

Press Release

15 November 2022

AFRC issues 2022 Interim Inspection Report and Report on Oversight of HKICPA regulatory functions

The Accounting and Financial Reporting Council (**AFRC**) today issues its:

- (a) [2022 Interim Inspection Report](#) on its inspections of public interest entity (**PIE**) auditors completed from 1 April 2022 to 30 September 2022; and
- (b) [2022 Oversight Report](#) on its oversight of the performance by the Hong Kong Institute of Certified Public Accountants (**HKICPA**) of specified regulatory functions relating to PIEs and their auditors (**Specified Functions**) from 1 April 2021 to 31 March 2022.

Mr Marek Grabowski, CEO of the AFRC said, “These reports communicate our findings and the actions we expect our regulatees to take to address them. Publishing our reports not only enables the public to understand the findings of our inspections but also ensures the progressive improvement among PIE auditors. Our ultimate aim is to continuously enhance the level of quality of financial reporting and audits and to promote public trust and confidence in the quality of financial reporting in Hong Kong.”

2022 Interim Inspection Report

The 2022 Interim Inspection Report contains results from our interim inspections of PIE engagements and systems of quality control of PIE auditors, our review of the remediation plans submitted by PIE auditors subject to our 2021 inspections and key reminders for 2022 December year-end audits. It also sets out our expectations of the respective duty of PIE auditors, directors and audit committees in upholding audit quality ahead of the imminent busy audit season.

PIE auditors are urged to make use of our findings and expectations in the Report to better plan and perform the upcoming year-end audits and strengthen their policies and procedures to improve audit quality.

Introducing the 2022 Interim Inspection Report, Ms Janey Lai, Head of Inspection, said, “We continued to identify significant deficiencies in the PIE engagements inspected. We focused on inspecting the firms in Categories B and C that we had not inspected in the first two years of our three-year inspection cycle. Therefore, many of the deficiencies were related to PIE engagements completed by Category B and C firms. Common deficiencies were:

- (i) lack of adequate exercise of professional skepticism;
- (ii) insufficient evaluation of management’s application of accounting standards for revenue recognition and expected credit loss; and

- (iii) insufficient testing of journal entries and other adjustments.

We are also concerned about the instances where we identified auditor violations of the independence rule under the Code of Ethics for Professional Accountants.”

Ms Lai continued, “The common deficiencies identified during our inspections of the systems of quality control of PIE auditors are consistent with those disclosed in our previous inspection reports. We have growing concerns about firmwide quality controls over client and engagement acceptance and continuance, particularly whether the firms had critically assessed their competence and capabilities to perform a quality audit before accepting or continuing an appointment.”

2022 Oversight Report

The Oversight Report summarises the key findings from our assessment of the performance of the Specified Functions. These functions play an important role in upholding and raising the standards and competence of PIE auditors. Our objective is to identify and recommend actions to HKICPA to continuously improve the quality of the performance of these functions. By ensuring a high degree of transparency, accountability, and integrity regarding the performance of these functions, we aim to promote public trust and confidence in the standards and competence of PIE auditors.

Two fresh recommendations relating to governance and standard-setting were made this year. We also reviewed HKICPA’s follow-up actions to previous findings. Follow-up actions for four of our eight recommendations from last year were satisfactorily completed. The considerable progress made by the HKICPA in addressing the remaining four recommendations was in line with the agreed plan. We will continue to communicate with HKICPA to ensure satisfactory completion of the follow-up actions for these recommendations.

Ms Mary Leung, Head of Policy, Registration and Oversight said, “With the commencement of the AFRCO on 1 October 2022, our responsibilities have been expanded to oversee HKICPA’s other statutory functions. Looking ahead, we will continue to apply a constructive, consistent and forward-looking approach to our oversight responsibilities. We look forward to building upon these principles with the HKICPA to achieve the desired outcomes.”

Dr Kelvin Wong, Chairman of the AFRC concluded, “The quality of the accounting profession, the quality of audit and the quality of financial reporting are intertwined in the financial reporting ecosystem. We expect these Reports will bring positive impacts to the continuous enhancement of the quality of financial reporting and create ripple effects that would increase public trust on both the profession and the capital market.”

End



Dr Kelvin Wong, Chairman (second from the left), Mr Marek Grabowski, CEO (second from the right), Ms Mary Leung, Head of Policy, Registration and Oversight (left), and Ms Janey Lai, Head of Inspection (right) of the AFRC present to media two departmental reports.

About the Accounting and Financial Reporting Council

The Accounting and Financial Reporting Council (AFRC) is an independent body established under the Accounting and Financial Reporting Council Ordinance. As an independent regulator, AFRC spearheads and leads the accounting profession to constantly raise the level of quality of professional accountants, and thus protects the public interest.

For more information about the statutory functions of the AFRC, please visit www.afr.org.hk.

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