

**Process Review Panel  
for the Accounting and Financial Reporting Council**

**2023-24 Annual Report**

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## **Message from the Chairperson**

2023-24 has been a fruitful year for both the Accounting and Financial Reporting Council (“AFRC”) and the Process Review Panel (“PRP”) for the AFRC. The AFRC, having become a full-fledged independent regulatory and oversight body since 1 October 2022, continued to strive in the full implementation of the new regulatory regime of the accounting profession. Meanwhile, the PRP began to review, in addition to the AFRC’s regulatory work over Public Interest Entities (“PIE”), cases under the AFRC’s expanded statutory functions of, *inter alia*, registration, inspection, investigation and discipline of accounting professionals and practice units.

In the 2023-24 review cycle, the PRP reviewed the AFRC’s handling of (a) inspections on six practice units and PIE auditors and seven audit engagements, (b) 13 complaint, enquiry and/or investigation cases, (c) four applications for issuance of practising certificate or registration, and (d) the oversight of the Hong Kong Institute of Certified Public Accountants’ specified functions from 1 January 2022 to 31 March 2023. I am pleased to present in this Annual Report the PRP’s observations and recommendations made in the review process.

My sincere gratitude is extended to all members for investing their valuable time, efforts and expertise in the PRP’s work, especially amidst the expanding review scope and caseload. I also thank the AFRC, under the leadership of its Board, for actively responding to the PRP’s recommendations on areas for enhancement in its internal procedures and guidelines. As the AFRC continues to consolidate its regulatory experience under the new regime, the PRP will closely collaborate with it to help enhance its regulatory efficiency and effectiveness for achieving the ultimate objective of safeguarding the financial reporting standards and integrity of Hong Kong’s financial markets.

***Ms Edith SHIH***  
***Chairperson***

# **Chapter 1 : Background**

## **Overview**

1.1 On 1 October 2022, the new regulatory regime of the accounting profession was launched. The Financial Reporting Council (“FRC”) has been renamed as the Accounting and Financial Reporting Council (“AFRC”) and become vested with expanded regulatory functions over Public Interest Entities (“PIE”)<sup>1</sup> auditors and other accounting professionals and practices. In particular, the AFRC is empowered to issue practising certificates to certified public accountants (“CPA”); register practice units, register and recognise PIE auditors; and deal with matters regarding inspection, investigation and discipline of the accounting profession. It is also tasked to promote and support the development of the accounting profession, as well as oversee the performance of the Hong Kong Institute of Certified Public Accountants (“HKICPA”)’s performance of its various professional functions.

1.2 In 2008, the Process Review Panel (“PRP”) for the then-FRC was established by the Chief Executive as an independent non-statutory panel to review cases handled by the then-FRC, and consider whether actions taken by the then-FRC were consistent with its internal procedures and guidelines. Following the launch of the new regulatory regime, the PRP has been renamed as the PRP for the AFRC with its scope of review expanded to cover cases as well as internal procedures and operations guidelines under the AFRC’s expanded regulatory functions. The establishment of the PRP reflects the Government’s commitment to enhancing the accountability of the AFRC.

## **Functions of the PRP**

1.3 The terms of reference of the PRP are as follows –

- (a) to review and advise the AFRC on the adequacy of its internal procedures and operational guidelines governing the actions

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<sup>1</sup> A PIE means a listed collective investment scheme or a corporation with its equities listed on Hong Kong’s stock market.

taken and operational decisions made by the AFRC and its staff in the performance of the regulatory functions in relation to the following areas –

