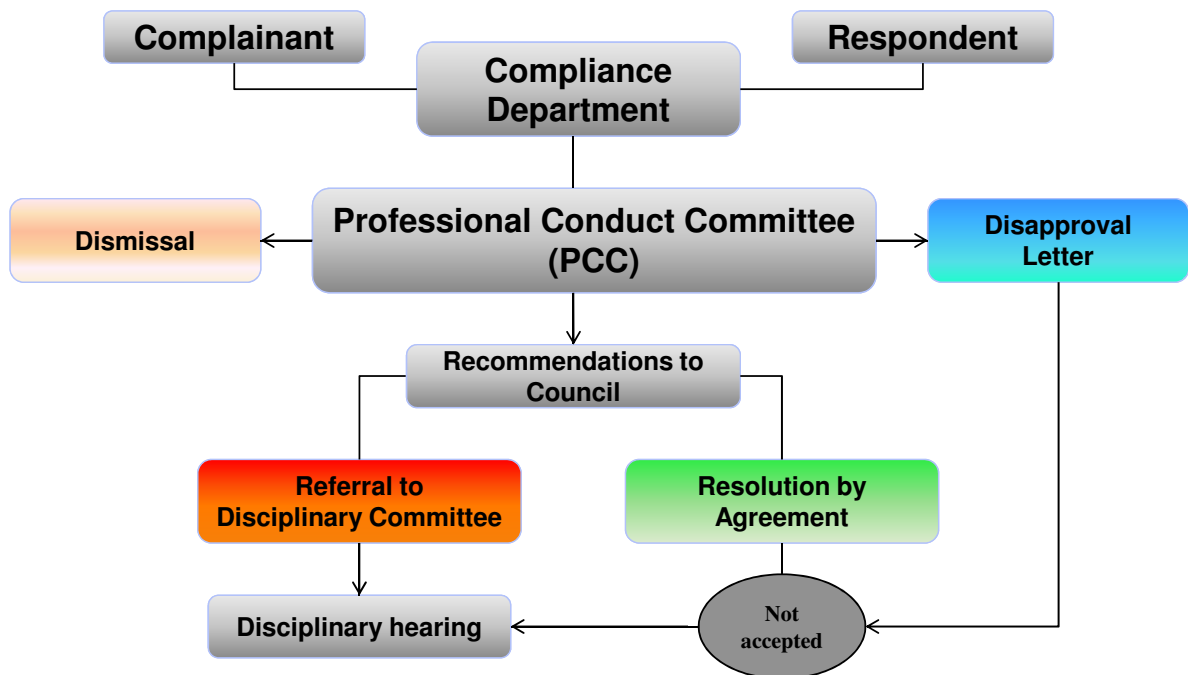
About the Complaint Process

Complaint Handling – Compliance Department



- Gather information from complainant and respondent
- Analyze
 - Review facts and circumstances
 - Apply standards
 - *Audit*
 - *Ethics*
 - *Others*
- Report findings
 - No prima facie case
 - Severity of prima facie case
 - *Mild*
 - *Moderate*
 - *High*

Process



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How should a CPA respond to an actual complaint?

- Understand the issue of the complaint and try to resolve the matter, if possible.
- Read the complaint handling procedures on the Institute's website.
- Provide relevant documents and explanations in writing and in a timely manner.
- Provide explanations carefully and thoroughly.
- In case of uncertainty, contact a representative of the Compliance Department at 2287-7026 or compliance@hkicpa.org.hk.



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Possible complaint outcomes

Dismissal of complaint

- When there is insufficient evidence to show that a CPA failed to comply with the Institute's professional standards or committed other improper conduct; or
- When the subject matter is outside the Institute's jurisdiction.

Issuance of Disapproval Letter

- When there is a prima facie case against the CPA; and
- The area of non-compliance is of minor severity.

Referral to the Disciplinary Panels (DP)

- When there is a prima facie case against the CPA; and
- The area of non-compliance is beyond minor severity.

