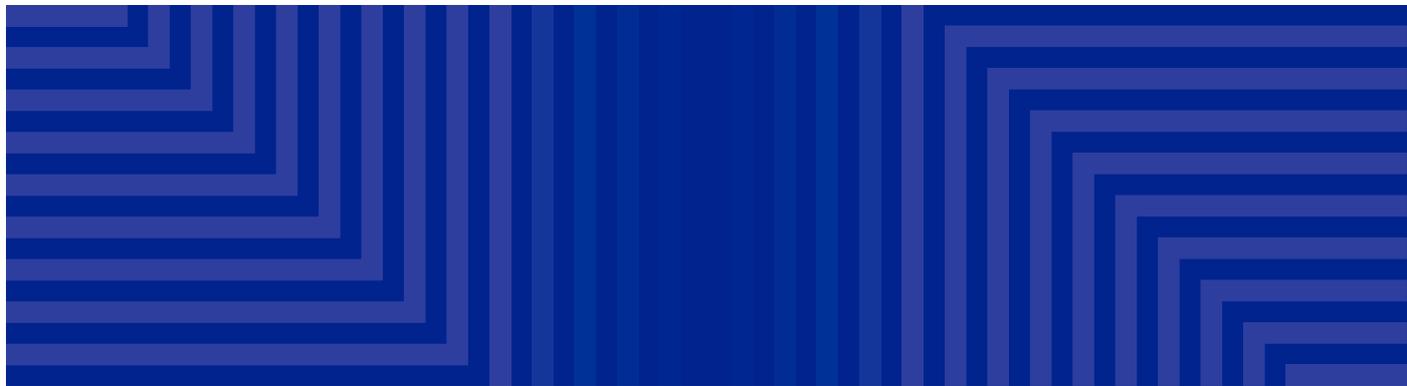


AFRC Quarterly Report

29 January 2024



Overview

During the last quarter of 2023, the AFRC continued its interaction with the accounting profession (**profession**) and provided guidance on issues critical to upholding audit quality.

We rolled out publications with different themes including [Inspection Insights](#), [Audit Focus](#), and [Paper](#) and [Guidance Notes](#) on Change of Auditors. We also produced an [explanatory video](#) to enhance the Practice units other than PIE auditors' (**non-PIE practice units**) understanding of our inspection approach in order to better prepare for our upcoming inspection.

We proactively engaged with key stakeholders by providing thought leadership and initiating discussions on important issues related to financial regulation, audit quality and protection of public interest.

We concluded two disciplinary cases with our proportionality approach that achieved the desired outcomes and at the same time continued to promote high standards of conduct among the profession.

On regulatory collaborations, the AFRC conducted with the Independent Commission Against Corruption (**ICAC**) and the Securities and Futures Commission (**SFC**) a [tripartite joint operation](#) which manifested our absolute commitment to take all necessary actions to ensure integrity and quality of financial reporting and audit in Hong Kong.

More details about the progress of our work and the outcomes achieved during the last quarter are contained in the subsequent pages of this Report.

Effective regulatory outcomes through collaboration and sanctions

First tripartite operation among AFRC, ICAC and SFC

On 17 and 18 October 2023, the AFRC, the ICAC and the SFC conducted the [first tripartite joint operation](#) involving two Hong Kong-listed companies on suspected falsified corporate transactions totaling HK\$193 million (**Joint Operation**). It was a testament to the effective implementation of the Memoranda of Understanding signed by the AFRC with the ICAC and SFC.

The Joint Operation involved a search of the premises of two listed companies, three public interest entity (**PIE**) auditors associated with the listed companies and other relevant parties. Three persons, including an executive director of a listed company, were arrested by the ICAC for bribery offences during the searches of over 15 premises in Hong Kong involving more than 50 AFRC staff.

Promoting high standards of conduct among regulatees

The AFRC has published two disciplinary cases. In both cases, the regulatees concerned engaged in misconduct that exhibited a lack of, or insufficient, compliance awareness when responding to regulatory requirements, which may significantly undermine regulatory oversight and impact upon the proper discharge of our regulatory functions. Through publishing our decisions, we seek to promote high standards of conduct amongst our regulatees, and achieve the disciplinary objectives of deterrence, investor protection, and maintaining market confidence in the quality of financial reporting and audits.

