

e-News

Mr Marek Grabowski, CEO



Welcome Message from the new CEO

It is my great honour and privilege to have been appointed by the Chief Executive as the CEO of the FRC. At the beginning of this edition of e-news, allow me to introduce myself briefly, share my aspirations and regulatory approach and provide an update on our progress.

My background

Leading the FRC means leading an organisation that serves the public interest in driving up the quality of independent auditing by the auditors of listed entities in our capital markets, and the quality of financial reporting by such entities. This is a role I am very passionate about. Whether as a financial regulator or as a professional accountant with a global accounting network, my whole career has been dedicated to that purpose.

In joining the FRC, I bring more than forty years' experience in another international financial centre. Most recently, I was the Director of Audit Policy for the UK Financial Reporting Council, where I led the development and maintenance of the standards for auditing, assurance and professional ethics for auditors and reporting accountants for more than 10 years. During this time, I also served as a public member of the International Auditing and Assurance Standards Board, leading and contributing to the development of the international standards for auditing and assurance over six years.

Prior to that, I was a practising public accountant with the UK firm of a global accounting network for more than 31 years, including as a partner for more than 20 years. As a

practitioner, I led audits, services as reporting accountant on cross-border IPOs and other capital markets transactions, and accounting and auditing technical specialist services both for clients and the network's global engagement teams.

When I joined the FRC Board on 12 October, the FRC had just passed its first anniversary as the full-fledged independent auditor regulator of Hong Kong, with three new statutory functions in addition to our existing investigation function – oversight, inspection and discipline. The FRC had already established its new governance arrangements and made considerable progress in establishing its new functions.

The updates later in this edition of e-news are testament to the progress already made. They also recognise the excellent and much appreciated contributions made by three of our recently retired Board members to the transformation of the FRC.

My aspirations and regulatory approach

My aspiration is for the FRC to evolve to fulfil its regulatory objectives across the full range of its functions and to achieve justified recognition as an independent regulator that exercises its powers with the strength necessary to protect the public interest in an impartial and proportionate manner.

The FRC plays a pivotal role at the heart of the financial regulatory system for Hong Kong's capital markets. The FRC will stand up for the interests of the investing public and the protection of the wider public interest in the growth and development of Hong Kong's capital markets, in seeking to drive up the quality of listed entity financial reporting and audits. These public interests are manifold and include the sustainable development of Hong Kong's listed entities and auditing industry as well as the continued economic success of Hong Kong as a leading International Financial Centre.

I will work to bring together our different functions to enable them to meet our regulatory outcomes as one FRC. We will carry out those functions efficiently and in a holistic manner, using a risk-based approach to ensure that we are effective in meeting our regulatory outcomes by directing our resources to the areas where they will have the most impact on those outcomes. Together, we will drive high quality financial reporting and audit through performing our mandated regulatory functions to oversee, monitor, inspect and enforce compliance but we will also deploy discretionary regulatory activities with a view to influencing and shaping the behaviours of our regulatees through policy and governance

initiatives. We will provide guidance to the market to make our expectations transparent, based on our findings and through engaging with our regulatees and other stakeholders to explain our points of view and to listen to theirs.

Given our position at the heart of the financial regulatory system for Hong Kong's capital markets, we will collaborate closely with local regulators to identify areas of risk and to address them.

Given the special position of Hong Kong as a leading international financial centre and a hub for cross boundary and cross border financing, collaboration with Mainland and international regulators will also be critical to the success of our work. We place a special emphasis on such collaboration and, given the significance of Mainland enterprises and their audits to our regulatory remit, building a strategic relationship with the Supervision and Evaluation Bureau of the Ministry of Finance (SEB) is a key priority for us.

Status of our work

Our inspection function is up and running and is coming to the end of its field work for its first cycle of inspections. It has been able to keep to its inspection plan despite Covid-19. We have now issued our interim inspection report to provide intelligence to all auditors and other market participants about our findings from the inspection work we have performed to date as discussed below.

