



Message from the CEO

Since the December 2020 edition of e-news, we have continued to evolve to fulfil our regulatory objectives across the full range of our functions. Allow me to explain our ambitions in delivering this and to highlight the progress we have made so far.

Market Oversight

We take a risk based approach to our work. This enables us to focus our work where the risks to our regulatory outcomes are greatest. We do so, firstly, by understanding and anticipating risks to the quality of financial reporting and auditing of listed entities at the level of the overall system (system level risk) and taking pre-emptive oversight, policy and educational actions to address these risks. Our work in this area is carried out by our Oversight, Policy and Governance (OPG) function. We have increased our resources in this function to ensure that this important work receives increasing attention.

Oversight, Policy and Governance

Recognition and Oversight

In January, our OPG function completed its review and approval of applications from all overseas entities listed in Hong Kong, for renewal of the recognition of their auditors as PIE auditors. This is a substantive process which includes re-evaluating whether the auditor has the resources and capabilities to carry out the listed entity's audit.



We also met the HKICPA to obtain an update on the implementation of their follow-up actions to the recommendations from our first assessment of their specified functions, and to plan for our second assessment. We subsequently received a report from the HKICPA on their progress in addressing our recommendations.

Market Analysis

In March, the FRC published the first edition of a report by our OPG function providing an “[Overview of the Market for Listed Entity Audits in Hong Kong](#)”. We intend to publish further editions annually and to further develop their scope.

The report sets out statistical information and our findings and insights about competition features of the market and suggested avenues for further policy research. We look at competition features such as segmentation, concentration, auditor switching rates, the level of market entrants and exits and audit pricing, as these can have implications for sustainable audit quality.

Ultimately, this analysis will enable us to enhance our regulatory risk assessments and provide a foundation for our future policy development. Making this information available to the public enables us to engage better with all stakeholders in considering the need for policy actions to address the challenges we identify.

We have been meeting with key stakeholder representative bodies, including the Hong Kong Institute of Directors, the Chamber of Hong Kong Listed Companies, the Hong Kong Independent Non-Executive Director Association, the Society of Chinese Accountants and Auditors, and the Association of Chartered Certified Accountants to foster collaboration and communication channels with their members. We are also arranging opportunities to speak directly to members of these bodies about our work and the issues we are addressing.

Through these bodies and the HKICPA, we have been able to broadcast our report to more than 100,000 stakeholders. We would like to hear from you on the matters addressed in our report – please contact us to share your views at marketanalysis@frc.org.hk.

Market Monitoring

Secondly, we aim to understand the risks to the quality of financial reporting and auditing that are exhibited at the level of our individual listed entity and auditor regulatees (entity level risk). We do so by considering information available from external sources and increasingly from the results of our inspections and financial statements reviews (market monitoring activities).

We use our analysis of system level and entity level risk to drive the focus in our risk-based work plans for carrying out our market monitoring activities on the areas where those risks are most significant. We will continue to focus on broader information gathering and analysis and collaboration with other regulators to further enhance our risk assessments.

The primary goal of these activities is to promote continuous improvement in the quality of financial reporting and auditing based on our findings. We do so through providing directional observations to the whole population of our regulatees (not just those inspected or reviewed). We also support this goal through providing guidance to other key stakeholders in the ecosystem for financial reporting. The aim of such guidance is to help them to nurture high quality financial reporting and auditing in the performance of their roles.

Inspection

Since December, our Inspection function completed the field work for its first round of inspections and its annual report will be published in the coming month. As anticipated in our interim inspection report published in December, the annual report will build on our interim findings of common deficiencies and how they may affect audit quality.

In the annual inspection report, we will be communicating the outcome of our evaluation of the significance to audit quality of the deficiencies identified across the first round of inspections as a whole, our directional observations for auditors to address the impact of these deficiencies on the public interest in the quality of listed entity audits and other actions we are taking to address audit quality issues identified.

Financial Statements Review

Our financial statements review programme has also been continuing apace since December. We will communicate about the risks we have focused on and our common findings in the annual report of our Investigation and Compliance function, which will be published later this year.

Market Surveillance

We also aim to drive greater effectiveness in our market surveillance activities, to enhance early detection of potential financial statements non-compliance or auditing misconduct. In addition to the identification of such matters through our market monitoring activities, we depend on effective processes that encourage members of the public, our regulatees, whistle-blowers and other regulators to provide us with intelligence about these matters.