Case 1: Permanent non-issuance of practising certificate order

On 24 November 2023, we published our [disciplinary decision](#) against Chan Kam Kwan (**Chan**), a former CPA and practising certificate holder who committed multiple professional irregularities and was found guilty of CPA misconduct.

Chan admitted that he had blindly signed off and issued 11 auditor's reports of private companies either without performing any audit work at all or performing only minimal audit work. Furthermore, Chan had provided false and/or misleading information to the Hong Kong Institute of Certified Public Accountants (**HKICPA**) before the commencement of the practice review on his sole proprietorship firm, Chan Kam Kwan & Company, which could have misled the HKICPA as to his firm's risk profile and obscured its chance of being selected for practice review.

Taking into consideration the above serious misconduct and other breaches of professional standards on system-wide and audit engagements levels, we reprimanded and imposed against Chan our first ever permanent non-issuance of practising certificate order, as well as a pecuniary penalty of HK\$300,000 and an order to pay the investigation costs.

Case 2: Settlement case

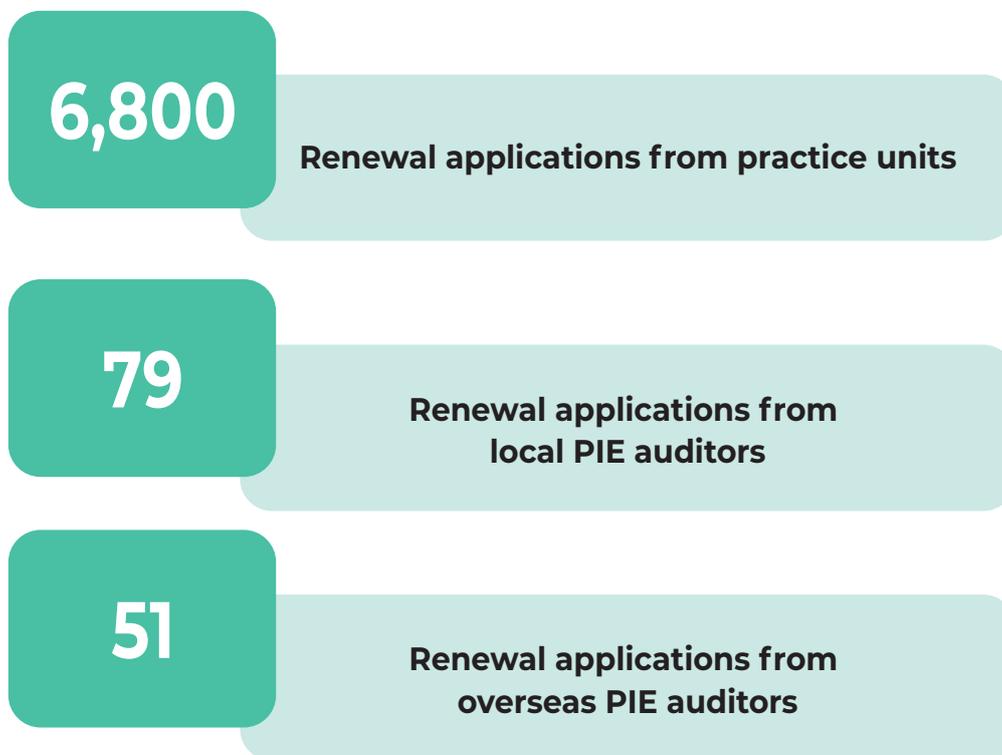
On 28 November 2023, we resolved a [disciplinary case](#) through settlement for the first time. We reprimanded and imposed a pecuniary penalty of HK\$80,000 against CCTH CPA Limited (**CCTH**) for its failure to complete corrective actions within the timeframes specified in a requirement issued by our Inspection Department. CCTH's misconduct is a serious matter as it increases the risk of non-compliance with relevant professional standards in its future engagements.

The sanctions reflected CCTH's cooperation through early admission and settlement initiation during the investigation stage and agreement to our proposed sanctions at the disciplinary stage. This case provides guidance to our regulatees as to the application of the principles set out in the [Guidance Note on Cooperation with the AFRC](#).