Our oversight, policy and governance function has also completed its first cycle of recognition of overseas auditors and has started its second cycle. We have also now issued our first report on our oversight of the performance of the specified functions by the HKICPA, as discussed below.

Furthermore, oversight, policy and governance has begun a number of research projects to enable us to support our broader objectives in influencing and shaping the behaviours of our regulatees and other stakeholders to support our regulatory objectives. The reports from these projects are expected to be published in early 2021. They include an audit market analysis project and governance related projects to provide insights relevant to the role of audit committees in relation to the quality of their audits and alert them to matters on which they may be able to challenge their auditors.

Our investigation function is continuing to address ongoing investigations under the old

regime. Investigation cases under the new regime are expected to begin to come through as our inspection work is completed on engagements started after 1 October 2019, when the new regime was implemented. We have recently received the first batch of Mainland working papers under the operation of our MoU with the SEB and it is now a priority for us to progress the related investigations.

Our discipline function is last out of the blocks because the work of this function will start later when new regime cases have progressed through our investigation function. However, we are making progress here too. We have been focused on putting in place the resources and policies and procedures to enable this function to be in place in good time.

Press Briefing to announce first FRC reports

On 11 December, the FRC held a press briefing at which I met with the media together with our Chairman Dr Kelvin Wong, Mr Benjamin Rhys, Head of Inspection and Ms Florence Wong, Head of Oversight, Policy and Governance. This was my first introduction to the media in Hong Kong, and we also briefed them on the following important milestones achieved in the first year of our operation under the new regime.



Dr Kelvin Wong, Chairman (2nd from left), Mr Marek Grabowski, CEO (2nd from right), Ms Florence Wong, Head of Oversight, Policy and Governance (1st from left) and Mr Benjamin Rhys, Head of Inspection (1st from right) met the media at the press briefing

Release of Interim Inspection Report

The first inspection cycle of the FRC started in March this year and has been running smoothly. As of the end of October, we have completed 18 of 39 planned engagement inspections and 15 of the 18 inspections of the quality control systems of auditors of listed entities to be conducted in 2020.

In the middle of the inspection cycle, we have issued an interim inspection report to set out our expectations for auditors of listed entities to take action to address our findings both in relation to the effectiveness of their audit quality control systems and in the performance of their engagements. Another important purpose of this report is to alert audit committee members to our key findings and the potential implications for their audits. They have a pivotal role in holding their auditors to account for delivering their audits to a high quality. We urge them to challenge their auditors as to whether they are taking the necessary action to ensure that the deficiencies identified in our findings will not occur in their audits.

Highlights of findings:

Although much of the work being performed is of an appropriate standard, there is an evident need for the incidence of audit deficiencies to be reduced so as to improve audit quality across the market for listed entities.

We identified areas of non-compliance with professional standards common to a number of the audit engagements that we inspected. Chief among these was the lack of adequate exercise of professional scepticism in areas such as going concern and asset impairment assessments, and where there was a higher risk of management bias or fraud. When significant, deficiencies in the exercise of professional scepticism may result in the auditor not having the evidence necessary to draw their conclusions on the financial statements.

Common deficiencies have also been identified in a number of other areas of audit work, including identifying and addressing the risk of management fraud, the use of an auditor's expert and the assessment of a company's application of accounting standards.

Individual findings from inspections of engagements do not necessarily indicate that there is an issue with the financial statements but rather that the quality of the audit has been affected by deficiencies in important aspects of the work.

The report highlights areas of good practice and areas of improvement in the systems firms use to control the quality of their audits, including those around determining independence from audit clients, management of resources and promoting an internal culture that recognises the importance of audit quality.

[The report](#) also identifies potential areas where risks to the performance of high quality audit engagements may be higher in the coming audit cycle and on which we may place greater focus in our inspections in 2021. These areas relate to common findings identified from inspections, the implementation of a revised auditing standard on accounting estimates, and the auditor's response to current economic conditions throughout the engagement.