- (i) issuance of practising certificates;
  - (ii) registration of local PIE auditors and practice units;
  - (iii) recognition of overseas PIE auditors;
  - (iv) inspection of PIE auditors and practice units;
  - (v) complaints handling, enquiry and investigation;
  - (vi) disciplinary actions; and
  - (vii) oversight of the performance of the HKICPA of specified functions which include–
    - (1) in relation to PIE auditors: setting requirements for continuing professional development (“CPD”), and setting standards on professional ethics, auditing and assurance; and
    - (2) in relation to practice units and CPAs: registration and training, arranging for recognition of accounting qualifications, and setting CPD requirements and standards on professional ethics, accounting, auditing and assurance;
- (b) to receive and consider periodic reports from the AFRC on completed or discontinued cases in the areas mentioned in (a) above;
  - (c) to receive and consider periodic reports on enquiries, investigations and disciplinary cases lasting more than one year;
  - (d) to receive and consider periodic reports from the AFRC on complaints against the AFRC or its staff;
  - (e) to call for files from the AFRC to review the handling of cases in

the areas mentioned in (a) above to ensure that the actions taken and decisions made are adhered to and are consistent with internal procedures and guidelines and to advise the AFRC where appropriate;

- (f) to advise the AFRC on such other matters relating to the AFRC's performance of statutory functions as the AFRC may refer to the PRP or on which the PRP may wish to advise; and
- (g) to submit annual reports to the Financial Secretary which, subject to applicable statutory secrecy provisions and other confidentiality requirements, will be published.

1.4 The internal procedures to which the PRP would make reference in reviewing the AFRC's cases include guidelines on its statutory functions, working protocols with other regulatory bodies, preservation of secrecy and identity of informers, and relevant legislative provisions.

1.5 The PRP is tasked to review and advise the AFRC on its handling of cases, not its internal operation or administrative matters. Therefore, the work of the committees set up under the AFRC Board is not subject to direct review by the PRP.

### **Modus operandi of the PRP**

1.6 In order to align the case review cycles of the PRP with the AFRC's reporting cycles, the 2023-24 case review cycle covers the work of the AFRC over a 15-month period from 1 January 2022 to 31 March 2023 ("review period"). Thereafter, the case review cycles of the PRP will run on a financial year basis.

1.7 The AFRC provides the PRP with lists of cases completed, discontinued or ongoing for more than one year in the review period, from which the PRP would select cases for review in the format of case review sessions. In the discharge of their duties, the PRP members are reminded to preserve secrecy in relation to information furnished to them, and not to disclose such information to other persons. To maintain independence and impartiality of the PRP, all PRP members would declare their interests

upon commencement of their term of appointment and before conducting each case review.

### **Composition of the PRP**

1.8 In 2023-24, the PRP comprised eight members, including the Chairperson, from a wide spectrum of professions including the accounting, legal, business and academic sectors. The Chairperson of the AFRC and the representative of the Secretary for Justice are ex-officio members of the PRP.

1.9 The membership of the PRP in 2023-24 is as follows –

#### **Chairperson**

Ms Edith SHIH

#### **Members**

Mr Patrick LAW Fu-yuen

Mr Andrew MAK Yip-shing

Mr Frederick TSANG Sui-cheong

Prof Anna WONG Wai-kwan

Mr YU Chung-leung

#### **Ex-officio Members**

Dr Kelvin WONG Tin-yau, SBS, JP  
(in his capacity as the Chairman of the AFRC)

Ms Denise LAM Kien-sau  
(in her capacity as the representative of the Secretary for Justice)

