

3 September 2021

Clerk to Bills Committee on Financial Reporting Council (Amendment) Bill 2021
Legislative Council Secretariat
Legislative Council Complex
1 Legislative Council Road
Central
Hong Kong SAR

By email: bc_12_20@legco.gov.hk

Dear Sir / Madam,

CPA Australia's submission to the Bills Committee on Financial Reporting Council (Amendment) Bill 2021

As one of the largest professional accounting bodies in the world, CPA Australia represents the diverse interests of more than 168,000 members working in 100 countries and regions around the world, including over 15,000 members in Hong Kong. We make this submission on behalf of our members and in the broader public interest.

CPA Australia supports independent regulation and oversight of auditors of public interest entities (PIEs). The proposal to expand the Financial Reporting Council (FRC) into "a full-fledged independent regulatory and oversight body for the accounting profession" is a major reform to the regulatory regime for the accounting profession in Hong Kong. As such, it is relevant to consider these reforms in light of how auditors are regulated and overseen in similar jurisdictions such as Australia.

Independent regulation and oversight should enhance the already high levels of trust the community has in the profession and build on Hong Kong's reputation for being a leading international financial centre and business hub. There may, however, be challenges with implementing this reform, such as the transition of functions from the HKICPA to the FRC. We expect the SAR Government and the FRC will continue to work closely with the profession to address these issues.

Comparison with regulation of auditing in Australia

In accordance with the *Australian Securities and Investment Commission (ASIC) Act 2001*, ASIC, an independent Australian Government regulator, is responsible for registering registered company auditors (RCA) and Authorised Audit Companies (AACs), and for the surveillance, investigation and enforcement of the financial reporting and auditing requirements of the *Corporations Act 2001 (Aust.)*.

We note that that proposed regulatory roles of the FRC are similar to ASIC in the following areas:

- Registration of auditors of entities reporting under *Corporations Act 2001 (Aust.)*, which extends beyond PIEs to all companies requiring an audit.
- Inspection, investigation and enforcement action against auditors, including for non-compliance with auditing and assurance standards.
- Audit inspections to review compliance with audit quality and auditor independence requirements. ASIC publishes reports on the outcomes of such activity, along with guides targeted at both directors and auditors. Examples include:
 - [ASIC Audit inspection report: 1 July 2019 to 30 June 2020](#) and six largest international networks' individual firm inspection reports
 - [ASIC Audit quality measures, indicators and other information: 2019–20](#)
 - [ASIC INFO 222: Improving and maintaining audit quality](#)
 - [ASIC INFO 223: Audit quality – the role of others](#)
 - [ASIC INFO 196: Audit quality – the role of directors and audit committees](#)

Audit firm inspections and auditor surveillances are key compliance tools ASIC uses to educate and influence behaviour of auditors and audit firms.

CPA Australia works closely with ASIC to understand and communicate the outcomes of its audit oversight programs, so that auditors can learn from program findings to maintain and improve audit quality. We have found that the more collaborative regulators are in their approach to auditor oversight, the more receptive auditors and firms are to accepting the outcomes of the program and addressing the concerns that are highlighted.

Examples of the differences between Australia's regulatory framework and the proposed Hong Kong framework include:

- Australia has independent statutory bodies issuing accounting, and auditing and assurance, standards, which are enforceable by law. However, similar to the proposed reforms, those standard setters are subject to oversight by Australia's Financial Reporting Council.
- Whilst ASIC is also responsible for setting continuing professional development (CPD) requirements for RCAs, it does not oversee the qualifications of CPA Australia or other professional accounting organisations, nor does it oversee the education programs and CPD provided by professional accounting organisations.
- ASIC does not issue practising certificates to auditors or accountants more broadly.
- Not every aspect of public accounting services in Australia is regulated. However, ASIC also licenses and regulates accountants performing insolvency work and providing financial advice to individuals. Where an accountant is providing tax advice, such accountants are licensed and regulated by Australia's Tax Practitioners Board.

An RCA registration may also be needed for auditors appointed under specific Australian federal or state legislation. However, as these audits are not conducted under the authority of the *Corporations Act 2001 (Aust.)*, they are regulated by the relevant regulator under those laws, not ASIC. Auditors of entities not required to be audited by law, such as of small private companies, are subject to oversight of the professional accounting organisation with which they hold a practicing certificate.

Conclusion

Based on our experience in Australia, we suggest that the SAR Government and the regulator continue to work closely with the profession in implementing this proposed reform. Overall, CPA Australia is supportive of the reforms set out in the primary legislative proposal.

If you require further information on the views expressed in our submission, please contact Ms Claire Grayston FCPA (Aust.), Senior Manager Audit and Assurance Policy at claire.grayston@cpaaustralia.com.au or Mr Jonathan Ng, Policy Adviser at jonathan.ng@cpaaustralia.com.au.

Yours sincerely,



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