When our first inspection cycle is complete in March 2021, we will communicate to the public an update of our findings from the remainder of our first cycle, the outcome of our overall evaluation of their significance and our directional observations on the implications for the public interest in the quality of listed entity audits.

[Report on the assessment of the HKICPA's performance of the specified functions published](#)

We have also completed our first assessment of the performance of the specified functions of the HKICPA and [a report](#) outlining our findings and recommendations has been published. We take a holistic approach to our assessment, which includes considering not only the policies, process and procedures established by the HKICPA and how they are implemented but also the related governance arrangements.

Our findings vary in their significance to the effective performance of the specified functions. Many of our recommendations address the need to strengthen HKICPA's policies and procedures including those for the selection of members of committees responsible for the specified functions for the maintenance of the terms of reference of such committees, and for setting specific continuing professional development (CPD) requirements for local PIE auditors. We believe that adequate follow-up actions taken by the HKICPA to address each of our recommendations will serve the public interest in audit quality well.

Highlights of findings:

For the selection of members of committees responsible for the specified functions, we noted that the HKICPA's general internal guidance for the appointment of committee members does not set out the specific knowledge and skills expected from committee members in discharging their duties concerning the specified functions. The documentation on the selection and approval of appointment did not indicate a formal evaluation of the contribution of committee members when reappointing them to the committees.

We noted that the existing terms of reference for the HKICPA's Ethics Committee did not reflect the committee's power and responsibility in setting CPD requirements for

certified public accountants which have been delegated from the HKICPA Council since 2009.

The professional competence and capabilities that are expected from registered PIE auditors may be different from other certified public accountants. However, the existing CPD requirements prescribed by the HKICPA apply to all certified public accountants, including registered PIE auditors.

Effective cross-boundary cooperation between the Supervision and Evaluation Bureau of the PRC Ministry of Finance and the FRC

The FRC has obtained the first batch of the audit working papers located in the Mainland that it requires to carry out its investigations into possible auditing irregularities. This marks a critical milestone in cooperation between the SEB and the FRC.

In view of the significance of listed entities with Mainland operations to the capital markets in Hong Kong, cooperation with the SEB is a strategic priority for the FRC. The receipt of the audit working papers demonstrates the successful implementation of the Memorandum of Understanding signed between the SEB and the FRC in 2019.

To date, the FRC has raised such requests for 11 investigation cases. The audit working papers that have been received relate to the first 7 of these cases. The working papers are critically important for the FRC to continue with the investigations concerned and to investigate whether there are auditing irregularities and accounting non-compliances that may adversely affect the public interest.

We will now build on the excellent spirit of co-operation between us to extend our collaboration across the full scope of our regulatory functions of inspection, investigation and discipline. This is crucial to the effective achievement of our regulatory outcomes.

Interviews with three retired Board Members

When attending a training workshop a couple of months ago, the editor of this e-news was given 7 colourful dice, one of which carries the phrase 'Best ideas come from outside your field'. How true it is! Putting this into context, the editor understands why the Board of the FRC must be composed of professionals from a diverse background.

In this issue of e-news, the editor had the pleasure of interviewing three retired Board Members namely, Ms Eirene Yeung, Mr TC Chan and Mr Wilson Fung, who have faithfully served the FRC for 6 years and made substantial contributions.

Ms Eirene Yeung



Capacity at the FRC:

3/6/2014 to 30/9/2020

Board Member

1/10/2019 to 30/9/2020

Vice-Chairman, Compensation and Nomination Committee

Member, Investigation and Compliance Committee

19/12/2018 to 30/9/2019

Acting Council Chairman

3/6/2014 to 30/9/2019

Member, Remuneration Committee

1/1/2019 to 30/9/2019

Member, Operations Oversight Committee

3/6/2014 to 30/6/2019

Member, Corporate Communications Committee

- Executive Committee Member and the Company Secretary of CK Asset Holdings Limited.
- Solicitor of the High Court of the Hong Kong Special Administrative Region and a non-practising solicitor of the Senior Courts of England and Wales.