Renewal of registration of practice units and PIE auditors

During the renewal application period between 1 November 2023 and 15 December 2023, the AFRC received approximately 6,800 renewal applications for practising certificates and registration from CPA firms and corporate practice (collectively called **practice units**). The number of applications is similar to that of the previous year.

We also received 79 registration renewal applications from local PIE auditors by the application deadline on 16 November 2023, of which 41 applications have been approved and the remaining are under process. 51 applications for renewal of recognition of overseas PIE auditors were also received and all applications have been approved.



Continuous promotion of best practices in auditing

To motivate the accounting profession to adopt best practices for upholding audit quality, the AFRC has issued a wide array of publications with specific purposes.

Inspection Insights

In late November 2023, we published the [Inspection Insights \(Insights\)](#) which highlights specific findings and insights of new areas of focus for our 2023 inspection. These new areas include the firms' systems of quality management, the assurance work to support the conclusion in the compliance report of licensed corporations, and the effective implementation of robust Anti-Money Laundering and Counter-Terrorist Financing controls.

In addition, the Insights sets out five other key reminders to auditors. These include:

- a. Developing a firm culture that fosters audit quality and setting the right tone from firm leadership;
- b. Considering the public interest before auditors' appointments;
- c. Commencing the assessments of climate-related risks of the firm's listed audit clients;
- d. Embracing technology and implementing proper policies and procedures regarding the use of technology in audits; and
- e. Prioritising talent development.

Audit Focus – 2023 Financial Year-end Audit Reminders

In late December 2023, we issued [Audit Focus](#) to urge all auditors to remain vigilant about the key risk areas for the upcoming year-end audits. It reiterates the importance of firm leadership's commitment to quality and talent development. It also sets out our expectations of auditors regarding the use of audit technology, impacts of climate change and certain audit focus areas that require special considerations.

In addition, since the quality of financial reporting is rooted in the effectiveness of corporate governance, we highlighted in the Audit Focus the importance of regular and constructive communications between audit committees and auditors. We also stressed the need for firms to implement a self-reporting mechanism to report matters with regulatory concerns to us.

Explanatory video on the inspection of non-PIE practice units

The AFRC has been taking a proportionate approach to inspecting non-PIE practice units. To enhance the practice units' understanding of our inspection approach and help them get prepared for their first inspections, we have published an [explanatory video](#), covering the following topics:

- a. The objective of inspection
- b. The inspection regime and scope
- c. The principle for selection of non-PIE practice units and its application
- d. The inspection process
- e. How to prepare for an inspection

The non-PIE practice units should watch the video to get well prepared for their first inspections by the AFRC. We expect the non-PIE practice units to provide accurate information required for an inspection and effectively communicate the relevant matters to the inspectors during the inspection.

Inspection Questionnaire – Follow-up Study

Following our review of the information provided by the practice units in the Inspection Questionnaire launched in September 2023, we requested certain practice units to participate in the Follow-up Study Questionnaire on 8 December 2023. The Questionnaire focuses on:

- a. Non-assurance services provided to both audit and non-audit clients;
- b. Resources used in performing audit engagements and developing and implementing the system of quality management; and
- c. Audit engagements that were subject to the oversight of other auditor regulators.

The information collected will be used for planning and prioritising our inspections of the practice units.

Paper and Guidance Notes on Change of Auditors

We have been closely monitoring late auditor resignations and their adverse impact on audit quality. Since late 2022, we have taken certain regulatory actions, including issuing two open letters in October 2022 and January 2023. However, two concerns remain: insufficient planning and resources by incoming auditors; and the unwillingness of listed companies to resolve critical audit issues leading to auditor resignations.

In late September 2023, we published a paper titled “[AFRC Addresses Concerns Surrounding Auditor Changes](#)” along with the “[Guidance Notes on Change of Auditors](#)”. The Paper summarises the progress made following our regulatory actions and ongoing initiatives to address the issue of auditor resignations and the impact on audit quality. The Guidance Notes articulate our expectations of the listed entity auditors and audit committees when changing their auditors.

