

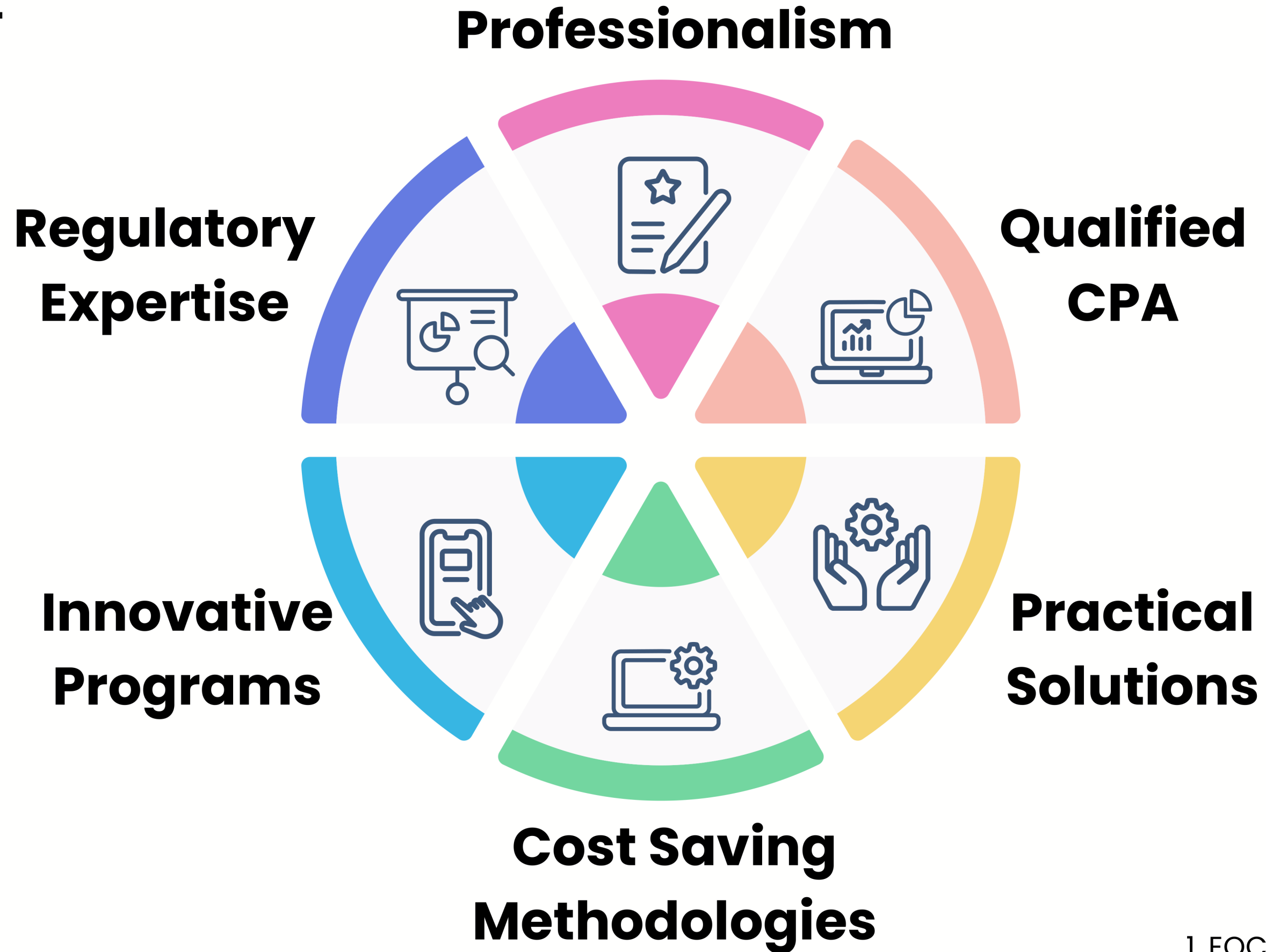
AFRC INSPECTION PREPARATION - PRACTICE AID MANUAL

The Future of Audit Efficiency

Agenda

1. EQC Background and partners
2. Pain Points
3. Traits of a Good Practice Aid
4. Index of our Practice Aid Manual
5. About EQC
6. Special Offers & How it Works

ABOUT EQC



<https://eqcadvisory.com/>



WHAT ARE YOUR PAIN POINTS?