Mr TC Chan

Capacity at the FRC:

1/12/2014 to 30/9/2020

Board Member

1/10/2019 to 30/9/2020

Chairman, Oversight, Policy and
Governance Committee

Vice-Chairman, Finance and
Corporate Affairs Committee

15/1/2015 to 30/9/2019

Chairman, Corporate
Communications Committee

15/1/2015 to 30/9/2019

Member, Operations Oversight
Committee



- CVC Capital Partners and Senior Advisor of The Bank of East Asia
- A veteran banker with over 30 years of banking experience covering Hong Kong, Japan, Taiwan and Mainland China

Mr Wilson Fung



Capacity at the FRC:

1/12/2014 to 30/9/2020

Board Member

1/10/2019 to 30/9/2020

Chairman, Finance and Corporate Affairs Committee

Member, Investigation and Compliance Committee

1/1/2019 to 30/9/2019

Chairman, Finance Committee

1/1/2016 to 30/9/2019

Member, Operations Oversight Committee

15/1/2015 to 30/11/2018

Member, Finance Committee

15/1/2015 to 31/12/2015

Member, Independent Audit Oversight Reform Committee

- Over 18 years of experience in auditing in Hong Kong and England followed by 21 years as the Financial Controller of Jardine Matheson
- A fellow member of the Hong Kong Institute of Certified Public Accountants (HKICPA), the Association of Chartered Certified Accountants and the Institute of Chartered Accountants in England and Wales

1. Having served the Board of the FRC as a Non-Executive Director for 6 years, what do you think about the FRC and your role?

Wilson: The FRC is an organisation that keeps up with the times. Closely following the international trend, it has become the independent oversight body of auditors of public interest entities (PIE auditors) with significantly expanded functions. I feel very honoured to have played a role in the transformation process, which was so important to Hong Kong as an international financial centre.

My association with the FRC started well before my role as its Board Member. Back in 2002 when I was serving as a Council Member of the Hong Kong Institute of Certified Public Accountants (HKICPA), I was already involved in the discussion on the transfer of the investigative power from the HKICPA. After the FRC was established in 2006, I was appointed as a Convenor of its Financial Reporting Review Panel for 6 years. From 2014 to 2020, I was a Board Member. I certainly have a strong tie with the FRC.

Eirene: I feel very fortunate to have the opportunity of being a Board Member of the FRC for 6 years and working with two Chairmen – Dr Kelvin Wong for almost 2 years and former Chairman Dr John Poon for more than 4 years. Kelvin and I always thought alike and we worked close together to pre-empt problems that might have arisen if not handled properly. During my term as a Board Member, we put efforts in preparing for the new regime including lobbying for support, recruiting competent staff, moving to new office and drafting procedures for the new functions. Not easy at all but we finally achieved what the FRC had been pursuing for years. It was a blessing that I could witness and contribute my humble share in this transformation journey. It was like witnessing a baby growing up day by day to unleash his/her full potential. I would say, the FRC is a different organisation now and its status is a long overdue but well-deserved one.

TC: I was appointed to join the Board of the FRC as a representative of the Hong Kong Stock Exchanges and Clearing Limited (HKEX) when it was one of the four funding parties under the ‘old regime’. I think my accountancy background and experience of chairing or sitting on different audit committees made me a suitable candidate for this role. I remember that former Chairman Dr John Poon shared with me over lunch that the priority task for the FRC was to ensure its smooth transition to the new auditor regulatory regime to regulate PIE auditors, and I found this very meaningful and important.

I agree with Eirene that the FRC nowadays is very different from it was. In my opinion, it is, in many respects, a new organisation but it is equally important to Hong Kong in safeguarding the city’s status as an international financial centre that evolves with times.