Resolution by Agreement (RBA)

- When the prima facie case is deemed to be moderate and the area of non-compliance:
 - falls within s34(1)(a)(vi), (viii), (ix), (x) of the PAO;
 - is not contested by respondent; and
 - does not involve dishonesty.
- Terms of RBA are non-negotiable.



****Referrals to the Disciplinary Panels and Resolutions by Agreement must be approved by Council**



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Resolution by Agreement (RBA)

Criteria

- Complaints in which respondent:
 - ✓ Failed to observe a professional standard;
 - ✓ Did not comply with provisions of any bylaw, rule or direction from Council;
 - ✓ Was guilty of professional misconduct; and/or
 - ✓ Was guilty of dishonorable conduct.
- Cases not contested by respondents.
- Cases not involving complaints of dishonesty.

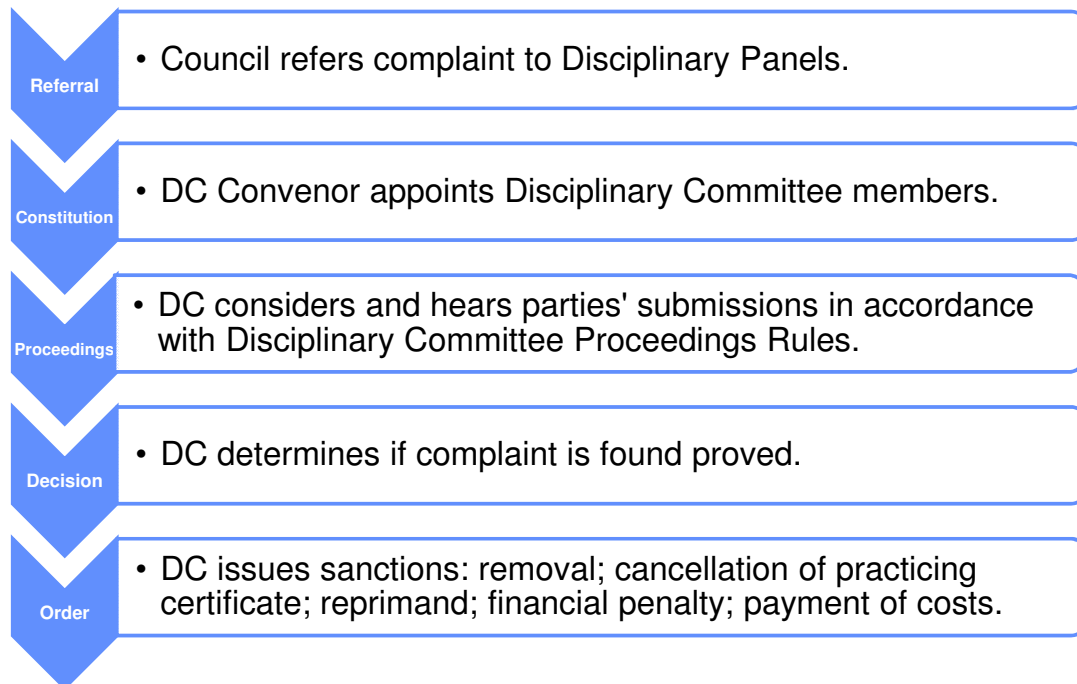
Outcomes

- Mandatory public censure;
- Optional administrative penalty not to exceed \$50,000; and
- Other actions as deemed necessary by Council.
- **Non-negotiable**