PAIN POINTS IN PREPARING FOR INSPECTION

- 1. Unfamiliar with new process**
- 2. Time and resource allocation**
- 3. Application of new standards**
- 4. Difficulty in Implementing SoQM**
- 5. Documentation of Judgements**
- 6. Ensuring compliance retrospectively**
- 7. Stress and Morale**
- 8. Fear of possible outcomes**



1. UNFAMILIAR WITH NEW INSPECTION PROCESS

- Focus on **System of Quality Management Manual**
- Evidence indicating **good management practices**
- Adequacy of **AML Procedures and Documentation**
- Criteria in **selection of engagements**
- Importance of **external monitoring reviews & cold file reviews**
- Rounds of **Queries**
- **Length** of Inspection
- **Priority** in inspection preparation process

2. TIME AND RESOURCE ALLOCATION

- **No more last minute preparations - 2 days to submit files**
- **Evidence of ongoing allocation of resources**
- **Benchmark for sufficient # of partners & staff**
- **How much time should be allocated to each inspection area**

3. APPLICATION OF NEW STANDARDS

- **HKSA 600 (Revised), HKSQM 1 & 2, HKSA 315 (Revised 2019)**
- **Never been through inspection on latest standards**
- **Take note in retrospective applications**
- **Adequacy of audit documentation**

4. DIFFICULTY IN IMPLEMENTING SOQM

Need clear instructions on SoQM:

- **Which appendices**
- **How to complete?**
- **Other Evidence of implementation**
- **Data security policies**



5. DOCUMENTATION OF JUDGEMENTS

Examples of Judgements:

- **Absence of impairment losses / ECL**
- **Sample sizes for cut-off tests**
- **Decision to not rely on timesheets for resource allocations**

6. ENSURING COMPLIANCE RETROSPECTIVELY

- **AML Effective since 2018 – always done sanction screening?**
- **Firm-Wide Controls Pre & Post-HKSQM 1**
- **Knowing effective dates of latest standards**



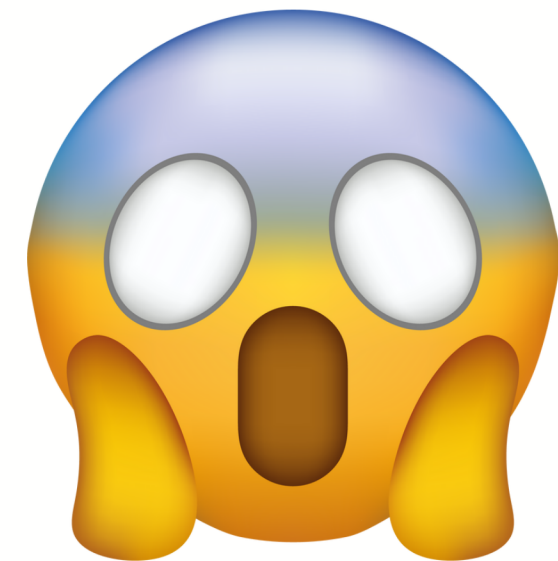
7. STRESS AND MORALE

- **Fear of Reprisals for low audit quality**
- **Fear of over-time and lack of work life balance**
- **Effect on daily business operations**
- **Jumping to short-cuts to avoid inspection**
- **Fear of accepting new jobs during inspection period**



8. FEAR OF POSSIBLE OUTCOMES

- **Fear of possible outcomes may lead to over-preparation**
- **Constantly worried over outcomes rather than focusing on the present inspection process**



WHY USE A PRACTICE AID?