#### **Secretariat**

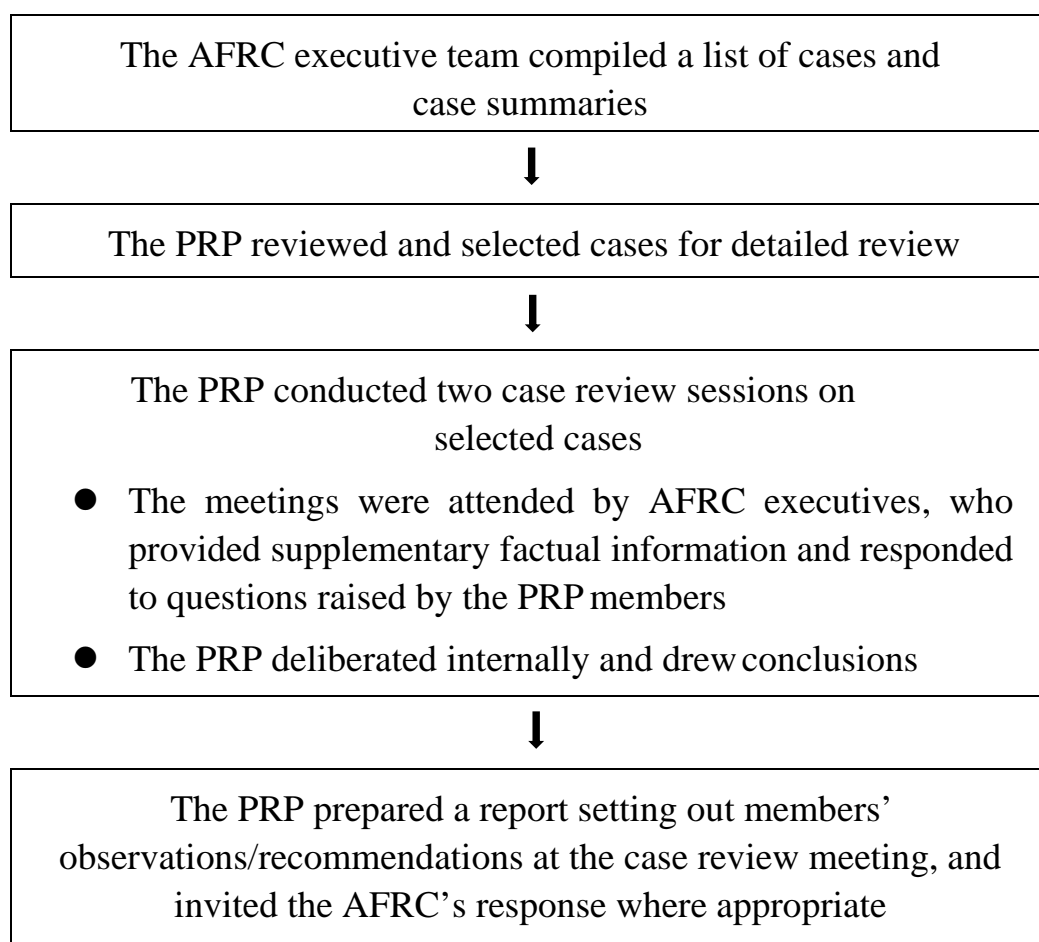
Financial Services and the Treasury Bureau

## Chapter 2 : Work of the PRP in 2023-24

2.1 This Annual Report covers the work of the PRP in 2023-24, which reviewed reports from the AFRC on cases it handled from 1 January 2022 to 31 March 2023.

### Case review work flow

2.2 The work flow adopted by the PRP in reviewing the cases is set out below –





## Selection of cases for consideration/review

2.3 The AFRC executive team provided the PRP with the summaries of cases that were completed, discontinued or ongoing for more than one year during the review period. The distribution of the cases and the number of cases selected for review by the PRP are as follows –

<u>Category of cases</u>	<u>Number of cases</u>	<u>Number of cases selected for review</u>
<b>(A) Inspection</b>	<b>87</b>	<b>13</b>
<i>Completed inspection on quality control system of practice units and PIE auditors</i>	26	6
<i>Completed inspection on audit engagements</i>	61	7
<b>(B) Handling of complaints, enquiries and investigations</b>	<b>215</b>	<b>13</b>
<i>Ongoing cases lasting more than one year as at 31 March 2023</i>	79	4
<i>Completed enquiries and investigation cases arising from complaints</i>	11	2
<i>Completed cases arising from complaints not pursued further by the AFRC</i>	105	5
<i>Completed cases arising from complaints on which the AFRC has taken follow-up actions (other than initiation of enquiries or investigations)</i>	20	2
<b>(C) Issuance of practising certificate, registration and recognition</b>	<b>7 215</b>	<b>4</b>
<i>Applications for issuance of practising certificates</i>	5 128	1
<i>Applications for registration of CPA firms</i>	1 243	-
<i>Applications for registration of corporate practices</i>	703	1

