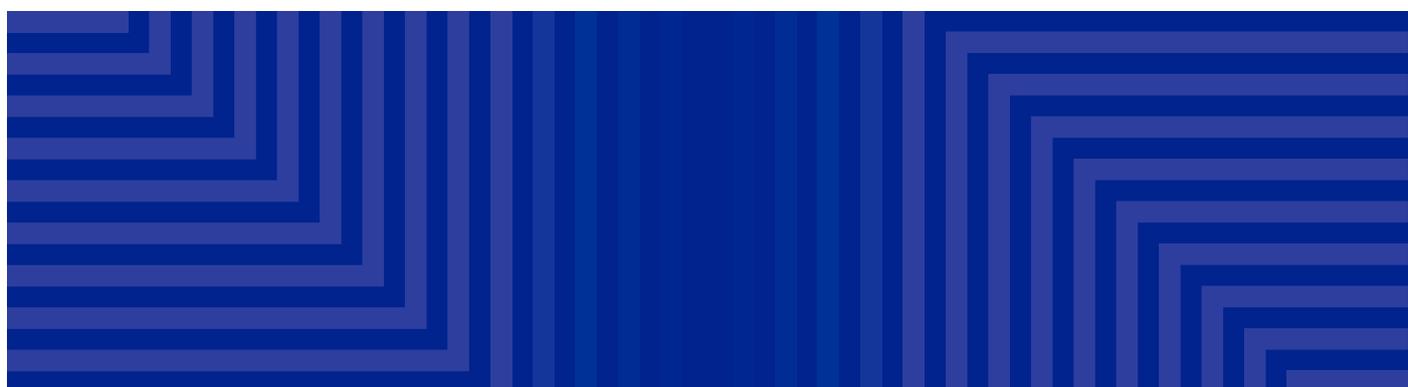


AFRC Quarterly Report

ENG | 繁 | 簡



Launch of reformed regulatory regime for the accounting profession

Message from the Chairman of the AFRC

It is my privilege to introduce to you our new identity as the Accounting and Financial Reporting Council (AFRC). Our new name heralds the implementation of the further reform of the regulatory regime and transforming us to be the independent regulator of the accounting profession in Hong Kong.

Our new status builds on the initial reform of the regime in 2019, which gave us the power to regulate auditors of listed entities. The further reform extends our regulatory power to the auditors of all entities in Hong Kong and gives us the power to regulate all accounting professionals. It also vests in us the power to license practising accountants and to register their firms and corporate

practices as practice units and as auditors of listed entities. The Oversight, Policy and Governance Department has been renamed the Policy, Registration and Oversight Department to reflect the significant increase in our registration and licensing functions.

In addition, our oversight function has been extended to include the performance of all continuing self-regulatory functions of the Hong Kong Institute of Certified Public Accountants (HKICPA). These are significant and primarily relate to qualification of professional accountants and the setting of their professional standards and requirements for continuing professional development.

These changes further align the regulatory regime in Hong Kong with the international practices of our major trading partners with respect to independent regulation of the accounting profession. A robust independent regulatory regime is essential for maintaining and reinforcing Hong Kong's status as an international financial centre and business hub. This also facilitates the long-term sustainable development of the accounting profession. Furthermore, practice units that audit listed entities and non-listed entities will be regulated solely by the AFRC.

As the independent regulator of the profession, we will spearhead and lead the accounting profession to constantly raise the level of quality of professional accountants, and thus protect the public interest. Our purpose is to shape a competitive environment that will nurture and promote the success of the profession. This pivotal role not only enhances the quality of financial reporting but in turn reinforces our pursuit of promoting the healthy development of the profession and Hong Kong's position as a competitive international financial centre.

As a financial regulator, we intend our regulatory actions to create positive ripple effects in the business environment that will bring benefits to the accounting profession, to the economy and to Hong Kong. These ripple effects are visually reflected in the letter 'F' of our new logo.



The governance of the AFRC will continue to be led by the existing Board, which is independent of the profession and is composed of the Chairman, 10 other Non-Executive Directors and the CEO. A new statutory Advisory Committee was formed on 29 July 2022 by the HKSAR Government to provide advice on matters of policy in relation to any of AFRC's objectives and functions. Six committees established by the Board will provide advice and assistance to the Board in overseeing the functions of the AFRC:

- (i) the Inspection Committee;
- (ii) the Investigation and Compliance Committee;
- (iii) the Policy, Registration and Oversight Committee;
- (iv) the Discipline Committee;
- (v) the Finance and Corporate Affairs Committee; and
- (vi) the Compensation and Nomination Committee.

