

Press Release

11 December 2020

FRC issues first regulatory reports

(11 December 2020, Hong Kong) Financial Reporting Council (FRC) today issues its first regulatory reports since it became the full-fledged independent auditor regulator in Hong Kong on 1 October 2019. These are the first reports relating to the work of the FRC's new Inspection and Oversight functions, since their establishment under the amended FRC Ordinance. Both the Interim Inspection Report ([click here](#)) and the Report on the FRC's Assessment of the HKICPA's Performance of the Specified Functions ([click here](#)) (Oversight Report) can be accessed on the FRC's official website – <http://www.frc.org.hk/>.

As an independent regulator, the FRC publishes these reports to be publicly accountable and transparent. Doing so enables the public to understand the outcome of the FRC's work and its perspectives and directional recommendations for strengthening the performance of audits by auditors and of the specified functions by the HKICPA. This also facilitates judgment by the public of both the FRC's performance and the performance of auditors and the HKICPA.

Mr Marek Grabowski, CEO of the FRC remarked, "I am pleased to share with the public our first regulatory reports from our new Inspection and Oversight functions. Although much of the work we inspected was of an appropriate standard, there is an evident need for the incidence of audit deficiencies to be reduced, so as to improve audit quality across the market for listed entity audits."

"We will address and report on our evaluation of audit quality when our inspection work for this cycle is complete. Meanwhile, our report sets out our expectation that all listed entity auditors (not just those we have inspected so far) will learn from our findings and address them in performing the audits that will be inspected by us in the next cycle of our work."

Dr Kelvin Wong, Chairman of the FRC remarked, "Despite the challenges brought by the outbreak of COVID-19 in the past year, the FRC has not compromised our efforts in carrying out our statutory duties to protect the public interest in audit quality and the performance of the specified functions by the HKICPA. The reports are highly relevant

to our stakeholders including the audit profession, audit committees and the public. We urge audit committees to do their part in holding their auditors to account for performing their audits to a high quality. The publication of these reports demonstrates that the FRC is up and running and will continue to uphold the quality of financial reporting and audits of listed entities in Hong Kong.”

Interim Inspection Report

The interim inspection report provides information to auditors, investors and audit committees about common audit quality findings in the middle of our first inspection cycle.

The FRC aims to ensure the quality of financial reporting of listed entities is at a high standard, thereby reinforcing Hong Kong’s leading position as an international financial centre. The report provides insights to all auditors and enables them to take early action to address our findings in the next cycle of audits. We also urge audit committees to discuss these areas with their auditors and challenge whether they have been adequately addressed.

Mr Benjamin Rhys, Head of Inspection remarked, “We found common deficiencies in a number of areas, including that the exercise of professional scepticism was not sufficient in at least one area in 90% of the engagements we inspected. Our report also highlights that audit firms need to do more in promoting a culture that prioritizes and recognizes the quality of audit work.”

“As explained in our report, individual findings vary in significance. Individual findings do not necessarily indicate that the audits to which they relate were poor quality – they need to be considered in aggregate for each audit.”

Oversight Report

The FRC also conducted the first assessment of the statutory functions of HKICPA after being assigned the responsibility of providing oversight functions of the local accountancy body last year. The FRC seeks to ensure the effective performance of the specified functions related to the registration of local auditors of listed entities, the setting of standards on professional ethics, auditing and assurance practices, and the setting of continuing professional development requirements for public interest entity (PIE) auditors.

Ms Florence Wong, Head of Oversight, Policy and Governance said, “While we concluded that the HKICPA’s performance of the specified functions in general was adequate, the FRC has made several recommendations to strengthen HKICPA’s

policies and procedures to ensure consistent effective discharge of the specified functions entrusted to them under the law. The FRC will be monitoring the implementation of the HKICPA’s intended follow-up actions very carefully to ensure that the public interest in audit quality is well served.”

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Chairman, Dr Kelvin Wong, JP (middle) and management from the Financial Reporting Council share findings from its first regulatory reports. The management team includes: Mr Marek Grabowski (second from the right), Ms Florence Wong, Head of Oversight, Policy and Governance (left), and Mr Benjamin Rhys (right).

Note to editors

About the FRC

The FRC is the full-fledged independent listed entity auditor regulator for Hong Kong committed to upholding the quality of financial reporting of listed entities of Hong Kong so as to enhance investor protection and strengthen investor confidence in corporate reporting.

For more information about the statutory functions of the FRC, please visit www.frc.org.hk.

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