Oversight of HKICPA

In late November 2023, we published the [2023 Oversight Report](#) on the HKICPA’s performance of specified functions.

We identified 11 findings and concluded that addressing the following three themes will drive meaningful improvements:

- a. Embracing a holistic approach;
- b. Optimising resource utilisation; and
- c. Enhancing quality control.

The Oversight Report also provided specific recommendations for each finding which are intended to address the underlying causes of the issues identified. The HKICPA is currently working on addressing our recommendations. We will continue monitoring the progress of the follow-up actions and assess their effectiveness as part of our oversight assessment.

Regulatory engagement

We engage with local, Mainland and overseas regulatory counterparts and professional bodies regularly to discuss key issues and promote industry development.

Keynote speech at the IFRS 17 Conference hosted by The Actuarial Society of Hong Kong

On 25 October 2023, Chairman Dr Kelvin Wong was invited to deliver a [keynote speech](#) at the IFRS 17 Conference hosted by The Actuarial Society of Hong Kong. He shared with the audience the transformation journey of the AFRC, the strategic collaborations of the AFRC with local, Mainland and international regulators to uphold the integrity of the capital markets of Hong Kong, and the challenges and opportunities of actuaries.



Chairman Dr Kelvin Wong delivers a keynote speech at the IFRS 17 Conference hosted by The Actuarial Society of Hong Kong.

Presentation at the CIMA Annual Conference 2023

On 20 November 2023, the Chartered Institute of Management Accountants (**CIMA**) invited Chairman Dr Kelvin Wong to deliver a [presentation](#) at their Annual Conference themed “Green Grow and Govern”. The Annual Conference was attended by approximately 200 business thought leaders, industry professionals and finance executives. With a lively and interesting presentation, Dr Wong shared his views and insights on good governance, why governance failed and the role of accountants in safeguarding governance.



Chairman Dr Kelvin Wong shares his insights on good governance at the Annual Conference of CIMA.

PCAOB International Institute on Audit Regulation

In November 2023, the AFRC's delegation attended the International Institute on Audit Regulation (**Institute**) hosted by the US Public Company Accounting Oversight Board (**PCAOB**) in Washington, DC. The Institute is an annual event in the form of an international forum attended by representatives of independent audit regulators from around the world.

Under the theme of "New Horizons in Audit Regulation", the forum included sessions with leaders of regulatory bodies from around the world and representatives from the investor community and other key stakeholder groups across auditing and financial reporting.

Taking this opportunity, the AFRC's delegation held meetings with the leadership of PCAOB including some of their Board members and senior staff of their major functions to exchange views and share our experience on issues of audit quality and investor protection, common challenges faced by both regulators, the need for bilateral and international collaboration, and our recent efforts in tackling issues brought about by late auditor changes in Hong Kong.

The delegation also met representatives from other regulators and international organisations, such as the UK Financial Reporting Council, the Canadian Public Accountability Board and the Japan Certified Public Accountants and Auditing Oversight Board. One of the most striking, though perhaps unsurprising, observations from our discussions and conversations with other attendees at the Institute is how similar the issues faced by global audit regulators are.



The AFRC's delegation, led by Acting CEO and Head of Inspection Ms Janey Lai, attends the annual event hosted by PCAOB in Washington DC in November 2023.

(Photo from left to right: Ms Pearl Tie, Director of Investigation and Compliance; Ms Florence Wong, Head of Investigation and Compliance; Mr Alfred Chan, General Counsel; Ms Janey Lai, Acting CEO and Head of Inspection; Ms Hester Leung, Head of Discipline; Mr Frank Choi, Director of Discipline; Ms Sarah Lam, Director of Inspection)

The visit provided an excellent opportunity for our delegation to establish direct contact with their PCAOB and other international counterparts, with a view to eventually building a more solid rapport with fellow audit regulators to strengthen future cooperation and communication, to facilitate more effective and efficient global audit regulation and investor protection in safeguarding the public interest.

Soliciting views at roundtable discussions

In order to enhance the quality of financial reporting and auditing in Hong Kong's capital market, we actively reach out to stakeholders and opinion leaders to understand their views and concerns. We held three roundtable discussions

with institutional investors, audit committee members and PIE auditors in December 2023.