TRAITS OF A GOOD PRACTICE AID



Customized for each Practice



Checklists for each stage of Inspection



Color Coding to prioritize prep tasks



Guidelines on how to allocate resources over a year to prepare for inspection



Illustrative answers for SQM Appendices and inspection forms



Flowcharts help understand preparation process



Model answers for FAQ customized for your practice



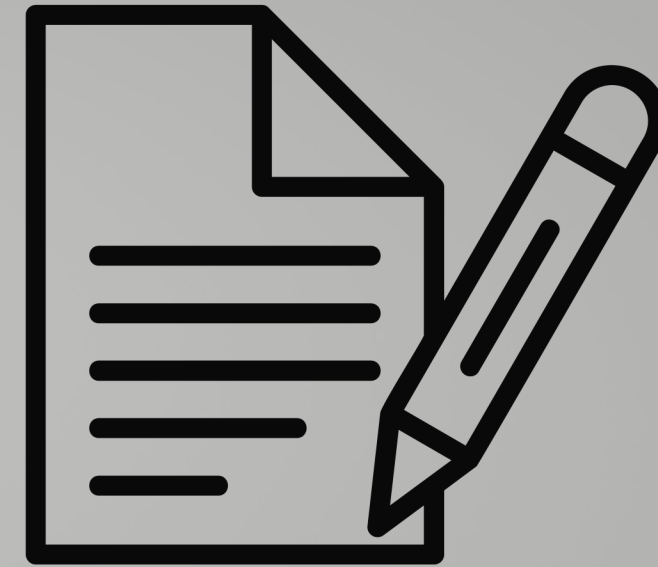
High level review of top fee audit engagements

CUSTOMIZED FOR EACH PRACTICE UNIT



- Customized to your Practice's affiliation with its non-assurance service provider
- Guidelines tailored to your SoQM and AML Manuals
- Model Q & A tailored to the size of your practice
- Option to extend the guidelines to the top 10 audit engagements by fee

CHECKLISTS FOR EACH STAGE OF INSPECTION



Checklists & guidelines available for various stages of inspection:

- Before you receive a notification for inspection
- Immediately after receiving the notification
- Three weeks after receiving notification letter
- Immediately before the on-site inspection begins
- Immediate after conducting the exit meeting with inspectors

COLOR CODING TO PRIORITIZE PREP. TASKS



Color-coded guidelines and titles to indicate **frequency** and **timing** of preparation tasks:

Red Titles - ongoing monitoring every 1 - 2 months

Orange Titles - done annually / semi-annually

Yellow Titles - done well in advance of receipt of notification for inspection

Green Titles - done after receipt of notification but before on-site inspection begins

Blue Titles - done after on-site inspection completed

Purples titles - done after issuance of draft inspection report

COLOR CODING TO PRIORITIZE PREP. TASKS

**Ongoing
Monitoring
Every 1 -2 months**

**Annual /
Semi-Annual
Basis**

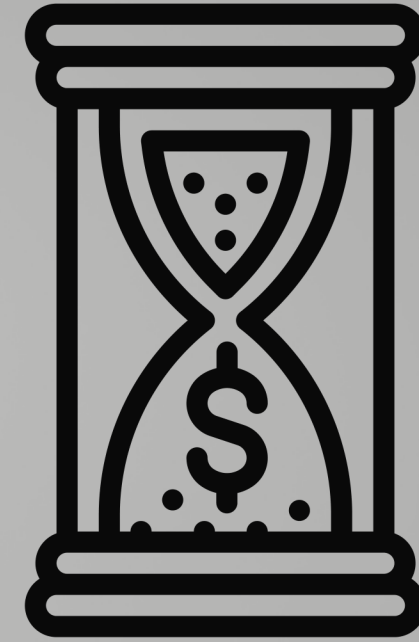
**Done in Advance
before notification
received**

**Done after receipt
of notification**

**Done after on-site
inspection**

**Done after
receipt of
inspection report**

GUIDELINES ON ALLOCATION OF RESOURCES



- **Streamlined Process Visualization**
 - Flowcharts that show each step of the inspection clearly
- **Clear Time Estimations for Tasks**
 - Helps in effective scheduling and prioritization
- **Defined Task Prioritization**
 - Focus on High-Impact activities first

ILLUSTRATIVE ANSWERS FOR PRACTICE UNIT PROFILE

<p>Complexity and operating characteristics of the practice unit <i>(i.e. size of the practice unit, the geographical dispersion of the practice unit, how the practice unit is structured, the extent to which the practice unit concentrates or centralizes its processes or activities (e.g., use of service delivery centers), or the characteristics and availability of the practice unit's resources)</i></p>	
<p>Strategic and operational decisions and actions, business processes and business model of the practice unit <i>(i.e. decisions about financial and operational matters, including the practice unit's strategic goals, how financial resources are managed, growth of the practice unit's market share, industry specialization or new service offerings.)</i></p>	
<p>Characteristics and management style of leadership <i>(i.e. composition of practice unit leadership and their tenure, how authority is distributed among leadership, or how leadership motivates and encourages personnel)</i></p>	
<p>Law, regulation, professional standards and the environment in which the practice unit operates <i>(e.g. the law, regulation, professional standards which may affect the Practice Unit's risk assessment process and the results of the prior years internal/external monitoring review)</i></p>	

