

# e-News

Florence Wong, Acting CEO

## Key Message

The past eight months have been a turbulent time for local and international financial markets. The adverse impacts of the COVID-19 pandemic are still being felt. In overseas markets, the scandals surrounding Luckin Coffee and Wirecard have attracted criticism on the quality of financial reporting. Locally, an open disagreement between a listed company and its auditor about the preparation of the auditor's report, and a series of resignations of PIE auditors have caused grave concern. Being the statutory body charged with the responsibility for audit oversight and audit quality, the FRC remains vigilant and alert to the issues generated by these recent events and will continue to focus on enhancing the quality of financial reporting and audit, which is key to market confidence and the effective functioning of capital markets.

Quality financial reporting does not come easy. It requires commitment and sustained efforts from different stakeholders. The directors of a listed entity (the Board as a whole) are responsible for ensuring its financial statements give a true and fair view in accordance with the applicable financial reporting framework. Audit committees oversee the financial reporting and audit processes. Auditors play a pivotal role in providing investors and other stakeholders with a high level of assurance that the financial statements of an entity give a true and fair view and provide a reliable and trustworthy basis for making decisions. In this issue of e-news, we will elucidate some of the matters that these stakeholders should note in order to uphold audit quality and maintain audit independence.

### **Reminder to listed companies**

The deteriorating global economic environment has increased the likelihood of impairment of both financial and non-financial assets and put the financial position of companies under intense pressure. Management of listed companies should prepare forecasts and/or estimates which are reasonable and supportable and which represent management's best estimates under the current economic circumstances. They should take an objective and realistic rather than overly optimistic approach when making assumptions, particularly those related to fair value measurement and going concern assessment. They should also perform stress or scenario analysis and disclose the relevant information in interim and annual financial statements to provide users of financial statements with an understanding of the nature of those scenarios, and the extent and likelihood of mitigating activities.

### **Reminder to audit committees**

The complex and unfavourable economic conditions brought about by the outbreak of COVID-19 have made financial reporting more judgemental and susceptible to management bias.

Audit committees should bear in mind their oversight obligations and exercise due care and diligence when reviewing the listed entities' financial information and systems. They have the responsibility to challenge management's assumptions and decisions and should be mindful of potential conflict of interest between the audit firm and the listed company.

Audit committees should ascertain whether the audit firms engaged have robust policies in place to provide sufficient safeguard such that audit quality and audit independence will not be compromised. Audit committees should also consider whether sufficient audit resources are being allocated for the effective performance of the audit and that the audit fee fairly reflects this.

### **Reminder to audit firms and auditors**

At the firm level, audit firms should foster a culture that supports the pursuit of quality and continuous improvement. They also need to allocate sufficient resources to ensure

that auditors are able to identify and monitor high-risk audits and that those audit teams respond appropriately to the identified risks. Tone at the top is key.

Auditors are reminded to exercise professional scepticism and challenge management on key assumptions and judgements, in particular where management's judgements and estimates appear to be "too good to be true." They should persist in challenging management until their concerns have been adequately addressed.

Time is of the essence in performing quality audits. Firms should complete their client acceptance/continuance and risk planning and logistics, including agreeing audit fees as early as possible. They could work with the listed companies to bring forward as much of their test work as possible, as experience has shown that audits that were well advanced by late January 2020 encountered significantly less disruption and additional cost from the travel restrictions in China and elsewhere than audits that were less advanced.

Auditors should engage in early discussion of the reporting timetable and raise any related concerns with management as soon as possible. Auditors should also request a delay in reporting deadlines where this is necessary for obtaining sufficient appropriate audit evidence and completing all necessary audit procedures. If such evidence cannot be obtained, they should consider modifying the audit opinion as appropriate.

Two-way communication is vital to ensuring audit quality. Auditors should communicate matters of interest and concern to the audit committees on a timely basis including governance concerns, deficiencies in internal controls, aggressive assumptions and estimates, insufficient disclosures and possible modification of the audit opinion.

In recent years, the burgeoning of "new economy" enterprises has brought about many new business models that auditors may not be familiar with. Auditors should ensure that they are competent and capable of performing audits on these new business models. They should consider engaging specialists and experts in areas where their audit teams do not have sufficient expertise to enable them to design and perform

procedures responsive to the risks, in good time. In the fast-changing business world, auditors should keep up-to-date with the new business models and gain an in-depth understanding of their clients' businesses, particularly those engaged in the new economy or non-traditional businesses.