Board Members worked in unison and there was no politics. They are all very professional. Based on their diverse backgrounds, Board Members are appointed to different committees. I was the Chairman of the Corporate Communications Committee (from 15 January 2015 to 30 September 2019), the Chairman of the Oversight, Policy and Governance Committee (from 1

October 2019 to 30 September 2020) and also the Vice-Chairman of Finance and Corporate Affairs Committee (from 1 October 2019 to 30 September 2020). Chairing these three Committees was relatively easy compared with other Committees like the Investigation and Compliance Committee which requires meticulous deliberation and careful judgement over complicated cases.

2. In your opinion, what are the key success factors for the FRC to discharge its role as Hong Kong's independent auditor regulator effectively?

Eirene: When I thought about this question the other day, three 'I's came to my mind. The first 'I' stands for 'Integrity'. For any organisation to succeed, integrity is the most indispensable quality. The second 'I' is 'Independence', meaning that the FRC should be independent of the accounting and auditing profession such that it will not be biased towards anyone or any unit of the profession. The third 'I' is 'Impartiality'. The FRC should be impartial, consistent in its execution of the relevant regulations such that fairness and justice are not compromised. Besides the three 'I's, passion and determination are also key drivers of success and the FRC already possesses these qualities.

TC: Powers come with responsibilities. Given that the FRC has more powers or metaphorically speaking 'more teeth', we should bear in mind that powers need to be exercised prudently and in a balanced way when discharging our functions. Power is like medicine, both 'overdose' and 'underdose' may do more harm than good.

As the saying goes, it is always difficult to get things started. Naturally, the FRC has to go through an exploring and learning process. We need to adopt a flexible approach and stay alert to the responses from our stakeholders. It is wise to handle with care the change in relationship with different stakeholders including our regulatees, think of the ways to build and solidify trust and respect among them, and strengthen our talents and resources for carrying out our new functions. Remember that some of the functions such as research and oversight are new and uncharted waters to us.

Wilson: Many people rely on quality financial reporting to make investment decisions. The FRC therefore must do well in its gatekeeping role and build up credibility. With a strong management team, competent staff and our experienced new CEO, I trust that FRC will be able to gain recognition from investors and the public. Certainly, enhanced promotion of our role and continued government support is essential.

3. What do you think are the opportunities and challenges for the FRC in the coming two years?

Wilson: We live in a fast-changing world and the FRC cannot afford to fall behind. We certainly need to be well aware of these new developments and best practices adopted by international regulators, and respond and take appropriate actions.

Eirene: With the duties and workload significantly expanded, the FRC needs to continue recruiting high-calibre staff with relevant experience in order to discharge effective regulatory outcomes in response to the fast-changing capital market. Also, the culture of the FRC is evolving. As each member of staff has her/his own work and leadership style, and professional experience, it is essential for 'the old' and 'the new' to understand each other, to integrate and to work cohesively as one team.

I am confident that the FRC staff are prepared and well able to overcome this challenge. The training opportunities that our Chairman has been directing the Management to provide to the staff to enhance self-learning and to learn from one another conducive to team building and will facilitate the integration of new staff members into the FRC family.

TC: I cannot agree with Eirene more on the point about integration. In this integration process, I believe that the newly appointed CEO Mr Marek Grabowski will orchestrate the team to work together towards a shared goal of upholding the quality of financial reporting.

Wilson is right to point out that the FRC needs to build up credibility and recognition through resolving issues effectively, delivering concrete regulatory outcomes, and enhancing public education and public relations efforts. It certainly takes time to see results. It is like making Chinese soup. When making Chinese soup, the first thing we need to do is to choose the appropriate and quality ingredients. The right combination and proportion of ingredients and time management count. In the cooking process, you have to be patient because you are not making instant canned soup. We need to observe and adjust the heat appropriately in order to make the soup tasty and nourishing. Rushing will only result in ruining the soup. It is just like the development of the FRC at the moment – it takes high calibre staff and consistent efforts to deliver effective regulatory outcomes.

