

LegCo Panel on Financial Affairs - AFRC Budget for FY2024-25

5 February 2024

Remarks by Dr Kelvin Wong, Chairman of AFRC

Chairman and Panel members,

Good morning. My presentation is divided into two parts. Firstly, I will provide a concise overview of the challenges and accomplishments of the AFRC's work in 2023-24, as well as the utilisation of the budget. Then, I will briefly explain the philosophy and principles behind the budget for 2024-25. Our Acting CEO, Ms Janey Lai will focus on presenting the key points of the budget for 2024-25.

(I) **Challenges and accomplishments of the AFRC and budget utilisation in 2023-24**

After the implementation of the new regulatory regime for the accounting profession on 1 October 2022, the role and functions of the AFRC have been expanded. As a full-fledged and independent regulatory body for the accounting profession, the AFRC is responsible for the inspection, investigation, and discipline of public interest entities' auditors, as well as practice units and certified public accountants. It also oversees the Hong Kong Institute of Certified Public Accountants (**HKICPA**) in performing its statutory professional functions and promotes and supports the development of the accounting profession.

(a) **Challenges and outcomes**

In terms of regulation, despite an increase in workload in areas such as registration, investigation, inspection, and discipline, the AFRC has adopted effective measures that paid attention to both regulation and education. It formulated and published policy research reports and professional guidelines for the profession's reference on a regular basis. Additionally, the AFRC conducted surveys, roundtable meetings and seminars to remind institutional investors of the importance of quality financial reporting, and the financial reporting responsibilities of the management of listed entities and audit committees. These initiatives aimed to address issues of financial reporting quality from the root cause, and to promote the fulfilment of responsibilities by investors, the profession and listed companies.

In terms of regulatory collaboration, the AFRC continuously strengthened its relationship with local, Mainland, and international regulators. It shared experiences and regulatory information to effectively safeguard the interests of investors and the public interest, thereby maintaining Hong Kong's position as an international financial centre.

(b) Budget utilisation of 2023-24 budget

Since 2019, the Board of Directors and management of the AFRC have been adhering to the principle of prudent financial budget management. They have carefully deliberated and formulated guidelines and policies, and firmly believe that the prudent use of resources can actively control and drive management to prioritise work more effectively, optimise workflows, and enhance efficiency.

Starting from 1 October 2023, fees for applying for practicing certificates, registering practice units, and related renewals have been charged at a level equivalent to the fee level of the HKICPA prior to the implementation of the new regime. The AFRC also utilised the remaining balance of seed capital to cover the expenses associated with the expanded functions.

In 2023-24, operating expenditures amounted to \$244.87 million, which is approximately 28.1% lower than the approved budget. The lower expenditure compared to the budget is primarily due to the longer-than-expected time required to fill vacant positions.

(II) The philosophy and principles behind the 2024-25 budget

The budgeted operating expenditures in 2024-25 is \$404.31 million, among which approximately 64% is allocated for PIE functions, while the remaining 36% is allocated for the non-PIE functions.

(a) Manpower planning

Considering the continued impact of the complex and ever-changing external environment on the overall economy of Hong Kong, coupled with the current talent shortage in the accounting industry, the AFRC proposes to maintain the existing 145 positions in the 2024-25 budget. Among these positions, there are 93 positions for the PIE functions and 52 positions for the non-PIE functions.

(b) Expected funding shortfall

The AFRC anticipates an operating deficit of \$167.66 million in 2024-25. The remaining balance of the seed capital injected by the

Government in 2019 is expected to be fully depleted by the third quarter of 2024.

During this period, the AFRC will continue its practice of prioritising work tasks carefully, allocating manpower with flexibility and exercising prudent expense control to maintain the current regulatory level. Meanwhile, the AFRC will review its resource needs and work with the Government to explore new sources of income, with the goal of achieving long-term financial sustainability.