

The Role of FRC in the Accountancy Reform

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18 June 2021

History of the FRC – Independent Regulator

Time	Milestone
13 Jul 2006	Enactment of the FRC Ordinance
1 Dec 2006	Establishment of the FRC
16 Jul 2007	Commencement of full operation – Investigation & Enquiry
24 Jan 2018	Introduction of the FRC (Amendment) Bill 2018 at the Legislative Council
30 Jan 2019	Passage of the FRC Amendment Bill 2018
1 Oct 2019	Commencement of New Auditor Regulatory Regime

Why the Reform

- Independent oversight – international practices
- Ensure impartiality through check and balance by 3 governance bodies (Process Review Panel, Board, Committees)
- Reduce compliance costs to enhance regulatory efficiency and consistency
- Increase public trust in the accounting profession to ensure sustainable development of the auditing and accounting industry

To Ensure Smooth Transition to Reformed Regime

Communication	Stakeholders engagement
Regulatory Principle	Proportionality, appropriateness
Regulatory approach	Largely follows the practice of HKICPA
Regulatory rationale	Leverage our expertise and resources to ensure “efficient process and effective outcome”

Registration – Remain largely the same

Proposed amendments: Registration of auditors and issuance of practising certificates will be vested with the FRC

Power	Current arrangement		Government proposal	
	HKICPA	FRC	HKICPA	FRC
<ul style="list-style-type: none"> Registration of Certified Public Accountants (CPAs) 	✓		✓	
<ul style="list-style-type: none"> Registration of practice units (including PIE auditors) 	✓			✓
<ul style="list-style-type: none"> Issuing practising certificates (PCs) 	✓			✓

Post reform registration criteria will remain largely the same.

Inspection – Proportionality approach, largely follow HKICPA’s practice

Proposed amendments: FRC’s inspection power will be expanded to cover all practice units

Power	Current arrangement		Government proposal	
	HKICPA	FRC	HKICPA	FRC
Carry out practice reviews/ inspection in relation to				
▪ Practice units	✓			✓
▪ PIE auditors		✓		✓

*Post reform inspection will adopt proportionality approach.
Inspection approach (e.g. cycle and standards) will largely follow the practice of HKICPA.*

Investigation and Discipline – Proportionality approach, remain largely unchanged

Proposed amendments: Investigation and disciplinary powers to CPAs and practice units will be transferred from the HKICPA to the FRC

Power	Current arrangement		Government proposal	
	HKICPA	FRC	HKICPA	FRC
Carry out investigations in relation to				
▪ CPAs	✓			✓
▪ Practice units	✓			✓
▪ PIE auditors		✓		✓

Investigation and Discipline – Proportionality approach, remain largely unchanged (Cont'd)

Power	Current arrangement		Government proposal	
	HKICPA	FRC	HKICPA	FRC
Impose disciplinary sanctions on				
▪ CPAs	✓			✓
▪ Practice units	✓			✓
▪ PIE auditors and registered responsible persons		✓		✓

Post reform investigation and discipline will adopt proportionality approach.

Scope of powers (including investigable and sanctionable misconducts and powers of investigators) as well as types and levels of penalties will remain largely unchanged after the transfer from HKICPA to FRC.

Oversight – Expand to include accounting standards

Proposed amendments: FRC’s oversight of the HKICPA’s performance to be expanded

Power	Current arrangement		Government proposal
	Practice units and CPAs	PIE auditors	Practice units (including PIE auditors) and CPAs
FRC’s oversight of HKICPA in respect of			
▪ Registration		✓	✓
▪ Continuing Professional Development (CPD) requirements		✓	✓
▪ Auditing and ethical standards		✓	✓
▪ Accounting standards			✓

CPD requirements and professional standards follow converged international standards.

Summary

Transfer of power	FRC's regulatory approach
1. Registration of practice units (including PIE auditors)	Remain largely the same
2. Issuing practising certificates	
3. Carry out inspection in relation to practice units	Proportionality approach, largely follow HKICPA's practice
4. Carry out investigations in relation to CPAs	Proportionality approach, remain largely unchanged
5. Carry out investigations in relation to practice units	
6. Impose disciplinary sanctions on CPAs	
7. Impose disciplinary sanctions on practice units	
8. Oversight of accounting standards	Follow converged international standards

Thank You