<u>Category of cases</u>	<u>Number of cases</u>	<u>Number of cases selected for review</u>
<i>Applications for registration of local PIE auditors</i>	79	2
<i>Applications for recognition of overseas PIE auditors</i>	62	-

In addition to the above selected cases, the PRP also reviewed the AFRC's work in relation to the oversight of the HKICPA's performance of specified functions during the review period.

2.4 Highlight of the PRP's observations and recommendations are set out in Chapter 4. Follow-up actions taken by the AFRC on the PRP's recommendations in the 2022 Annual Report are set out in Chapter 3.

## **Chapter 3 : Follow-up Actions Taken by AFRC on PRP's Recommendations in the Past Year**

3.1 In its 2022 Annual Report, the PRP made a number of recommendations to the AFRC in relation to its functions of inspection, enquiry and investigation, and registration and recognition. The AFRC's follow-up actions are summarised as follows.

### ***A. Regular review of inspection approach vis-à-vis ultimate regulatory objectives***

3.2 The AFRC has been vested with the inspection power over PIE auditors since October 2019 and non-PIE practice units since October 2022. The PRP considered it reasonable that the AFRC would need to progressively enhance its inspection approach while the profession would require time to familiarise themselves with the AFRC's modus operandi and to take necessary measures in compliance with the prevailing regulatory requirements. During the process, the PRP suggested that the AFRC should continue to critically review its inspection approach including the procedures and rating system on a regular basis with a view to achieving regulatory efficiency and ensuring that the approach is fit for the purpose of improving audit quality.

3.3 In response, the AFRC had put in place the following measures –

- (a) adopting the principle of proportionality and a risk-based approach to determine the frequency and scope of inspection by categorising practice units based on the number of audit clients they have and the level of public interest elements, thus the audit risks therein, thereby enabling the AFRC to proactively adjust its regulatory approach to monitor and address newly arising risks and challenges in the audit profession;
- (b) issuing internal practical guide to assist inspectors' assessment of audit deficiencies identified in an audit engagement and determination of rating of the engagement, and subjecting the inspection outcome to the selective review by the Inspection Subcommittee established under the Inspection Committee of the

AFRC to ensure that regulatory judgements were made in a consistent and fair manner; and

- (c) apart from the regular inspections, engaging audit firms through publication of periodic reports and organisation of briefing sessions to provide insights into common audit deficiencies and good practices, thereby equipping the profession with the necessary knowledge to bring about positive behavioural change for enhancement of audit quality.

***B. Streamlining of multi-layered internal review processes for preparation of investigation findings and reports***

3.4 The PRP noted in the chronologies of investigation cases handled by the AFRC in past review cycles that it was common for the preliminary investigation findings and subsequent reports to go through repeated review and rounds of revisions before finalisation for issuance to relevant parties. While the PRP acknowledged the potential necessity for multiple reviews on cases of higher complexity as well as those involving a large number of deficiencies identified, in general, the AFRC was recommended to consider streamlining its internal clearance processes for more efficient identification of investigation findings and preparation of relevant reports on the premise that the robustness of regulatory judgements and fairness to the regulatees would not be compromised.

3.5 In response, the AFRC had exercised discretion to delegate certain powers in the process of investigations and enquiries to streamline the internal review procedures. Discussions of findings with the clearance authority had been held regularly before drafting of reports to align internal position on the cases and minimise the time taken for substantial revisions due to the lack of prior consensus. The above two measures had also been formalised and suitably incorporated into the procedural manuals for internal adherence.

***C. Setting of Key Performance Indicators (“KPI”) or performance pledge***

3.6 The PRP recommended the AFRC to put in place KPIs or

performance pledge for internal monitoring of case-handling progress as well as external, including the PRP's, assessment of its procedural efficiency and effectiveness.

