

AFRC – Who we are, what we do and what it means for the profession

2022 CPD Carnival Day

November 2022

Policy, Registration and Oversight Department, AFRC



Agenda

1. Overview
2. What we do
3. Our recent focus
4. Issues and challenges facing the profession
5. Way forward

1. Overview



Regulatory reform in Hong Kong



Our mission statement 我們的使命宣言

To shape a competitive environment that will nurture and promote success of the profession

塑造一個鼓勵良性競爭的環境，促進業界的發展與成效

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

這一關鍵職責不僅

能有效提升財務匯報的質素，並且能進一步強化本局宏旨，推動業界的可持續發展及香港

作為具競爭力的國際金融中心地位

Core values

- **Integrity** (unswerving focus on public interest)
- 誠信 (始終不渝地關注公共利益)

- **Proficiency** (efficient process – effective outcome)
- 精湛才能 (過程流暢 - 成效理想)

- **Independence and impartiality** (consistency and fairness)
- 獨立及公正 (公平一致)

- **Transparency and accountability** (earning public trust)
- 承擔及具高透明度 (贏得公眾信任)

Why is this important?



Better outcomes for all stakeholders
為所有持份者帶來更好的結果



2. What we do



Objective

- Monitoring and promoting audit quality

Scope

- All practice units in Hong Kong
 - A CPA (practising) who practises accountancy under the accountant's own name;
 - a. A CPA firm <Note 1> ; and
 - b. A corporate practice

Focus

- Inspections consist of two levels:
 - Firm-level – review policies and procedures of firm-wide system of quality control to assess compliance with HKSQC 1 or HKSQM 1 and AML Guidelines <Note 2>
 - Engagement-level – review selected engagements to assess compliance with professional standards and legal and regulatory requirements

<Note 1> Under section 2 of the AFRCO, CPA firm means – (a) a certified public accountant (practising) who practises accountancy on the accountant's own account under a firm name registered under Division 2 of Part 2A of the AFRCO; or (b) a firm of certified public accountants (practising) that – (i) practises accountancy in partnership; and (ii) is registered under Division 2 of Part 2A of the AFRCO

<Note 2> AML Guidelines refer to “Guidelines on Anti-Money Laundering and Counter-Terrorist Financing for Professional Accountants” contain in the “Code of Ethics for Professional Accountants”.



Major functions

- Investigation
 - Auditing or reporting irregularities
 - Financial reporting misconduct
 - Professional irregularities
- Enquiry
 - Relevant non-compliance in relation to a listed entity – non-compliance with accounting requirements

Sources of investigative work

- Reactive
 - Complaints from the public
 - Whistleblower reports
 - Referrals from other regulators
- Proactive
 - Financial statements review program
 - Internal referrals arising from inspections

Outcomes of complaint assessments

- Initiate investigations or enquiries
- Refer to other regulators
- Not pursue further

Key focus

- Take firm and appropriate action in cases of misconduct by applying commensurate sanctions for the purposes of:
 - Deterrence
 - Investor protection
 - Maintaining market confidence in the audit quality of listed entities
 - Upholding the standards of conduct among PIE auditors and registered responsible persons

Disciplinary process

1. Discipline
Department
(Recommendation)



2. AFRC Board
(Decision)



3. Independent Tribunal
(First safeguard)



4. Court of Appeal
(Second safeguard)

Policy, Registration and Oversight

Policy and governance

- Establish AFRC as a thought leader in:
 - Financial reporting
 - Audit quality
 - Market conduct
 - Development of the accounting profession
- Advance public and investor interest
- Broaden our network of influence

Registration

- Ensure the professional ethics, integrity and competency of the audit practitioners
- On 1 Oct 2022, our registration powers were expanded to include:
 - Registration of CPAs
 - Registration of CPA firms and corporate practices
 - Registration PIE auditors
 - Issuance of practicing certificates

Oversight

- On 1 October 2022, the specified functions performed by the HKICAP on which AFRC performs oversight were expanded and include:
 - Registration of CPA;
 - Setting CPD requirements for all CPAs;
 - Setting standards on professional ethics, and auditing and assurance practices, for all CPAs
 - Arranging for mutual/reciprocal recognition of accountants;
 - Providing training for qualification and CPD of CPAs

3. Our recent focus



Findings from the 2022 Interim Inspection Report

Overview

- Published in November 2022, the report includes:
 - Key results from inspections of PIE engagements and systems of quality control
 - Review of remediation plans for 2021 inspections
 - Key reminders for 2022 Dec YE audits
 - Potential areas of inspection focus in 2023
 - AFRC's expectations of auditors, directors and audit committees

