

## LCQ14: Combating unlicensed persons conducting audits

Following is a question by the Hon Edmund Wong and a written reply by the Secretary for Financial Services and the Treasury, Mr Christopher Hui, in the Legislative Council today (February 28):

Question:

Some members of the accounting profession have relayed that the problem of persons impersonating qualified practising accountants and unlicensed audit business intermediaries (commonly known as "agents") carrying out unlicensed audit work has persisted for many years, seriously undermining the reputation of the accounting profession and public interest. On the other hand, the Legislative Council duly passed the Financial Reporting Council (Amendment) Ordinance on October 22, 2021, whereby the Financial Reporting Council became the independent regulatory body for the accounting profession and was renamed the Accounting and Financial Reporting Council (AFRC). The AFRC's statutory functions were expanded on October 1, 2022, to include the inspection, investigation and discipline work of the accounting profession. In this connection, will the Government inform this Council if it knows:

(1) the total number of complaints received by the AFRC from October 1, 2022, to the 31st of last month regarding persons impersonating qualified practising accountants and agents and conducting unlicensed audit business work, and (i) the number of persons impersonating qualified practising accountants and agents and (ii) the amount of money involved; whether the AFRC has commenced investigation into and followed up on such complaints; if so, of the details; if not, the reasons for that;

(2) from October 1, 2022, to the 31st of last month, whether the AFRC has proactively investigated if some enterprises and persons soliciting business in the community under the guise of "accounting firms", "audit services", "accounting affairs firms", "chartered accountancy", etc. are persons impersonating qualified practising accountants or agents; if it has, of the outcome, and whether it has taken follow-up actions; if it has not investigated, the reasons for that; and

(3) whether the AFRC will formulate policy initiatives or mechanisms to combat persons impersonating qualified practising accountants and agents, and conduct joint law enforcement actions with other relevant policy bureaux and government departments (e.g. the Financial Services and the Treasury Bureau, the Inland Revenue Department and the Hong Kong Police Force); if so, of the details; if not, the reasons for that?

Reply:

President,

In consultation with the Security Bureau, the Hong Kong Police Force and the Accounting and Financial Reporting Council (AFRC), my consolidated reply to the three parts of the question is as follows:

The AFRC is a full-fledged independent regulator of the accounting profession. Since the implementation of the new regulatory regime of the accounting profession on October 1, 2022, the AFRC's statutory powers have included the regulation of certified public accountants (CPA) and practice units (which are certified public accountants (practising) (CPA (practising)), CPA firms and corporate practices) through registration, issuance of practising certificates, inspection, investigation and discipline.

According to the Accounting and Financial Reporting Council Ordinance (Cap. 588) (the Ordinance), only practice units registered under the Ordinance are qualified to provide audit services. Sections 20AAZZL to 20AAZZO of the Ordinance stipulate that any unqualified person who pretends to be a practice unit, uses certain misleading descriptions or provides audit services commits a criminal offence.

The AFRC has signed memoranda of understanding with local enforcement authorities and financial regulators to establish case referral and information sharing mechanisms with a view to combating audit-related offences and misconduct. If the AFRC receives a suspected case of an unqualified person pretending to be a practice unit, using certain misleading descriptions or providing audit services and the relevant person allegedly commits the relevant criminal offence under the Ordinance, the case will be referred to the Hong Kong Police Force for follow up. As regards an unqualified person who makes intermediary arrangements for practice units' undertaking of subcontracted audit engagements (commonly known as "agents"), such arrangements may at the same time constitute criminal offences involving an unqualified person pretending to be a practice unit or using certain misleading descriptions, etc. In the case where the person involved is a CPA, the case may at the same time constitute CPA misconduct under the Ordinance in relation to which the AFRC is empowered to impose disciplinary sanctions (such as revocation of registration and pecuniary penalty) on that CPA.

The AFRC maintains a register of practice units on its website for public inspection for the purpose of ascertaining whether a person is a practice unit registered pursuant to the Ordinance and is qualified to provide audit services. In accordance with section 20AAZZN of the Ordinance, only a person/unit issued with a practising certificate or registered may use certain descriptions. Those descriptions/characters include "certified public accountant (practising)", "public accountant", the abbreviation "CPA (practising)", the initials "PA", "åÿ·æ¥æfè"å,«", "è"»å†\$æ ,æ•,å,«", "æ ,æ•,å,«" and "å"è"å,«". The designation of the above descriptions has already taken into account the need to strike a balance in prohibiting the use of misleading descriptions and avoidance of throttling the room for survival of general businesses such as book-keeping and tax services.

The AFRC accords importance to the assurance of audit quality for protection of public interest. It is empowered under the Ordinance to inspect practice units to monitor if the audit services provided by practice units comply with professional standards. If it is suspected that the audit services provided by a practice unit which undertakes subcontracted audit engagements through "agents" or any other means fail to comply with professional standards, the AFRC, when formulating its annual inspection programme, will adopt the proportionality principle and risk-based approach to prioritise its inspection work on that practice unit having regard to the public interest at stake. In the case where the AFRC discovers in a regular inspection that a practice unit fails to comply with professional standards and related regulatory requirements, it will initiate investigation and impose disciplinary sanctions in respect of the relevant misconduct.

During the period between October 1, 2022 and January 31, 2024, the AFRC received six complaints against practice units which allegedly undertook audit engagements via intermediaries and provided services failing to comply with professional standards, six complaints concerning the alleged provision of audit services by unqualified persons, and one complaint concerning a person pretending to be a CPA (practising). The AFRC will handle the aforementioned complaints in accordance with established procedures. If the complaints concern accounting professionals, the AFRC will assess whether there is sufficient evidence pertaining to the complaints for initiation of investigation or disciplinary sanctions pursuant to the Ordinance. If there is suspected commission of relevant criminal offences under the Ordinance, the cases will be referred to the Police for follow up as appropriate.

The Government and the AFRC have been closely monitoring the operations of the accounting profession, and will continue to explore with professional bodies ways to enhance protection of the public against misleading descriptions. We will encourage the public and audit services users to utilise the AFRC's practice unit register for verification of the registration status of CPA (practising) and accounting firms, and will promote public awareness toward audit regulation as well as professional standards of the sector through education and training.