3.7 For the registration, recognition and licensing functions, the AFRC had published online performance pledge regarding processing time for different types of new and renewal applications. For the inspection and investigation functions, the processing time of cases would vary more significantly depending on a host of external factors including the scale and complexity of the audit engagements involved and the regulatees' response time, etc. Hence, KPIs were set in relation to specific procedures instead of the overall processing time of a case, for instance the notification period on commencement of inspections.

3.8 The PRP welcomed the above follow-up actions and looked forward to the AFRC's continuous efforts to ensure procedural efficiency and effectiveness.

## **Chapter 4 : Observations and Recommendations on Cases Reviewed**

4.1 In the current review cycle, the PRP reviewed the AFRC's handling of (a) inspections on six practice units and PIE audits as well as and seven audit engagements; (b) 13 complaint, enquiry and/or investigation cases; (c) four applications for issuance of practising certificate or registration; and (d) the oversight of the HKICPA's specified functions. The PRP recognised the AFRC's efforts in discharging its various regulatory functions in relation to PIE auditors, and was satisfied that the AFRC had handled the cases selected for review in accordance with the internal procedures set out in the AFRC's Operations Manuals.

4.2 During the review, the PRP noted some areas for enhancements, and its observations and recommendations are summarised in ensuing paragraphs.

### ***A. Control over duration of inspections***

#### Observations and recommendations

4.3 The PRP observed that some of the inspection cases with poor results, especially those assigned with the lowest audit quality rating, tended to take longer time for completion.

4.4 While the AFRC advised that there was no definite correlation between the time spent on an inspection and the inspection outcome, according to its experience, one of the contributing factors to the long processing time was the regulatees' submissions of supplementary information during and after the inspection field work. It was a common phenomenon for regulatees to provide supplementary information at various stages of the inspection in an attempt to justifying deficiencies. Upon receipt of the supplementary information, the AFRC would need to go through the due process of review and analysis to determine if it constituted any evidence with bearing on the audit quality and thus the inspection result.

4.5 The PRP acknowledged the importance of providing regulatees

with reasonable opportunity to submit additional information for the AFRC's assessment of audit quality during the inspection process. Nevertheless, suitable measures should be put in place to guide the AFRC's inspection team on determining the appropriate cut-off for further submissions to prevent the process from dragging on indefinitely, thus achieving better control over the duration of inspection.

#### Response from the AFRC

4.6 Since the AFRC took up the inspection function over PIE auditors in 2019 and non-PIE practice units in 2022, its Inspection Department has been reviewing its regulatory experience with a view to identifying patterns in past inspection cycles for introduction of necessary adjustments to the procedures for efficiency enhancement.

4.7 With the experience in the 2022-23 inspections, the AFRC now imposes a cut-off for submission of supplementary information from regulatees when it comes to the view that sufficient opportunity has been given and there will unlikely be any further information that will significantly alter the AFRC's assessment of the audit quality of the regulatees. The AFRC inspectors will inform the regulatees in advance regarding the cut-off for final round submission of supplementary information.

4.8 On top of regular review of past inspection experience, the AFRC will also make reference to the inspection mechanism and approach adopted by its regulatory counterparts with a view to incorporating good practices as and when appropriate.

## ***B. Case prioritisation under the enquiry and investigation functions***

### Observations and recommendations

4.9 The PRP observed a continued surge in the number of complaints, enquiry and investigation cases being handled by the AFRC. The caseload of the current review period almost doubled that of the preceding year, which was understood as a result of the compound effect of the market's increasing awareness of the AFRC's regulatory role in relation to audit quality of listed entities since the launch of the PIE auditors regulator regime in 2019, as well as the significant expansion of the AFRC's regulatory scope to cover non-PIE accounting professionals and practice units under the new regulatory regime of the accounting profession launched in 2022.