ILLUSTRATIVE ANSWERS FOR SOQM REQUEST LIST

Information in relation to the practice unit's system of quality management (SOQM)	
Item	Information requested
1	Ownership structure/organisation chart as at the end of the period specified on the tab "overview" item 2, including (a) the Individual(s) assigned operational responsibility for the SOQM and the person assigned ultimate responsibility and accountability for the SOQM; and (b) personnel responsible for Anti-Money Laundering and Counter-Terrorist Financing (AML / CTF) compliance matters, including compliance officer (CO) and money laundering reporting officer (MLRO).
2	Business structure of the practice unit (e.g., business line, geographical location of office, etc.) and the reporting and responsibility lines of the practice unit as at the end of the period specified on the tab "overview" item 2.
4	Latest performance evaluations related to the operation of SOQM for the individual(s) assigned ultimate responsibility and accountability for the SOQM, and the individual(s) assigned operational responsibility for the SOQM.
5	Latest Quality Management Manual and a list of local customisations made to the global network's Quality Management Manual (if applicable).

ILLUSTRATIVE ANSWERS FOR SOQM REQUEST LIST

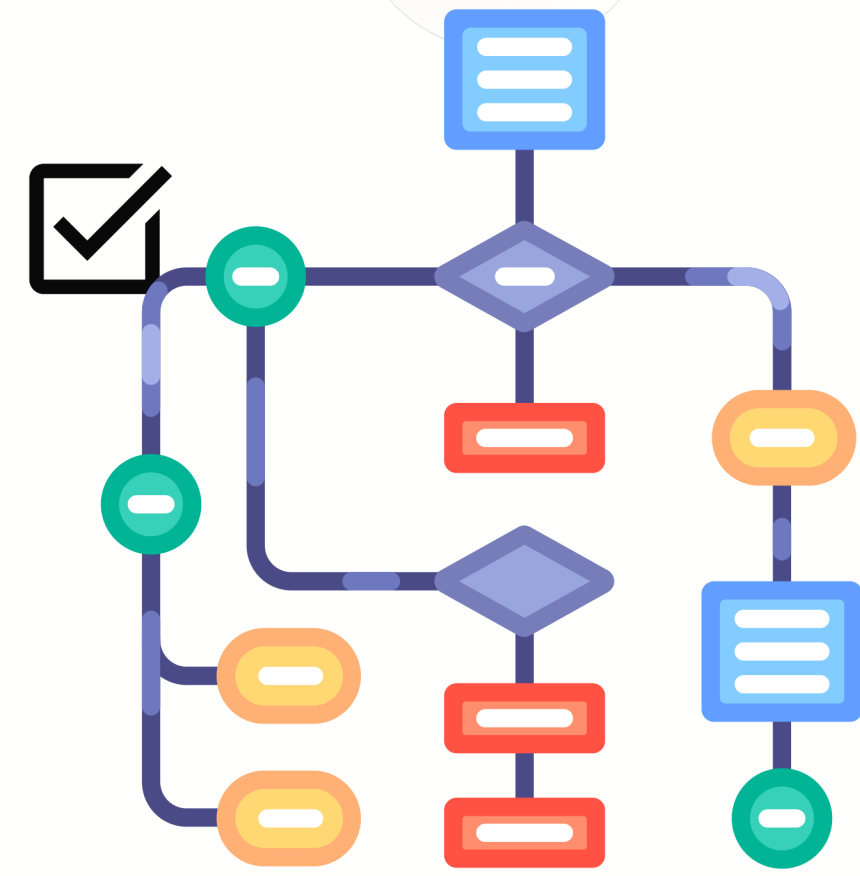
8	<p>Latest documentation of the practice unit's risk assessment process, including:</p> <ul style="list-style-type: none"> (a) The list of information used by the practice unit regarding the nature and circumstances of the practice unit or its engagements when performing the risk assessment; (b) Quality objectives established; (c) The understanding of the conditions, events, circumstances, actions or inactions that may adversely affect the achievement of the quality objectives when assessing the quality risk; (d) Identification and assessment of quality risk to the achievement of the quality objectives; (e) The responses designed and implemented to address the quality risks (Remarks: the responses shall also include the responses specified in HKSQM 1.34.); and (f) Both policies and procedures established to support the operation of the responses.
10	<p>The practice unit's policies and procedures to identify information that indicates additional quality objectives, or additional or modified quality risks or responses due to changes in the nature of circumstances of the practice unit or its engagements.</p>
14	<p>List of communications from the individual(s) assigned operational responsibility for the SOQM, compliance with independence requirements, and the monitoring and remediation process, to the individual(s) assigned ultimate responsibility and accountability for the system of quality management for the period from 15 December 2022 to the end of the period specified on the tab "overview" item 2.</p>