Our Committee structure mirrors our departmental structure and provides a sound oversight mechanism to ensure the effective discharge of responsibilities and accountability of the AFRC to the public. The Discipline Committee was established in August 2022 as the Discipline Department will soon begin to handle cases. The remits of all the Committees are expanded in line with our broader regulatory functions. The Oversight, Policy and Governance Committee has been renamed the Policy, Registration and Oversight Committee consistent with the renaming of the respective Department.

Looking ahead, the AFRC will exercise the full spectrum of our regulatory powers, the positive and significant effects of which will ripple through the profession, the capital markets and Hong Kong. We look forward to the continued support of all of our regulatees and stakeholders to extend and multiply the ripple effects of the AFRC's regulatory actions to uphold the quality of financial reporting and promote the long term sustainable development of the accounting profession.

AFRC Launch Ceremony

On 29 September 2022, the AFRC hosted the AFRC Launch Ceremony (the Ceremony) to celebrate our new roles under the new regulatory regime. The Ceremony was graced by the Guest of Honour, the Honourable Paul Chan Mo-po, GBM, GBS, MH, JP, Financial Secretary of the HKSAR Government who delivered a remark and performed the launch ceremony with Dr Kelvin Wong, SBS, JP Chairman and Mr Marek Grabowski, CEO of the AFRC to unveil the new logo.

In blue and grey, the logo carries the connotation of AFRC creating positive rippling impacts for the profession, for public interest and for Hong Kong. This mission is embedded in the design of the 'F' in the logo and other logo applications.

The Ceremony was attended by over 350 guests who appreciated the 'Time Tunnel' exhibition that detailed the transformation process of the AFRC from former FRC. Distinguished guests and staff of AFRC shared the joyful moments by taking photos at the photo booth.

To extend our gratitude for their presence, four souvenirs including a notebook, a tin of cookies, 'carrot and stick' candies and a tote bag bearing the AFRC identity were presented to our guests and staff. They found them meaningful and interesting. To view the photos, please [click here](#).



Dr Kelvin Wong, Chairman of AFRC delivers a welcome remark



Guest of Honour the Honourable Paul Chan Mo-po, Financial Secretary of the HKSAR Government delivers a remark



The Honourable Paul Chan Mo-po, Financial Secretary (2nd, left) performs the Launch Ceremony with Dr Kelvin Wong, Chairman (right) and Mr Marek Grabowski, CEO of the AFRC to unveil the new logo of AFRC.



Board Members of AFRC take a group photo with the Honourable Paul Chan Mo-po, Financial Secretary (centre) of the HKSAR Government, Mr Joseph Chan, Acting Secretary for Financial Services and the Treasury (5th, right) and Ms Salina Yan, Permanent Secretary for Financial Services and the Treasury (5th, left) at the Launch Ceremony



The Honourable Paul Chan Mo-Po, Financial Secretary (6th, right), Mr Joseph Chan, Acting Secretary for Financial Services and the Treasury (4th, right) and Ms Salina Yan, Permanent Secretary for Financial Services and the Treasury (5th, left) takes a group photo with Management of the AFRC



Dr Kelvin Wong, Chairman of AFRC introduces the Time Tunnel exhibition to the Honourable Paul Chan Mo-Po, Financial Secretary

Implementing our broader regulatory remits

Disciplinary regime for professional persons

With the expansion of the AFRC's disciplinary powers to cover professional persons (i.e. CPAs and practice units), the applicable policies and processes have been published on our [website](#) and will come into effect on 7 October 2022 upon the gazettal of the fining guidelines. These policies and processes were developed following our comprehensive [stakeholder engagement and consultation](#) earlier this year.

The Department of Discipline stands ready to process disciplinary cases in accordance with our established guidelines. In doing so, we aim to ensure the efficient and effective discharge of our disciplinary function in a transparent and fair manner. To provide application guidance on our regulatory principles, we will publish our disciplinary decisions on our website in the form of press releases and statements of disciplinary action when available.

Inspection of all practice units

With the expanded inspection powers being vested with AFRC, the Department of Inspection will cover all practice units in its inspection programme, adopting the principle of proportionality and a risk-based approach. We will progressively implement our inspections of practice units that are not listed entity auditors. We will focus our initial efforts in relation to these practice units on dialogue and understanding of their scope of practice and the challenges they face and the risks of harm to the public interest in relation to their performance of audits and assurance engagements.