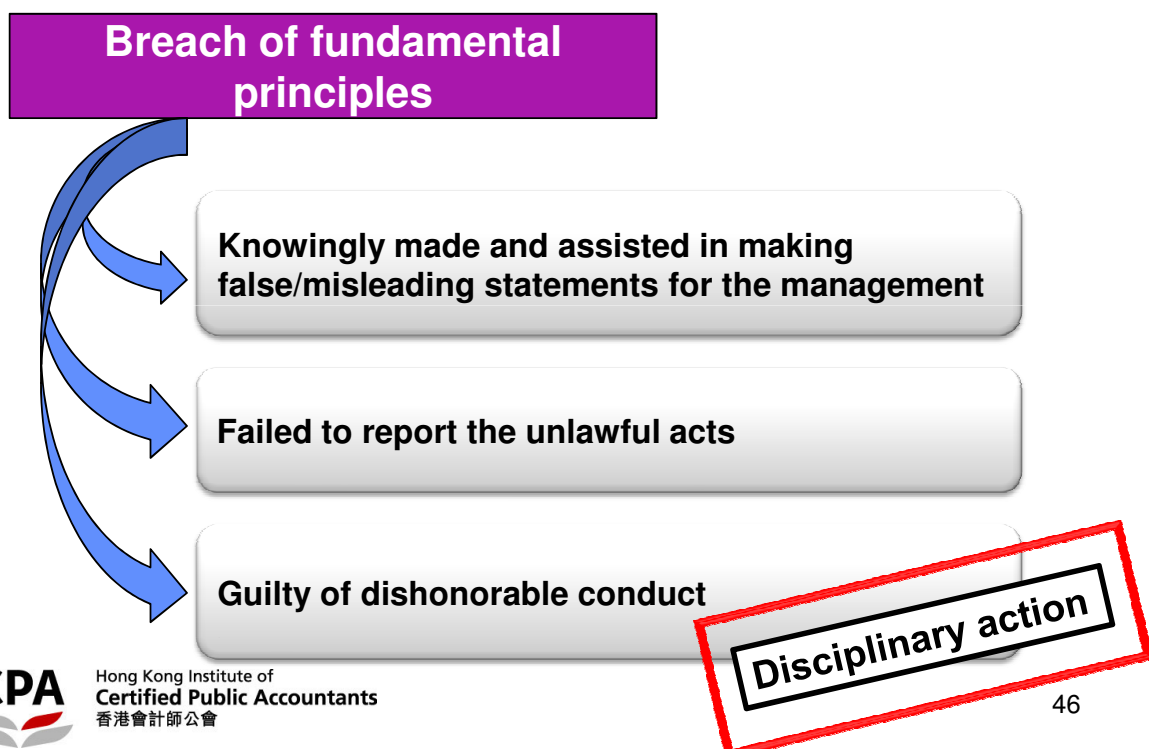


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Disciplinary process



Professional misconduct:



Section 28(b) of Professional Accountants By-laws

Save with the approval in writing of the Council, a certified public accountant holding a practising certificate who knowingly—...

(b) employs, in or in connection with his practice as an accountant, a person whose name has been removed from the register under section 35(1)(a) of the Ordinance and has not been restored thereto;...

shall be guilty of professional misconduct.



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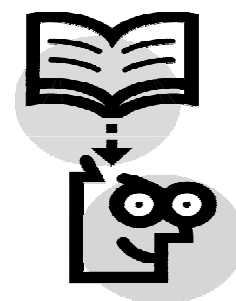
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Reminder

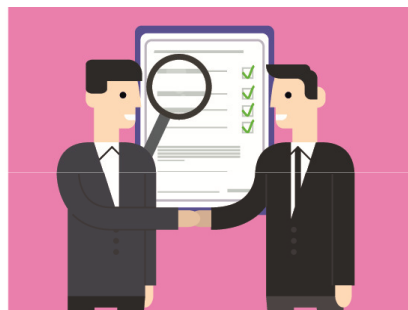
Avoiding complaints

- Maintain professional knowledge and skill
- Exercise professional skepticism
- Manage your risks
- Utilize resources of HKICPA
- Communicate with your clients
- When in doubt, opt out



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Guidance Notes for responding to a complaint



VISIT: http://www.hkicpa.org.hk/file/media/section6_standards/compliance/complaints/2014/cpa-guidance-notes.pdf



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Thank you



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