Key findings

Lack of adequate exercise of professional skepticism

Insufficient evaluation of management's application of accounting standards for revenue recognition and expected credit loss

Significant Deficiencies

Insufficient testing of journal entries and other adjustments

Violation of auditor independence rule

Findings from the 2022 Annual Investigation and Compliance Report

Overview

- Published in October 2022, the report includes:
 - Overview of operations
 - The work of the Investigation and Compliance Department for the year
 - Findings and observations on auditing irregularities
 - Findings and observations on financial reporting non-compliance

Key findings

- Common areas of auditing irregularities include
 - Inadequate engagement quality control review
 - Insufficient audit evidence
 - Lack of appropriate professional scepticism and judgement
 - Not properly evaluating the reasonableness of accounting estimates and the adequacy of an expert's work
- Common areas of financial reporting non-compliance in the following areas:
 - Financial instruments
 - Impairment of assets and value measurement
 - Going concern assessment and reporting



Findings from the 2022 Oversight Report

Overview

- The HKICPA plays an important role in upholding and raising the standards of the profession, which is integral to the effective functioning of Hong Kong's capital markets.
- For this oversight report, our assessment covered HKICPA's performance of the following Specified Functions:
 - Registration of local auditors of public interest entities (PIEs);
 - Setting standards on Professional Ethics, and Auditing and Assurance Practices for local PIE auditors; and
 - Setting CPD requirements for local PIE auditors.

Key findings

- 2022 Assessment
 - Insufficient information provided to the Nomination Committee in the selection and re-appointment of committee members
 - The standard operation procedures for standard setting do not cover all major standard related activities
- Follow-up on 2021
 - Four of the eight recommendations were satisfactorily completed
 - For the remaining four, considerable progress has been made

4. Issues and challenges facing the profession

Auditor resignation



Issue

- We observed a surge in number of PIE auditors resigning just one month before or even after the end of the reporting period of a listed entity

Do's

- Consider whether the market has been adequately informed of the circumstances leading to the resignation
- Ensure appropriate and effective two-way communications, together with audit committees, to ensure a smooth transition