ILLUSTRATIVE ANSWERS FOR SOQM REQUEST LIST

15	<p>List of communication to the engagement team and individual assigned responsibilities within the practice unit, including the practice unit's chief executive officer, or if appropriate, its managing board of partners for the period specified on the tab "overview" item 2 in respect of:</p> <p>(a) The details of the monitoring activities performed;</p> <p>(b) The identified deficiencies (including the severity and pervasiveness of such deficiencies); and</p> <p>(c) The remedial actions to address the identified deficiencies.</p>
20	<p>Policies and procedures designed to promote an internal culture recognizing quality that setting audit quality as tone at the top.</p>
22	<p>Agenda and minutes for the meetings held by the practice unit's management bodies, including but not limited to, all partners/directors meeting, management and board meeting, and any practice unit's committees dedicated to maintaining audit quality, during the period specified on the tab "overview" item 2.</p>
31	<p>Criteria and tools used for staff scheduling (role, years of experience, skills or certifications, etc.).</p>
32	<p>Latest templates for recruitment documentation (for example, interview forms) for each grade (from associate to partner).</p>
33	<p>Latest competency framework which sets out the expectations of performance and roles and responsibilities for each staff</p>

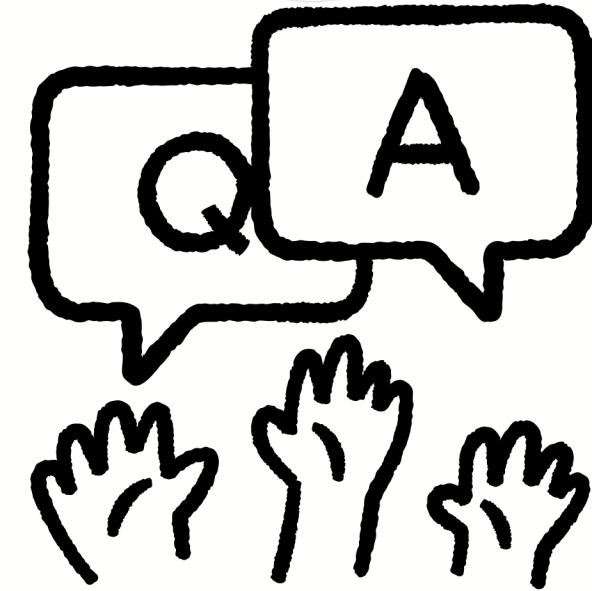
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FLOWCHARTS HELP UNDERSTAND PROCESS



- Lists the preparation docs for each step of the way
- Have a peace of mind knowing all the next steps
- Visualize the possible outcomes when certain deficiencies are not resolved in advance
- Learn the chronological order of key dates

MODEL ANSWERS FOR FAQ



- Customized questions – so you won't have to go through irrelevant questions.
- Sorted by stages of the inspection for easier reading
- Model answers provided for each FAQ of inspectors
- FAQ tailored to your high fee audit engagements
- Tips and Guidelines for each FAQ so you know how you shouldn't answer

REVIEW OF TOP FEE ENGAGEMENTS



- Let us review your top audit fee engagements
- Identify a checklist of working papers you must have to address key risks for these engagements
- Simply reviewing the AFS, we can identify FAQ on those audit risks and issues
- Inspectors have only been reviewing from top 10 audit fee engagements / regulated entities / entities with Public interest elements