The discussions focused on two key themes: audit quality and climate-integrated audits. Participants shared their insights on audit quality and the potential roles of auditors and audit committees in enhancing audit quality. The integration of climate factors into financial reporting and audit and the effects of audit fees and auditor changes on audit quality were also explored.

In the discussion with institutional investors, participants expressed that they expected audit committees would take greater accountability and be more engaged in terms of setting audit fees. They also stressed the importance of the audit committees' role in appointing auditors, given that these issues are interconnected.

In the discussion with audit committees, participants expressed their expectations of auditors to demonstrate their value proposition, particularly in ensuring high audit quality.



AFRC holds three roundtable discussions with institutional investors, audit committees and PIE auditors.

Seminar on directors' duties in selecting auditors and setting audit fees

In late November 2023, the AFRC was invited to speak at the seminar “[Directors' Duties: Guidelines on Selecting Auditors and Setting Audit Fees](#)”, organised by the Hong Kong Independent Non-Executive Director Association (**HKiNEDA**). During the presentation, Ms Tracy Chan, Director of Policy, Registration and Oversight highlighted the importance of audit committees in recognising their responsibility in assessing audit quality. They also need to better understand how the appointment of auditors or the setting of audit fees can impact audit quality.



Dr Kelvin Wong (middle), Chairman and Ms Tracy Chan (left), Director of Policy, Registration and Oversight speak at a seminar organised by HKiNEDA.

Panel discussion on fraud in financial statements

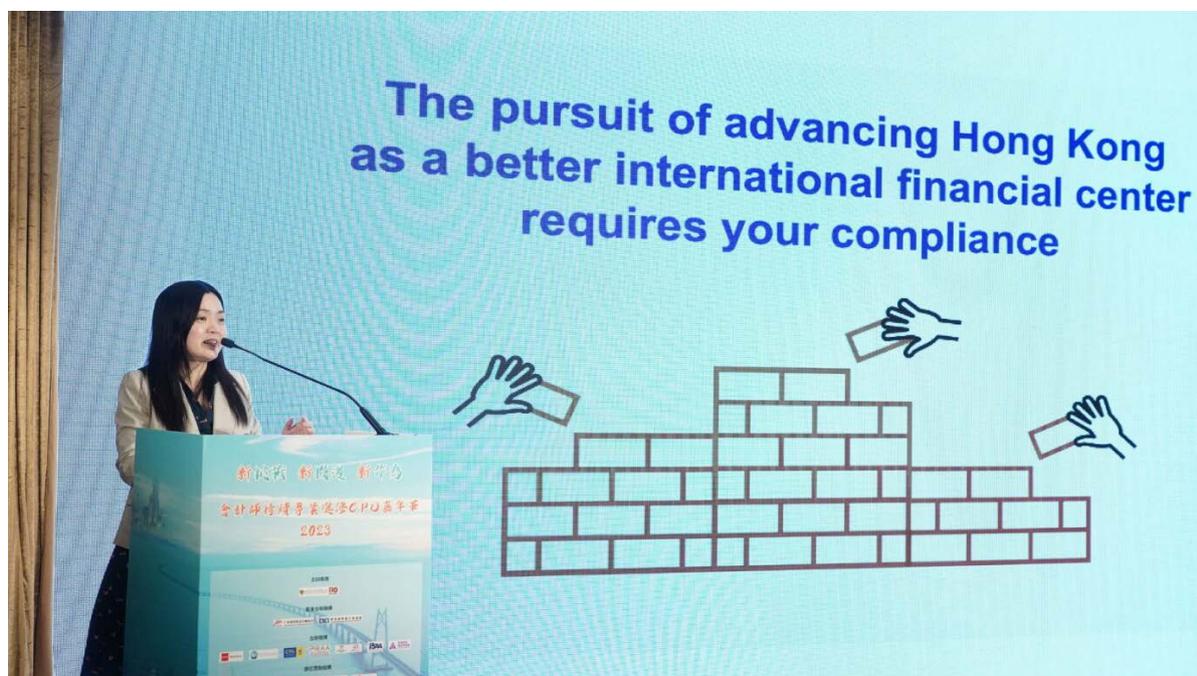
In late October 2023, the AFRC was invited to participate in a panel discussion titled “Exploring Ethical Practices – Fraud in Financial Statements”, hosted by the Association of Chartered Certified Accountants (**ACCA**). During the discussion,

real-life case studies from the AFRC's investigations were shared. The event was attended by around 370 ACCA members.