We remain steadfast in our commitment to protect investor interests and the wider public interest in the quality of financial reporting. Our consistent and transparent efforts are made to promote high audit quality through:

- (i) Conducting inspection with a focus on effective prevention and detection of audit and quality management deficiencies;
- (ii) Providing tools to improve audit quality such as sharing good practices and root causes of common deficiencies being observed; and
- (iii) Monitoring the timely and effective performance by practice units of remediation actions related to audit quality.

The policy statements and outlines of the inspection processes for all practice units (including compliance with the anti-money laundering and counter-terrorist financing requirements) are made available in the AFRC website. The Department of Inspection will strive continuously to discharge our inspection function in a manner that is practical and fair to our regulatees without comprising the public interest.

Complaints and investigations relating to CPAs and practice units

From 1 October 2022, the Investigation and Compliance Department is charged with handling complaints and investigations relating to CPAs and practice units, in addition to its investigation and enquiry functions respectively relating to PIE auditors and financial reporting of Hong Kong listed entities. Anticipating a increase in the number of cases and widening of work scope, the Department has significantly expanded its team of professional staff, who are richly experienced in handling complaints and investigations relating to CPAs and CPA practices. The Department is also working to streamline its internal procedures to expedite the processing of cases, and strengthen cooperation with other regulators including the Stock Exchange of Hong Kong and the Securities and Futures Commission in the area of case referrals, to effectively discharge the AFRC's regulatory responsibility and meet the aims and expectations enshrined in the reform.

CPAs and practice units are encouraged to visit the new AFRC website to learn more about the [investigation process](#) and complaint outcomes. Members of the public and whistleblowers play an important role in supporting the work of the Department by bringing relevant allegations of misconduct to our attention. You can follow these links to better understand how you can file an effective [complaint](#) or [whistleblowing report](#).

Policy, Registration and Oversight

From 1 October 2022, the Department of Policy, Registration and Oversight (formerly known as the Department of Oversight, Policy and Governance) is supporting the AFRC's new role as an independent registrar. The AFRC is now responsible for:

- (i) Approving the issuance of practising certificates to CPAs and registering them as practising CPAs (CPA(P));
- (ii) Registering firms and corporate practices of CPA(P) s; and
- (iii) Approving and registering firms and corporate practices as auditors of listed entities (registered PIE auditors).

In preparation for the new function, the Department has developed [application guides](#) and a dedicated [website](#) outlining the registration criteria and procedures. The Department has also built a dedicated team and implemented an online system to facilitate the receipt and processing of applications.

For continuity, the registration criteria and requirements remain largely the same as in the past. Procedurally, there are some key differences that are worthy of note. First, applicants for practising certificates will need to submit declarations to demonstrate that they satisfy the fit and proper person to be a CPA. Second, to renew their registrations, corporate practices are required to submit their amended Articles of Association (AA), which should comply with the Model AA issued by the HKICPA in October 2022. Third, to support a sustainable future, practising and registration certificates will only be available in electronic form going forward.

The AFRC started accepting applications from 1 October 2022 for new registrations and renewals of PIE auditors. The renewal process for practising certificates, CPA firms and corporate practice registrations will begin on 1 November 2022, with the submission deadline on 15 December 2022. Fees for applications or renewals of practising certificates, CPA firms, and corporate practice registrations submitted before 1 October 2023 are waived.

Applicants should refer to the [application guides](#), [FAQ](#), and other information on our [website](#) when preparing for registration or renewal. For further information, applicants may wish to attend the following webinars during which members of the Policy, Registration and Oversight Department will be available to answer questions. Details of the webinars and the hosting organisations are as follows:

- (i) the HKICPA (6.30pm, 10 October 2022); and
- (ii) the Society of Chinese Accountants and Auditors (6.30pm, 12 October 2022).

If you have any questions regarding the above, please contact us at registration@afrc.org.hk or +852 3586 7800.

Other developments in 2nd quarter FY2022-23 (to Sep 2022)

Summer Internship Programme nurtures future accounting professionals

The AFRC hosted an 8-week Summer Internship Programme (SIP) from 4 July 2022 to 26 August 2022 in which nine interns were given the opportunity to gain hands-on experience in relation to the regulation of the accounting profession.

During the SIP, each intern was attached to each of the AFRC's departments and involved in their daily operations. Through participating in a series of well-structured training courses, they learnt about the importance of upholding the quality of financial reporting and the pivotal role that the AFRC plays in this respect.

As a finale of the SIP, the interns participated in a Group Project in which they developed and delivered presentations to the Chairman and Management team of the AFRC to share their insights and ideas on how the AFRC could promote high-quality sustainability reporting by companies.

The interns found the SIP highly inspirational and treasured the valuable opportunity for them to broaden their horizons in the accounting profession.



