

For information

**Legislative Council
Panel on Financial Affairs**

**Proposals to Improve the Regulatory Regime
for Listed Entity Auditors**

Follow-up arising from the meeting on 7 July 2014

Purpose

This paper provides information on the practices adopted by six overseas jurisdictions with regard to the arrangements for the power of investigation into reporting/auditing irregularities and determination of related disciplinary sanctions.¹ All of the six overseas jurisdictions are members of the International Forum of Independent Audit Regulators (“IFIAR”), and those four which are non-European Union jurisdictions have all been granted equivalent status by the European Commission (“EC”). Five of these six overseas jurisdictions are also members of the Organisation for Economic Cooperation and Development (“OECD”).²

Overseas Practices

(a) *The United States (“US”) and Canada*

2. In the US and Canada, their respective independent auditor oversight bodies are responsible for both the investigation on listed entity auditors and the determination of disciplinary sanctions. The executive of these bodies are tasked to perform both the investigatory and disciplinary functions.

3. The Public Company Accounting Oversight Board (“PCAOB”) in the US is responsible for conducting investigation on listed entity auditors, decides whether to commence disciplinary proceedings against

¹ The paper is prepared on the basis of the information available on the official websites of the overseas independent oversight bodies and with reference to the “Report on Independent Audit Oversight” which was commissioned by the Financial Reporting Council and published in October 2013.

² Singapore is not a member of the OECD.

any such auditors, and makes decisions on such disciplinary cases.

4. Likewise, the Canadian Public Accountability Board is responsible for conducting investigation on listed entity auditors, decides whether to commence disciplinary proceedings against any such auditors, and makes decisions on such disciplinary cases.

5. According to the PCAOB, its investigative staff will not be involved in the disciplinary process and the determination of disciplinary sanctions.

(b) The United Kingdom (“UK”) and Singapore

6. In the UK and Singapore, their respective independent auditor oversight bodies perform a leading role in the conduct of investigation on listed entity auditors and the determination of disciplinary sanctions.

7. In the UK, its Financial Reporting Council (“UK FRC”) is responsible for conducting investigation on listed entity auditors and decides whether to commence disciplinary proceedings against any such auditors. It refers disciplinary cases to a Disciplinary Tribunal for decision. Members of the Disciplinary Tribunal are drawn from a panel of members appointed by the UK FRC, and members of the panel do not include any officer or employee of any of the UK accounting professional bodies or of the UK FRC.

8. In Singapore, the Public Accountants Oversight Committee (“PAOC”) appoints a Complaints Committee to conduct investigation on listed entity auditors, and the work of the Complaints Committee is subject to the review of the PAOC. The PAOC also makes decisions on whether to commence disciplinary proceedings against any such auditors, and it appoints a Disciplinary Committee which is responsible for making recommendations to the PAOC on the disciplinary sanctions to be imposed. Members of the Complaints Committee and the Disciplinary Committee are drawn from the Complaints and Disciplinary Panel which comprises persons appointed by the PAOC. Members of the Complaints Committee do not join the Disciplinary Committee that handles the same case.

(c) *Germany and Australia*

9. In Germany and Australia, their Governments perform an important role in the investigation and/or disciplinary mechanism in respect of listed entity auditors.

10. In Germany, cases involving “severe violation” of professional rules are handled by Government authorities. The Chief Public Prosecutor of Berlin is responsible for conducting investigations on listed entity auditors in cases of such nature, and the German Judiciary sets up a special division to consider and make disciplinary decisions on such cases. As regards cases involving “minor or medium violations” of professional rules, the independent auditor oversight body viz. the Audit Oversight Commission (“AOC”) would exercise oversight on the investigation and disciplinary process. Whilst the German Chamber of Public Accountants (“the Chamber”) is responsible for conducting investigations in cases involving “minor or medium violations” of professional rules, it is subject to the oversight of the AOC. On the other hand, whilst disciplinary decisions on cases of such nature are made by the Chamber, such decisions are subject to the approval of the AOC.

11. In Australia, the Australian Securities and Investments Commission (“ASIC”) is responsible for conducting investigation on listed entity auditors and makes decisions on whether to commence disciplinary proceedings against any such auditors. Disciplinary decisions are made by a separate panel whose members are drawn from the Companies Auditors and Liquidators Disciplinary Board (“CALDB”) appointed by the Australian Government.

Observations

12. The practices in the US and Canada are very similar to our consultation proposals on investigation and disciplinary mechanism for listed entity auditors, under which the future independent auditor oversight body would be responsible for both the investigation and the determination of related disciplinary sanctions (subject to appeals to an independent tribunal to be appointed by the Government). On the other

hand, whilst the practices in the UK and Singapore are not the same as in the US and Canada, their respective independent auditor oversight bodies perform a leading role in their regulatory regimes and they are the designated authority to appoint specialized committees for making disciplinary decisions (the UK) or making recommendations on disciplinary sanctions (Singapore). The cases of Germany and Australia are different from the other four jurisdictions in that their Governments take up specific roles in the regulatory regimes.

Financial Services and the Treasury Bureau
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