Our recent focus to this end has been on enhancing our monitoring of market events, our collaboration with other regulators and the confidence of whistle-blowers to report directly to us. We would like to see greater self-reporting by regulatees and will be promoting this. We are also increasing our market education and public transparency of our work when appropriate. Our purpose is to support market understanding of our needs and confidence that we will act on information received.

We are enhancing the efficiency and effectiveness of our assessments of and responses to the information received from our market surveillance activities. Our focus is on earlier consideration of the significance and nature of the issues in each case at a senior management level and, given the diversity of the issues encountered, driving inspection or investigation responses that are appropriately timely and proportionate to the significance to the public interest in each case.

Investigation

We are also focused on identifying and taking opportunities to further enhance the efficiency of our investigation and enquiry processes and therefore the use of our resources. This is enabling us to address the backlog of investigation cases whilst enhancing our ability to respond with agility to new significant public interest cases. For example, we are paying greater attention to the appropriateness of the time given to regulatees and other parties to provide information, attend interviews or review the findings of our investigations and enquiries.



We will always provide respondents with a reasonable period to address these matters and will always consider reasonable requests for extensions. However, allowing undue periods would reduce the efficiency and effectiveness of our work in delivering timely outcomes and would be contrary to the public interest. We appreciate the co-operation that we receive from the vast majority of respondents in this regard but we will not hesitate to take enforcement action when such co-operation is not forthcoming.

Discipline

We have also continued to establish our Discipline function to ensure that it is ready to handle the first cases under the new regulatory regime. Our focus has been on building our new team and other resources and developing efficiency and effectiveness in our processes. This includes the processes for hand-off between our investigation and discipline functions and for delivery of an appropriate range of disciplinary outcomes. These outcomes need to be effective in sanctioning misconduct, addressing remediation and deterring recurrent inappropriate behaviours.

Regulatory Collaboration

We have also been consolidating and enhancing our collaboration with other regulators. Such collaboration in all geographies is important for our success and we are actively pursuing this. Given their relative significance to our remit, collaboration with the Supervision and Evaluation Bureau of the PRC Ministry of Finance (MoF) has been and continues to be a strategic priority.

Our Memorandum of Understanding (MoU) with the MoF provides a strong platform for collaboration across our respective remits. We are already successfully collaborating on access to working papers for our investigations. Access to the [working papers received in November](#) has enabled us to progress the seven related investigations. We are also exploring with the MoF how to extend our access to working papers for our inspections most efficiently. In addition, we are collaborating through mutual reliance to address [individual cases](#) that have cross-boundary implications.

We are also pursuing MoUs with local regulators and recently signed [a new MoU with the SFC](#).



Public Reporting

Reporting to the public continues to be a critical ingredient in establishing and maintaining public trust in our work. Our focus is on reporting to the public on the progress and findings of the work of each of our functions, explaining why those findings matter to the public and how they are to be addressed, increasing transparency in relation to our market surveillance and investigation activities where appropriate, and increasing stakeholder and public outreach. This includes enhancing our relationships with relevant stakeholder representative bodies to provide channels for broadcasting our public reports and for two-way communications with their members.

Looking Forward

Our 2021-22 Budget

In the last quarter of our financial year, we have also [presented our budget for the 2021-22 financial](#) year to the Legislative Council Panel on Financial Affairs and it has been approved subsequently by the Financial Secretary. In 2021-22, we will increase our efficiency and productivity and build on our achievements in 2019-21 to transform the FRC into Hong Kong's full-fledged independent auditor regulator.

Our budget recognizes the need to optimize fiscal discipline in the current economic circumstances, but will allow us to consolidate and enhance the efficiency and effectiveness of our inspection, investigation and oversight functions, to establish our discipline function, and to meet our mission and purpose by responding with agility and transparency to new public interest cases.

Our Purpose

Financial reporting and auditing are products that define the accounting profession. Taken together, they serve the public interest by enabling public accountability of private companies and other entities. That includes accountability of those companies and other entities for their financial responsibilities to relevant segments of the public and for their financial and economic impacts on society.

Our purpose is to protect the public interest in the quality of financial reporting and auditing of listed entities in Hong Kong. This includes both the interests of the investing public in the effective operation of Hong Kong's capital markets and the wider public interest in the success of Hong Kong's listed entities and accounting profession, the economic well-being of Hong Kong and the maintenance of Hong Kong's status as a leading international financial centre.

Contacts

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

Financial Reporting Council

24/F, Hopewell Centre,
183 Queen's Road East,
Hong Kong

Tel: (852) 2810 6321

Fax: (852) 2810 6320

Email: general@frc.org.hk

Website: www.frc.org.hk

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