



By e-mail < j.grewe@frc-pob.org.uk >

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Our Ref.: M57307

Mr. John Grewe
Profession Oversight Board
Financial Reporting Council
5th Floor Aldwych House
71-91 Aldwych
London
WC2B 4HN
United Kingdom

Dear Sir,

Professional Oversight Board - Regulation of Third Country Auditors

The Hong Kong Institute of Certified Public Accountants (HKICPA) is the only statutory licensing body of accountants in Hong Kong responsible for the professional training, development and regulation of the accountancy profession. The HKICPA is responsible for registration, monitoring and investigation and sanctions over all auditors in Hong Kong. We welcome the opportunity to provide you with our attached comments on the captioned consultation paper.

We recognize the relevance of the matters included in the consultation paper to audit regulators in all jurisdictions. As the regulator of auditors in one of the world's major capital markets we believe that it is important that a measured and consistent approach is taken to cross border regulation. We fully support the principle of reliance where possible on home country regulators and the encouragement of equivalence between regulatory regimes.

We trust that our comments are of assistance to you. If you require any clarifications on our comments, please do not hesitate to contact me at chris@hkicpa.org.hk.

Yours faithfully,

Chris Joy
Director, Quality Assurance

CJ/dy
Encl.

**HONG KONG INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS - COMMENTS
ON THE FRC CONSULTATION PAPER ON REGULATION OF THIRD COUNTRY
AUDITORS**

Timing of Introduction of Arrangements for Registration

- Q1** How important is it that the Oversight Board has arrangements in place to accept and process applications (both for full registration and under transitional arrangements) from third country auditors as soon as the Commission Decision on transitional provisions is published (expected to be July)? Or should the Oversight Board allow more time to try to use common format application forms with other Member States from the outset? A realistic date for introducing this is September or October (paragraph 1.28).

It would seem to be logical to try to use common format application forms from the outset. Given the time lag is only likely to be a few months and there is no apparent need for third country auditors to rush for registration it would be appropriate for Member States to deal with the matter in a consistent way. However, if the Oversight Board has concerns that delays of even two or three months would adversely affect its ability to get a registration system in place in time to deal with applications from third country auditors then the decision must be made on the basis of operational criteria.

Registration

- Q2** Do you agree with the overall approach to registration and in particular that there should be different requirements for 'transitional' third country auditors and for 'other' third country auditors? What comments do you have on the detailed registration requirements (paragraphs 2.7 to 2.10)?

The overall approach to registration seems reasonable and is in line with similar systems that have been operated effectively by other national regulatory and professional bodies for a number of years. It is reasonable to require more detailed registration requirements for auditors from jurisdictions the EC Commission has currently identified those jurisdictions as not having systems of oversight, quality assurance and investigation and penalties "equivalent" to the standards applied within Member states.

We are pleased to see that in setting out its proposed detailed registration requirements the Oversight Board supports the principle of home country regulation.

- Q3** To what extent should Oversight Board seek to verify the accuracy and reliability of the information provided to apply for registration; to what extent should it rely on the audit firm to provide accurate information; and in particular should the firm be expected to provide references in support of its statement on good repute? (paragraph 2.11).

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The onus should be on the audit firm to provide accurate information. It seems reasonable to expect that should the Oversight Board suspect that information provided is not accurate that it would reserve the right to seek further verification. However, given the detail of information that it is proposed will be required it may be difficult for the Oversight Board to form or justify reasonable suspicion of inaccuracies.

The question of obtaining references to support the statement on good repute seems to go beyond the specific items set out in the consultation paper (including Annex 4) that are required to be supplied by registrant third country auditors. There is no reference to a "statement on good repute". The closest we can identify is the requirement to provide declarations on "fit and proper" on behalf of the firm and individuals. On a conceptual level it is difficult to see how an OTCA, which by definition operates in a country where oversight, quality assurance and investigation and penalties are not of equivalent standard, could identify an appropriate body to give a "reference" in support of any item submitted as part of the registration requirements.

De-Registration

Q4 What are your comments on the proposals on de-registration (paragraphs 2.12 to 2.13)?

The proposals appear reasonable and we would agree that de-registration is likely to occur only in exceptional circumstances.

External Quality Assurance Inspections

Q5 What are your comments on the approach to external inspections of third country auditors (paragraphs 2.14 to 2.15)?

We note and agree that the development of detailed arrangements in this area is not a priority.

We agree that the Oversight Board should follow the principle of home country regulation and that as a result will not generally undertake inspections of TTCAs. We accept that the right to do so should be reserved for specific circumstances.

We agree that regarding the inspection of OTCAs the Oversight Board should accept a range of inspection models. We would encourage the Oversight Board to utilize third country regulators that meet the Article 46 equivalence test to carry out inspections of OTCAs in geographically convenient territories.

Q6 Do you have any suggestions that we should take into account as we develop more detailed ideas for external monitoring 'other' third country auditors?

Other than the comment above on the use of third country regulators and encouraging that OTCA inspections be tailored according to risk assessment, we have nothing to add in respect of OTCA monitoring.

Oversight

Q7 What are your comments on the proposed approach to the continuing oversight of third country auditors (paragraphs 2.16 to 2.17)?

We support the proposal that continuing oversight of TTCAs will be modest. Any requirement for annual reporting should be kept as simple as possible, focusing on significant changes from previously submitted information. The Oversight Board may wish to consider whether in jurisdictions where the third country regulator also requires submission of information on an annual basis, reliance could be placed on the local system to avoid duplication of effort by the TTCA.

We would re-emphasise that the systems and operations established by the Oversight Board in respect of TTCA registration should not need to be complex and that the annual cost of registration should be kept to a minimum.

Investigations

Q8 What are your comments on the proposed approach to investigations and sanctions by the Oversight Board of third country auditors (paragraphs 2.18 to 2.19)?

The proposed approach to investigations and sanctions appears to be reasonable and rightly identifies the need for different approaches for TTCAs and OTCAs.

Fees

Q9 Do you have comments or suggestions on the proposed structure of fees? Do you have comments on the proposed level of fees? (paragraphs 2.20 to 2.27)

We accept that the numbers that have been used in the consultation paper can only be a preliminary assessment. However, we believe that the costs borne by TCAs should not be excessive as any fees paid to the Oversight Board will be in addition to charges already levied by third country regulators.

We do not believe that there is a need for complex systems or operations to set up and maintain a register of TCAs and accordingly the annual registration fee should not be excessive. In view of the additional information required by OTCAs it may not be unreasonable to charge a slightly higher registration fee in those cases.

We would suggest that all other costs be recovered on a "user pays" basis. Inspection costs should be charged directly to the TCA. Consideration needs to be given to determining how inspection costs will be calculated and that there is a consistency in application. Inspection costs will reflect the number of relevant audit clients that an individual TCA is responsible for and it may therefore be appropriate to have a flat rate annual registration fee simply differentiating

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between TTCAs and OTCAs. If the number of relevant audit clients is reflected in the inspection costs then there should be no need to scale the annual fee on that basis.

Costs and Benefits

Q10 Do you have comments on the assessment of costs and benefits in Chapter 4?

We support the inclusion of a regulatory impact assessment in the consultation paper. We agree that it is appropriate to approach these proposals with an aim of minimizing additional regulatory costs. We also support the inclusion of transitional measures that allow third countries to develop equivalent systems of audit regulation and the aim to maximize mutual reliance on those systems.

Other Points

Q11 Do you have any other comments or suggestions on how we should regulate third country auditors?

We have no further comments.