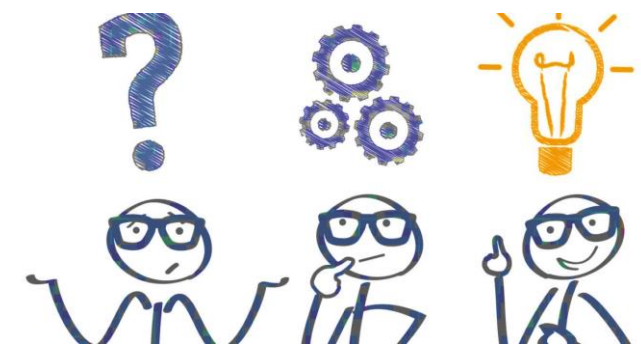
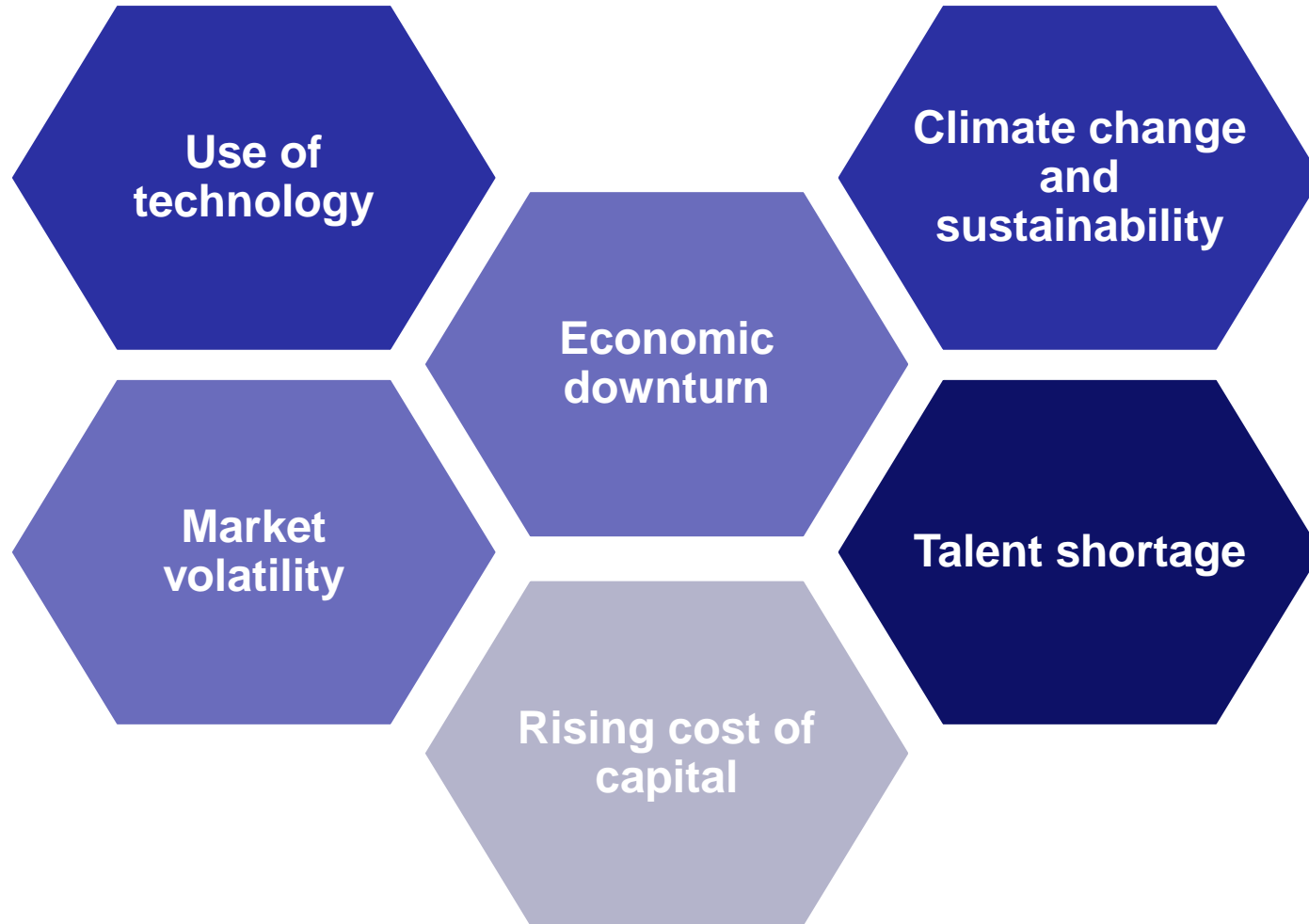
Key concerns

- Do incoming auditors possess the necessary competence and adequate capabilities (including manpower, time and other resources) to perform quality audits within limited time frame
- Has there been appropriate communication between the incoming and outgoing auditors

Don'ts

- Avoid the responsibility of adversely reporting on the financial statements by resigning
- Compromise audit quality as a result of audit fee and/or limited time frame

Macro issues



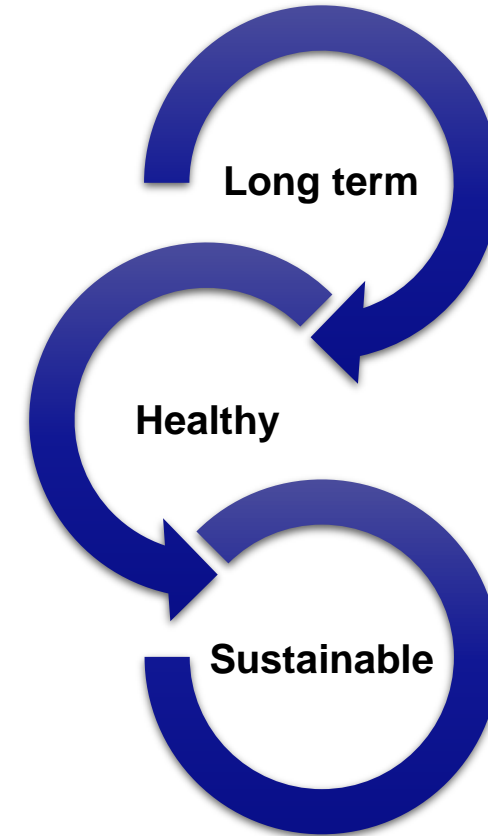
5. Way forward



Our forthcoming focus



- Build awareness
- Increase engagement
- Raise profile and influence
- Strengthen collaboration with local, regional and international agencies



Long term, healthy and sustainable development of the profession



Accounting and Financial
Reporting Council
會計及財務匯報局

Thank you

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