4.10 The PRP considered it crucial for the AFRC to devise an effective case prioritisation policy to ensure that available manpower resources could be allocated in a strategic and timely manner for efficient handling of cases.

### Response from the AFRC

4.11 In general, the AFRC allocates resources according to the public interest involved in a case. Hence, cases concerning PIE engagements with significant public interest at stake are accorded higher priority than those concerning non-PIE practice units and accounting professionals. Decisions on the prioritisation of cases are subject to the scrutiny and endorsement of the AFRC Board.

4.12 Since the launch of the new regulatory regime, the AFRC has seen an influx of complaints concerning non-PIE accounting professionals and practice units, of which the nature of the subject matters differ from that of PIE-related complaints. In particular, allegations in PIE-related complaints primarily concern potential accounting non-compliance in the financial statements of PIEs and non-compliance with auditing and assurance standards by PIE auditors, such as lack of sufficiency and appropriateness of audit evidence, failure to exercise professional



skepticism and judgment, and failure to perform effective engagement quality control reviews. Whereas, allegations in non-PIE-related complaints mainly concern the potential non-compliance with the Code of Ethics for Professional Accountants, such as failure to act diligently and exercise due professional care, and non-compliance with laws and regulations, etc.

4.13 Based on the AFRC's practical experience in handling complaints, the completeness and level of detail of the information available in the complaints also vary depending on the source of the complaint. Complaints which are referred from other regulators often contain allegations supported by sufficient evidence to enable the AFRC's initiation of investigations and/or enquiries. Complaints from the public, however, are more likely to require additional time and resources for seeking clarifications from the complainants and obtaining necessary supporting documentation.

4.14 To enhance efficiency in handling complaints, designated teams have been set up within the Investigation and Compliance Department to handle PIE-related and non-PIE-related complaints respectively. The AFRC deploys staff with accounting, auditing and relevant regulatory experiences for managing cases of which the staff have related knowledge and experience of the subject matters. Such practice facilitates the accumulation of experience of dedicated teams of staff in handling complaints concerning particular types of regulatees, which is conducive to the enhancement of case-handling efficiency over time.

4.15 As a general principle, the AFRC, through regulatory collaboration and intelligence sharing with financial regulators and law enforcement agencies, prioritises cases with regard to the public interest at stake. Regardless of whether a case is a PIE or non-PIE-related one, the AFRC will approach it with the same level of professionalism and meticulousness to ensure fairness and robustness of its regulatory decisions.

***C. Streamlining of procedures for handling complaints relating to non-PIE practice units and accounting professionals***

Observations and recommendations

4.16 The PRP understood that complaints relating to non-PIE practice units and accounting professionals generally involve less significant public interest. Further to the preceding recommendation on resources allocation, the PRP considered it worthwhile for the AFRC to review and explore, as appropriate, room for adopting streamlined procedures for handling the said category of complaints, so as to spare resources for other cases with more significant public interest element.

Response from the AFRC

4.17 In December 2023, the AFRC introduced a new specialisation policy for handling complaints against non-PIE practice units and accounting professionals. Under this policy, new internal KPIs have been set up to ensure information gathering and complaints assessment are conducted in a timely manner, and a new complaint assessment form has been devised to assist staff of the Investigation and Compliance Department in determining whether to proceed with a case, in particular the screening of cases which are less meritorious and/or constituting limited market impact, thereby enabling the effective allocation of manpower resources to the handling of cases with more significant public interest element.

***D. Coordination between the AFRC and the HKICPA on registration renewal timeframe***

Observations and recommendations

4.18 Under the new regulatory regime of the accounting profession, the HKICPA is empowered to confer the CPA qualifications while the AFRC is vested with the powers to, *inter alia*, issue practising certificates to CPAs and register practice units and PIE auditors. The CPA qualification, practising certificates as well as the aforementioned registrations expire on 31 December and are renewable annually. The Professional Accountants Ordinance (Cap. 50) (“PAO”) and the Accounting and Financial Reporting Council Ordinance (Cap. 588) (“AFRCO”) stipulated the deadline for submission of renewal applications for the CPA qualification, practising certificate and registration of practice units on 15 December of each year; whereas renewal applications for registration of PIE auditors must be made no earlier than three months and no later than 45 days before the expiry date.