4. What advice would you share with PIE auditors and listed entities in terms of compliance and/or corporate governance?

TC: As an international financial centre, Hong Kong is transforming and its capital market fast evolving. When I first joined the HKEX as a Director 12 years ago, the market capitalisation of Chinese stocks represented only 50% of the total. Today, they made up almost 80% of the market capitalisation, which is highly likely to go further up in future. This certainly reflects the special and irreplaceable status of Hong Kong in creating value for the Mainland. However, we need to stay vigilant that among the many companies listed in Hong Kong, not all are of good quality. PIE auditors are required to have the highest level of integrity and form a strong line of defence. Otherwise, the reputation of Hong Kong as a robust capital market will be at stake.

We live in a complicated world and many changes are going on – geopolitical change, regulatory change, change in mix and nature of investors, and advancement of technology. PIE auditors should understand that the skills of yesterday are no longer adequate for them to carry through their duties today. They need to understand the new business models and unconventional operations of different industries. They should also keep abreast of the latest technology development including that about cybersecurity and the use of AI.

Eirene: My observation is that in Hong Kong and other parts of the world, regulators are tightening up regulations. However, we should not miss the focus. Rules and regulations are just the form and reminder of the minimal requirements acceptable to the public. The spirit behind the legislation matters and should not be missed. Listed entities function through agents. It is the personal integrity of the managers and executives of the listed entities that is crucial to effective compliance. From the corporate governance perspective, problems usually arise from people. Management of PIEs need to understand that it is the education and enhancement of personal integrity, rather than short-term profit-taking that will create long-term, sustainable value to listed entities.

For PIE auditors, early and timely communication with their clients (listed entities) about the possible impacts brought about by changes in accounting standards and financial reporting requirements is essential. This will enable listed entities to make good preparation well before the actual changes take place.

Wilson: In my opinion, listed entities of smaller scale tend to rely too much on their auditors to feed them with information. Listed entities should take a proactive step in understanding changes in regulations and standards that may have significant impacts on their businesses. They should not miss the opportunities for expressing their views and concerns regarding these changes. Better act fast than regret later.

5. What is the most challenging and memorable moment during your term as Board Member of the FRC?

TC: The days of embracing the challenges together with fellow Board Members in the transformation journey of the FRC is certainly a unique and memorable experience.

Wilson: I agree with TC.

Eirene: It is quite challenging and memorable that over the last 6 years, I sat on the two selection panels for the recruitment of two CEOs for the FRC. I have learnt a lot in the first CEO recruitment exercise. Maybe I can share a little more on this. Each potential candidate for the CEO position was highly regarded and has rich experience in his/her respective fields. The selection panel agreed unanimously that the CEO should be the one who has the strong technical exper and can lead with the team, rather than just leading the team. 'With' is the keyword. No man can work alone.

6. What is your motto?

Wilson: "Be grateful for all your blessings." is my motto. I can share a bit on my background. I was born into an ordinary grassroot family. My father was a salesman who was the sole breadwinner of my family of seven. Though I did not have the opportunity to study at university, I had been able to develop my career step by step, starting from an audit trainee to become a certified public accountant. It is amazing and gratifying indeed. Looking back, I would say, it is the accounting profession that gave me all I have today. Therefore, I want to pay back for the blessings I enjoyed by making contributions in public services, particularly those related to the accounting profession.

Eirene: I always encourage my colleagues that we should do our best and leave the rest to God. As a Christian, I believe that God has given each of us different gifts. We do not need to be jealous of others. All we should do is to make good use of the gifts we have. If we are given the intelligence and ability to work, then we do our best in our job. One classic example, in my

own experience, is what people called the ‘restructuring of the century’ of Cheung Kong Holdings in 2015. I would describe that heavy-weight process of restructuring as moving from a huge mansion that you have lived in for decades, taking out, packing and reorganising everything from every drawer. The workload was endless and time was limited. So, the only thing I could do was to exert my best efforts every day and leave it to God to guide me through the difficult moments.

TC: I share the same motto with Eirene although I am not a religious person. We have to understand that not everything is under our control. Sometimes, you need a little bit of luck to get things done. After you have done everything you can wholeheartedly, there is no regret.

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