Speaking at the SCAA CPD Carnival

In mid-November 2023, Ms Tracy Chan, Director of Policy, Registration and Oversight, delivered a presentation on "[Advancing Hong Kong as a better international financial centre](#)" at the "2023 CPD Carnival for Accountants" organised by the Society of Chinese Accountants and Auditors (SCAA). Approximately 9,480 professionals attended the event.

During the presentation, Ms Chan emphasised the interdependence of financial reporting and auditing, and the importance of adherence to regulatory and professional requirements in enhancing the quality of financial reporting and auditing.



Ms Tracy Chan, Director of Policy, Registration and Oversight emphasises the importance of high-quality financial reporting at the CPD Carnival organised by SCAA.

Briefing and Cocktail Reception for the Financial Reporting Review Panel

On 13 October 2023, the AFRC hosted a briefing and an Appreciation and Welcome Cocktail Reception for Convenors and Members of the Financial Reporting Review Panel (**FRRP**).

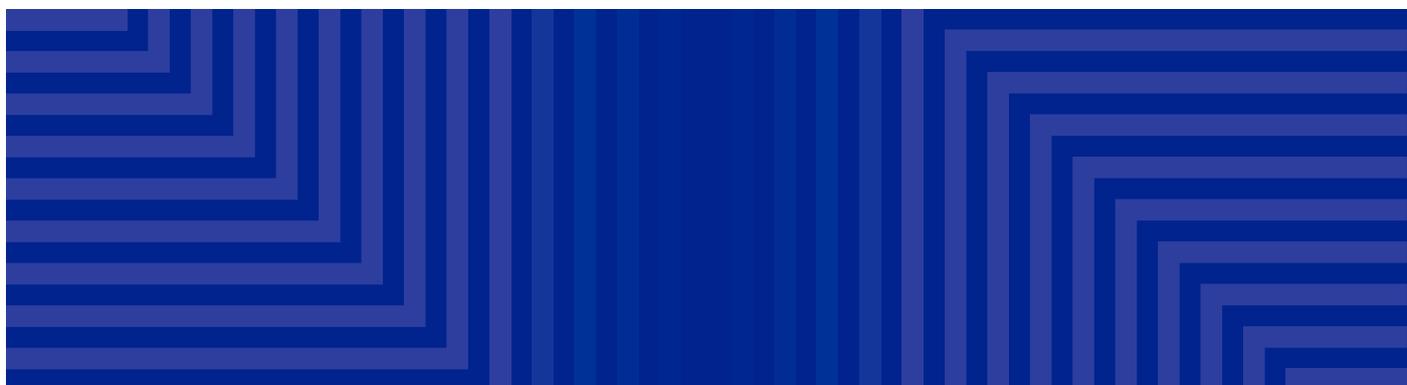
FRRP convenors and members have been playing an instrumental role in respect of the AFRC's function of conducting enquiries. The enquiry process assists in ensuring that potential non-compliance with financial reporting requirements in the financial statements of listed entities is identified and rectified so that investors and other stakeholders such as banks and creditors are not misled.

Dr Kelvin Wong, Chairman of the AFRC expressed his heartiest thanks to the two retired members, Professor Gu Zhaoyang and Professor James Arvid Ohlson and other convenors and members for their unfailing support in the AFRC enquiry process throughout the years.



AFRC hosts a cocktail reception for Convenors and Members of the Financial Reporting Review Panel to express heartiest thanks for their support in the AFRC enquiry process. 16

Contacts



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

Accounting and Financial Reporting Council

10/F, Two Taikoo Place
979 King's Road
Quarry Bay, Hong Kong

T: (852) 2810 6321
F: (852) 2810 6320
E: general@afrc.org.hk
W: afrc.org.hk

Copyright © 2024 Accounting and Financial Reporting Council