4.19 In the four cases under the AFRC’s registration, recognition and licensing functions selected for review by the PRP, there were occasions where a renewal application of practising certificate or registration of PIE auditors had only been granted after the expiry date of 31 December. The delay in renewal was due to the pending application for CPA renewal by the HKICPA, which was a pre-requisite for renewal of practising certificate or registration of practice units and PIE auditors by the AFRC. Despite the delay, the AFRCO contained provisions to the effect that a practising certificate or registration would remain in force after the expiry date if a renewal application had been made but was not finally determined by the AFRC before the said date. Therefore, the CPA(practising), practice units and PIE auditors could continue their practice despite the pending renewal.

4.20 With a view to shortening the duration of a CPA (Practising), practice unit or PIE auditor practising pending renewal of the practising certificate or registration for regulatory certainty, the PRP recommended the AFRC to explore with the HKICPA ways to better coordinate the renewal timeframe for different types of registration and issuance of practising certificates.

## Response from the AFRC

4.21 Pursuant to section 27(2)(a) of the PAO, in the case where a CPA fails to apply for renewal of CPA qualification by the HKICPA's deadline of 15 December, the HKICPA needs to send a final notice allowing the CPA 30 days from the date of the notice to apply for renewal. Meanwhile, there is no equivalent requirement in relation to the renewal of practising certificates and registration of practice units and PIE auditors under the AFRCO. Given such requirement, the outcome of a CPA's renewal would only be available after the 30-day final notice period, upon which the AFRC may process relevant applications for renewal of practising certificates or registration of practice units and PIE auditors relating to the CPA in question. The AFRC is exploring with the HKICPA ways to shorten the time gap between the expiry and renewal of practising certificates or registration of practice units and PIE auditors, for instance advancing the timing for HKICPA's issue of final notices to CPAs.

## Chapter 5 : Way Forward

5.1 When preparing the annual report this year, the PRP would like to record its appreciation of the AFRC's commitment to safeguarding the financial reporting standard in Hong Kong. The PRP is pleased to note the AFRC's positive response to its recommendations with a view to enhancing the AFRC's regulatory effectiveness and efficiency.

5.2 In the year ahead, the PRP will continue its work to ensuring that the AFRC adheres to its internal procedures for consistency and fairness.

5.3 The PRP welcomes and attaches great importance to the views from stakeholders and the public. Comments on the work of the PRP can be referred to the Secretariat of the PRP for the AFRC through the following channels<sup>2</sup> –

By post : Secretariat of the Process Review Panel for  
the Accounting and Financial Reporting Council  
Financial Services and the Treasury Bureau  
15<sup>th</sup> Floor, Queensway Government Offices,  
66 Queensway, Hong Kong

By email : [afrcprp@fstb.gov.hk](mailto:afrcprp@fstb.gov.hk)

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<sup>2</sup> For enquiries or complaints not relating to the process review work of the AFRC, they should be made to the AFRC directly –  
by post: 10/F, Two Taikoo Place, 979 King's Road Quarry Bay, Hong Kong  
by telephone: (852) 2810 6321  
by fax: (852) 2810 6320  
by email : [general@afrc.org.hk](mailto:general@afrc.org.hk) or [complaints@afrc.org.hk](mailto:complaints@afrc.org.hk)

## **Chapter 6 : Acknowledgement**

6.1 The PRP would like to express its gratitude towards the AFRC for its assistance in facilitating the review work, and its cooperation in responding to the PRP's enquiries and recommendations in the past year.

**Secretariat of the Process Review Panel  
for the Accounting and Financial Reporting Council  
December 2024**