2 March 2012

Submitted online at: www.ifac.org

Executive Director, Quality and Member Relations
International Federation of Accountants
545 Fifth Avenue, 14th Floor
New York, New York 10017
United States of America

Dear Sir,

Exposure Draft; Statements of Membership Obligations 1-7 (Revised)

The Hong Kong Institute of Certified Public Accountants (the Institute) is the only statutory licensing body of accountants in Hong Kong responsible for the professional training, development and regulation of the accountancy profession. The Institute sets auditing and assurance standards, ethical standards and financial reporting standards in Hong Kong.

I am pleased to be able to provide comments on behalf of the Institute, responding to the above Exposure Draft. The Institute is an active contributor to IFAC activities and has ensured that its key activities have been benchmarked to the SMOs since they were introduced in 2004. The IFAC compliance programme has shown that the Institute has maintained a high level of compliance with SMOs and has been a useful exercise in that it prompts a periodic re-assessment of activities and procedures against IFAC requirements.

The Institute supports the approach taken to revising the SMOs by identifying and adhering to key principles and the focus on key matters. The emphasis on clarifying the requirements and expectations of the SMOs is effective and welcome. The proposed revisions to the SMOs have been reviewed against the Institute’s current procedures and activities. Proposed changes to the SMOs that elevate some recommendations to mandatory status are already addressed in existing procedures or can be accommodated by minor amendments to existing procedures.

With the exception of the following there are no specific comments on the content of the proposed revised SMOs:

SMO 1 Quality Assurance

The extent of the scope of quality assurance review programmes operated by member bodies is proposed to be extended from "at least audits of financial statements of listed entities" to all audits of financial statements. The practice review programme in Hong Kong already encompasses this extended scope. However, we support the continued
emphasis that priority should be given to audits of listed entities.

A maximum cycle of three years for review of firms that perform audits of listed entities has been included in the HKICPA practice review programme since 2007. Under the definition of public interest entities provided in the Code of Ethics for Professional Accountants the only formally recognized public interest entities in Hong Kong are listed entities. There is currently no review cycle established for non-listed entity auditors. This part of the practice review programme includes risk based selection criteria whereby firms that audit non-listed entities that engage in activities that are seen as "public interest" in a wider sense that the Code of Ethics definition are reviewed as a priority. Such entities include licensed insurance and securities brokers and schools.

Hong Kong has a unique situation regarding statutory audit in that there are no exemptions from the requirement that the financial statements of all Hong Kong companies must be subject to audit. As a result there are proportionally many more companies subject to statutory audit in Hong Kong than is the case in other jurisdictions. Therefore audits are carried out on many very small family businesses and companies that are set up to hold a single property. To apply a six year cycle of reviews to the many small firms and sole practitioners that audit the financial statements of such companies would potentially require a significant investment in resources that may outweigh the benefits of a minimum review cycle.

The Institute remains committed to maintaining a top-class quality assurance programme in Hong Kong and will explore ways in which it may be able to meet a six year cycle requirement without reducing the quality and effectiveness of the practice review programme. However, priority will continue to be given to reviewing firms that audit non-listed but higher risk entities ahead of completing a time driven review of all audit firms.

SMO 6 Investigation and Discipline

Proposed changes to the SMO that elevate some recommendations to mandatory status are already addressed in existing procedures or can be accommodated by minor amendments to existing procedures. There are two areas were we suggest alternatives to the proposed wording of the SMO:

Paragraph 25:

"... if the investigation committee is satisfied that there is a case to answer, the matter shall be referred—considered for referral to a disciplinary tribunal ...."

Under the Institute's governing Ordinance if an investigation committee concludes that there is a prima facie case to answer the decision to refer to the disciplinary panels is the responsibility of the Institute's Council. Council may decide that the matter is of a level of seriousness that can be appropriately dealt with by issue of a disapproval letter. A disapproval letter can be issued under Council's own authority without the need to
refer the case to the disciplinary panels. Council will not challenge the investigation committee decision that there is a case to answer.

The proposed change is in line with IFAC's intention to allow member bodies to determine an appropriate test for invoking a disciplinary process.

Paragraph 29 of the proposed revised SMO 6:

"... The tribunals shall also include legally qualified personnel, or have permanent unrestricted access to legal advisors during the disciplinary proceeding...."

Disciplinary committees have no restriction on their right of access to legal advice at any stage of the disciplinary proceedings. The exercise of this right is at the discretion of the disciplinary committee.

If you require any clarification on the above comments, please do not hesitate to contact me at chris@hkicpa.org.hk.

Yours faithfully,

Chris Joy
Executive Director

CJ/dy