### **Keeping abreast of global regulatory issues and developments**

The FRC is keeping abreast of the latest global regulatory issues and developments. One of the widely discussed issues is the prospect of the US-listed Chinese companies coming to Hong Kong for a secondary listing due to possible new regulations in the U.S. While the FRC will not speculate on the reasons behind the secondary listing of these companies, we would like to stress that cross-border audit regulatory collaboration has been strengthened in recent years. For example, the FRC signed a Memorandum of Understanding with the PRC's Ministry of Finance (MoF) on 22 May 2019 under which the FRC can request assistance in obtaining audit working papers located in the Mainland for investigation and inspection cases. It also covers mutual collaboration on inspection, which the FRC is proactively discussing with the MoF. The FRC may also raise request for assistance for obtaining audit working papers for inspection. This demonstrates the FRC's determination in upholding quality financial reporting and safeguarding the public interest when Hong Kong continues to attract an increasing number of Chinese enterprises to list here.

On 6 July 2020, the UK FRC announced Principles for operational separation of audit practices of the four largest audit firms. The objectives are to ensure audit practices are focused on, above all, delivery of high-quality audits in the public interest and do not persistently rely on cross subsidy from other parts of the firm. The four largest audit firms are required to submit an implementation plan to the UK FRC by 23 October 2020 for complete implementation by 30 June 2024. The FRC will monitor the impact of these principles on audit quality and will consider which of them may be appropriate in Hong Kong in due course.

## People in Focus

When ‘the FRC’ is mentioned, the first thought that may come to people’s minds may well be “the independent auditor regulator of Hong Kong”. Rarely would they think of the human side of the FRC.

To let our readers understand more about the drivers behind the FRC, the editor has interviewed the Heads of the Department of Inspection, the Department of Investigation and Compliance, the Department of Oversight, Policy and Governance, the Legal Department and the Deputy Head of the Finance and Administration Department. They will share with us their vision, work and aspiration. Before we start the interview, let us take a look at their profiles.

### **Ms Florence Wong**


#### **Acting CEO and Head of Oversight, Policy and Governance**

Florence is one of the longest-serving staff members of the FRC. Before taking up her current post as Acting CEO and Head of Oversight, Policy and Governance, she was a Senior Director, Investigation of the FRC and was heavily involved in the work on auditor regulatory reform that shaped the FRC as it is today. Before joining the FRC, she had worked in a global accounting firm as an auditor and with the HKICPA, supporting the standard setting function and quality assurance function, including inspection. She is a qualified certified public accountant and a certified internal auditor.

### **Ms Wincey Lam**


#### **Head of Investigation and Compliance and Head of Finance and Administration**

Wincey is a qualified chartered accountant in the UK and has over 25 years of experience in financial reporting and auditing. Before she joined the FRC, she was a partner in the Professional Practice Department of a global accounting firm specialising in assisting clients and staff in a wide range of accounting and reporting issues encountered in practice. Wincey is a member of the ICAEW and the HKICPA.




**Mr Benjamin Rhys**  
**Head of Inspection**

Born in Hong Kong, Ben qualified as a chartered accountant in the UK. Prior to joining the FRC, he was a partner in the financial services assurance practice of a global accounting firm in Hong Kong, focusing on banks, securities companies and private equity. Ben is a keen golfer and squash player.



**Mr Alfred Chan**  
**General Counsel**

Alfred is a law graduate of the University of Hong Kong and had been in private practice as a barrister for nearly 30 years before joining the FRC. He has a wealth of litigation and advisory experience in commercial work. His experience in regulatory and criminal matters has also proved invaluable to his work at the FRC.



**Mr Godwin So**  
**Deputy Head of Finance and Administration**

Godwin is a certified public accountant, a chartered secretary and a holder of an EMBA degree. He has over 20 years of finance and management experience in the commercial sector. Before joining the FRC, Godwin was a senior executive of a leading public transport company overseeing corporate planning, risk management, companies secretarial, IT, human resources and public relations functions.

**Sharing from our Heads**

**Editor: How long have you been with the FRC and what do you think about the culture and colleagues of the FRC?**

**Godwin:** I have joined the FRC only for four months. In the brief time that I have served here, I have found the FRC a small but important organisation as it plays a vital role in maintaining investor confidence in the financial reporting of listed companies. It is a people-centric organisation and the staff here are very professional.

**Ben:** My service period has been just a little bit longer than Godwin. I joined the FRC in March 2020 when the Department of Inspection had only 4 staff . I found the culture of the FRC to be one of inclusion and cohesion, with all of the different functions working together and supporting each other to achieve our goals of upholding audit quality and enhancing investor protection. That said, our culture continues to evolve as we build teams with talented individuals from diverse backgrounds to discharge our expanded statutory duties.