INDEX & LAYOUT

PRACTICE AID INDEX



2. System of Quality Management (SoQM)

2.1. Review of SoQM Manual

2.1.1. Documentation and Implementation

2.1.2. Ongoing Policy Moniotring

2.1.3. Completed File Monitoring

2.1.4. Internal Cold File Review Procedures

2.1.5. Minutes of SoQM Implementation Meetings

2.1.6. Staff Appraisal Records

2.1.7. Independence and Confidentiality Declarations

2.1.8. Fit and Proper Tests Compliance

2.1.9. Annual Self-Evaluation of SoQM Implementation

2.1.10. Root Causes Analysis Post External Monitoring/AFRC Inspection

2.1.11. IES 8 Table A Completion

4. Engagement Lists and Related Documents

4.1. Compilation of Engagement Lists

4.1.1. Non-PIE Engagements (Worksheet 4A)

4.1.2. Major/Extreme Transactions of PIEs (Worksheet 4B)

4.1.3. Non-PIE Ongoing Engagements (Worksheet 5A)

4.2. Preparation of Practice Unit Profile (Worksheet 1A)

4.3. Partner Information (Worksheet 1B)

4.4. SoQM Evidence Compilation (Worksheet 2)

4.5. AML Evidence Compilation (Worksheet 3)

PRACTICE AID INDEX



5. Audit Engagement File Review

5.1. Audit Program Completion

5.2. Client Acceptance and Engagement Continuance Procedures

5.3. High-risk Area Assessments

5.3.1. Revenue Recognition Auditing

5.3.2. Asset Valuation Auditing

5.3.3. Key Accounting Estimates Auditing

5.3.4. Justification of Audit Opinions

5.3.5. Management Override of Controls Auditing

6. Independence and Segregation of Duties with TCSP

6.1. Independence and Segregation of Duties Policies

6.2. Security Controls Between CPA Practice and TCSP

6.3. Ensuring Separate AML Procedures for CPA Practice and TCSP

ABOUT EQC

OTHER SERVICES OF EQC COMPLIANCE ADVISORY



**External Monitoring
Review**



**System of Quality
Management**



TCSP Regulatory



**AFRC Inspection
Preparation &
Responses**



AML Compliance

SPECIAL OFFERS

INSPECTION PREPARATION

PRACTICE AID MANUAL

Audit Engagements Reviewed & FAQ & Checklists on Engagements Reviewed	Price
None	30,000
1	45,000
2	58,000
3	70,000
4	80,000
5	85,000
10	110,000

INSPECTION PREPARATION PACKAGES

Starter Pack A

Review of SoQM Manual
Drafting of Appendices to SoQM
Drafting of Minutes for Implementation of SoQM
Review of AML Documentation
1 High Level File Review

\$25,000

Optimal for new practices and sole proprietors with fewer than 3 employees

4-6 weeks to completion

Protection Pack B

Review of SoQM Manual, Drafting of Appendices and Minutes for Implementation of SoQM
Review of AML Documentation
2 High Level File Reviews
Drafting of Revenue Working Paper Templates for 2 industries
30 AP3.0 Credits with Validity period of 18 mths

\$50,000

Optimal for Category E practices

4-6 weeks to completion

Prep. Pack C

Review of SoQM Manual, Drafting of Appendices and Minutes for Implementation of SoQM
Review of AML Documentation
3 High Level File Reviews
Drafting of Revenue Working Paper Templates for 3 industries
60 AP3.0 Credits with Validity period of 3 years
Customized Practice Aid Manual for AFRC Inspection Preparation

\$75,000

Optimal for Practices that focus on staff development and preparation of Inspections

6-8 weeks to completion

HOW IT WORKS?

01



Understand

Meeting and questionnaire to understand your practice

02



Review AFS

Provide scanned copies of audited financial statements of the highest fee engagements to us

03



Complete

We take 4 weeks to draft the Practice Aid Manual

04



Discuss

We present the practice aid in person / over zoom

05



Implement

Your team implement the practice at your own timing

THANK YOU

Act now!

Master your AFRC inspection preparation with our comprehensive practice aid manual—your essential roadmap to compliance and confidence!

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