Summer interns find the AFRC Summer Internship Programme highly inspirational

A new chapter of collaboration with the Hong Kong Police Force

On 16 September 2022, the AFRC and the Hong Kong Police Force (HKPF) signed a Memorandum of Understanding (MoU) to expand and strengthen cooperation through case referrals, joint investigations, investigative assistance, capacity building and the exchange of information.

The MoU enables full collaboration and cooperation in the performance of AFRC and HKPF's respective duties in combatting commercial crime and illicit activities and in maintaining the integrity of financial reporting and audit quality in Hong Kong.

Such collaboration is important to maintain and strengthen the integrity and fairness of the capital market and general business environment in Hong Kong.



HKPF signs MoU with AFRC to enhance collaboration in upholding integrity and fairness of financial market

Signing a Revised Statement of Protocol with HKICPA

On 16 August 2022, the AFRC entered into a [Revised Statement of Protocol on Oversight Arrangements](#) (Revised Statement of Protocol) with the HKICPA. The signing was witnessed by Mr Christopher Hui, Secretary for Financial Services and the Treasury.

Since 1 October 2019, the AFRC has exercised oversight of the HKICPA in the performance of its statutory functions in relation to registration, the setting of professional ethics and audit related standards, and the setting of continuing professional development (CPD) requirements for local listed-entity auditors.

From 1 October 2022, the scope of HKICPA's functions that are subject to the AFRC's oversight was broadened. The Revised Statement of Protocol sets out AFRC's oversight arrangements in relation to the following statutory functions of the HKICPA:

- (i) ascertaining the qualification for registration as CPAs by conducting examinations;
- (ii) registering CPAs;
- (iii) arranging for mutual or reciprocal recognition of accountants;
- (iv) setting continuing CPD requirements for CPAs;
- (v) issuing or specifying standards on professional ethics, and accounting, auditing and assurance practices for CPAs; and
- (vi) providing training for qualifying as and the CPD of CPAs.

Our oversight ensures the effective functioning of these critical elements in the regulation of accounting profession, which continue to be carried out by the HKICPA as a self-regulatory body within what is intended to be an independent regulatory regime for listed-entity auditors.

The HKICPA plays an important role in upholding the standards of the accounting profession and in contributing to its sustainable development in Hong Kong. Through the Revised Statement of Protocol, the AFRC aims to provide clarity and transparency in its oversight approach, which will improve effectiveness, accountability and integrity, and which will in turn contribute towards our eventual goal of enhancing public confidence in financial reporting in Hong Kong.



The AFRC and the HKICPA sign a Revised Statement of Protocol on Oversight Arrangement which was witnessed by Mr Christopher Hui, Secretary for Financial Services and the Treasury

AFRC holds a Briefing and an Appreciation and Cocktail Reception for Financial Reporting Review Panel members

Quality financial reporting is the backbone of an efficient financial market, failing which public confidence and trust in listed companies will be undermined. The AFRC is vested with the power to enquire into potential non-compliance with accounting requirements in the financial reports of listed entities. Members of the Financial Reporting Review Panel (FRRP) play an important role in conducting enquiries and making recommendations to the Board of the AFRC on the removal of non-compliance identified, thereby upholding the quality of financial reporting and enhancing investor protection.

On 16 September 2022, the AFRC held a briefing for members of the FRRP. At the briefing, Ms Wincey Lam introduced the remit and powers of the enquiry function, the role of the FRRP and the enquiry process.

After the briefing, an Appreciation and Cocktail Reception was held to express sincere gratitude to the retired members of the FRRP including Dr Kam Pok-man, BBS, Mr Carlyon John Knight-Evans, Mr Lee Ka-sze, Carmelo, JP, Dr Lee Yin-toa and Mr Kenneth Graeme Morrison for their contributions in conducting enquiries, and to welcome new and reappointed convenors and members.

The AFRC will continue working closely with the FRRP to uphold the quality of financial reporting of listed entities and protect the public interest under the new regulatory regime.



AFRC Chairman Dr Kelvin Wong (right) presents Certificates of Appreciation to Dr Kam Pok-man (left), at the cocktail reception and to Mr Lee Ka-sze, Carmelo, via zoom

Contacts



If you have any enquiries or comments, please feel free to contact us.

Accounting and Financial Reporting Council
24/F, Hopewell Centre, 183 Queen's Road East,
Hong Kong

T: (852) 2810 6321

F: (852) 2810 6320

E: general@afrc.org.hk

W: afrc.org.hk

Copyright © 2022 Accounting and Financial Reporting Council