**Florence:** I cannot agree with Ben more. Though I have worked for the FRC for 11 years, I still find the FRC a young and growing organisation, shaping its culture that embraces the highest standard of professionalism and integrity at its core. As a long-serving member of staff here, I am very pleased to see more and more ‘new blood’ joining the FRC. I have been involved in the recruitment of several senior positions and we are very selective in recruitment to ensure the selected candidates are energetic and committed and most important of all, are highly capable of delivering effective regulatory outcomes.

**Wincey:** I have joined the FRC for almost 7 years and feel grateful that I am working with a team of committed professionals. To me, the FRC has an open and caring culture. We always work towards the same goal of upholding the quality of financial reporting and we are receptive to new ideas that are conducive to enhancing the quality, efficiency and effectiveness of our work. As the editor rightly pointed out, our work is not just about numbers, figures and cases, we have our human side and we care about our staff.

**Alfred:** I have been with the FRC since November 2017. At the heart of what we do at the FRC is the public interest. All my colleagues are bound by the shared sense of mission of dedicating ourselves to the furtherance of that public interest, by performing our regulatory work effectively and efficiently. When I first joined the FRC, we had a staff of under 25 people. We were a small and closely knit fraternity working towards a common goal. With our expanded functions, we have since grown into a larger organisation but the strong collegial spirit and friendly atmosphere have stayed with us.

**Editor: Can you tell us more about your work, the operation of your department and the work plan in the next 6 months?**

### Department of Inspection



**Ben:** As the name suggests, the Department of Inspection is responsible for inspecting the auditors of public interest entities and their work. In the first few months following being granted the power of inspection, we focused on building the team, developing our inspection manuals and inspection plan and training our staff.

In 2020 we will inspect 18 of the 40-plus PIE audit firms and 12 of these inspections are in progress. In November, we will issue an interim report highlighting common findings from our inspections to date and areas of potential focus in the next inspection cycle.

We will also issue a comprehensive report of

full-year findings in 2021 which will include more detailed findings from our full year inspections.

Fostering closer ties with local, mainland and international regulators is also a strategic priority. We regularly communicate with the PRC's Ministry of Finance (MoF) on cooperation and assistance for inspections under the Memorandum of Understanding signed between us in 2019.



## Department of Investigation and Compliance

**Wincey:** I am “wearing two hats” at the FRC, being Head of Investigation and Compliance and Head of Finance and Administration. I will probably focus on sharing our work on investigation and let Godwin talk about the work related to finance and administration.

The Department of Investigation and Compliance (IC Department) is responsible for conducting independent investigations on possible auditing irregularities and enquiries into possible non-compliance with accounting requirements in relation to financial reports of PIEs. My team works like Sherlock Holmes, committed to digging out the truth from pages of complicated financial statements and audit working papers. So, all my colleagues have sharp eyes and inquiring minds. I find my work very meaningful as it is related to the protection of the public interest.

We have three sources for our work - complaints, media reports and the Financial Statement Review Programme (FSRP) – and I will share with you in details about our FSRP, which is a proactive initiative taken by the FRC. Under the FSRP, we proactively select financial statements for review based on a set of risk-based filtering criteria to identify possible non-compliance with accounting requirements by listed entities and possible auditing irregularities of PIE auditors. The selection criteria are reviewed and set on an annual basis. Due to the complex and unfavourable economic conditions brought about by the outbreak of COVID-19, business operations may become more risky and financial reports more vulnerable to non-compliance with accounting requirements. Therefore, we have reviewed and strengthened our filtering criteria for our 2020 review cycle.

Since the commencement of operations of the FRC in 2007, we have received nearly 600 complaints and completed over 90 investigations.



The IC Department is also working closely with the MoF, in particular on access to audit working papers located in the Mainland for our investigations. We have made remarkable progress in this respect and expect to be able to obtain the audit working papers requested soon.

### **Department of Oversight, Policy and Governance**



**Florence:** My department is like a piano trio as we are vested with three major functions. First, we oversee the performance of the HKICPA in respect of their functions of registration, setting of standards on professional ethics and auditing and assurance practices, and setting of requirements for continuing professional development in relation to PIE auditors. Second, we recognise overseas auditors (i.e. non-Hong Kong auditors) intending to undertake and carry out PIE engagements for overseas entities. Third, we conduct research and publish guidelines on corporate governance and other topics relating to the promotion of audit quality. We

believe that by playing the trio well, we can propel the healthy development of the audit market of PIE in Hong Kong, enhance audit quality and promote corporate governance.

We have quite an ambitious work plan in the next six months. After conducting on-site assessment and reviewing the relevant information provided by the HKICPA, we will publish the first oversight report on HKICPA's performance on the specified functions. Noting that the HKICPA has published its strategic plan 2020-2022 recently, we will monitor the implementation of strategies related to PIE auditors to ensure public interest of Hong Kong is well-served. In respect of the recognition of overseas auditors, we will review renewal applications in the last quarter of 2020. To expedite the application process, we will roll out an on-line application system for recognition of overseas auditors in September 2020. Apart from our statutory duties, we are working on the Market Analysis Project on the audit market of listed entities in Hong Kong, the findings of which will be published in October this year. We

will also conduct outreach activities for the preparation of the “Guidelines for Effective Audit Committee”. Though the workload is quite heavy, I trust that my team of capable staff can make it with public interest in their mind.

### **Legal Department**

**Alfred:** As General Counsel and Head of the Legal Department, I advise the Board on all legal and ethical related matters of the FRC, covering not only all our regulatory functions but corporate governance of the organisation. My department provides legal advice to all other departments and vital support to the successful delivery of departmental initiatives and the strategic development of the organisation as a whole. All our investigation reports are subject to legal vetting through our department.

In many areas of our current regulatory work, such as inspection, discipline and oversight of the HKICPA, we are treading new ground and meeting new frontiers in our daily work. This is challenging indeed but I feel blessed that I have very good teammates to overcome hurdles together. Also, the FRC is introducing new corporate and functional policies and manuals, and updating existing ones, to tailor its operations to our evolving needs and requirements. My department has been playing a significant role in this ongoing process and we will continue to do so in the coming months.



## Finance and Administration Department



**Godwin:** As the Deputy Head of Finance and Administration, I, together with Wincey, lead our Department to provide a full spectrum of support to other departments including finance, IT, human resources, corporate communications and administration. I also serve as the Secretary of the Board. Our department works closely with both internal and external stakeholders. Internally, apart from providing quality support to other departments, we organise training for our staff members according to their needs. Externally, we promote the mission of the FRC to PIE auditors, listed companies, investors, media and the general public through our corporate communications

initiatives and public relations efforts, thereby deepening their understanding on how we safeguard public interest as the independent auditor regulator of Hong Kong.

Going forward, our goals are to ensure that sufficient and effective support is provided to meet the operational needs of the FRC under the new regime. Our work will focus on recruitment, enhancement of our policies such as training, appraisal and promotion policies, development of IT systems for new functions and the launch of a brand-building exercise.

## **Editor: Can you share with us your mission, vision and aspiration?**

**Florence:** Throughout my career with the FRC, my mission has remained the same, to support the FRC in serving the public interest by upholding the quality of financial reporting and auditing of listed entities in Hong Kong. We strive to perform our duties professionally and efficiently to achieve effective regulatory outcomes. We are also committed to stakeholder engagement, from which we can understand the key issues faced by the profession and drive improvements on such issues for the enhancement of audit quality and corporate governance.

**Wincey:** Our department strives to support the FRC's mission by performing the investigative and enquiry work in a fair, supportable, reasonable and timely manner, leading to effective disciplinary actions being taken as necessary. Although I believe that prevention and education are better than punishment, effective enforcement is essential for improving behaviour and deterring misconduct.

**Ben:** As Head of Inspection, my mission is to monitor and promote audit quality, supporting the FRC's goal of giving confidence in the reliability of audit services to the capital markets. The role of my department is to not only assess the standard of completed work but also to assist auditors to adopt best practices and assist them in having policies and structures in place to support quality work.

**Alfred :** The Legal Department is committed to excellence, and takes pride in the quality of our advice and our output. Our primary goal is to provide the FRC Board with proactive and independent legal advice to facilitate the judicious and efficient discharge of their responsibilities. We also aim to provide a comprehensive and forward-looking legal service through timely and thorough involvement with our client departments, and to act as a resource for informed decision-making within the organisation.

**Godwin:** I guessed why I was chosen to join the FRC is my management experience in the commercial sector. I will bring in the best practices in the commercial sector to the FRC as appropriate. My team strives to provide comprehensive, quality and timely supporting service to other departments so that the expanded functions of the FRC can always be discharged effectively.

**Editor: Can you share with us your leadership style and management philosophy?**

**Florence:** I like working with high energy and engaging team on challenging issues. I always look for ways to improve myself and my team's work. This motivates me to keep raising the bar, leading to improved team performance. My management philosophy is composed of three 'C' – caring about my teammates, coaching them for growth and committed to delivering results with quality.

**Wincey:** I believe in empowerment, encouragement and empathy. These three 'E' are important in motivating our staff to make continuous improvement. I also highly value two-way and open communications. This is how we can foster strong team spirits and work towards the same goal of delivering effective regulatory outcomes.

**Ben:** I also think that empowerment is important and I encourage staff to make decisions and take ownership of their work. As a newly-established function, my department has a consultative culture in which all staff, at any level, can raise concerns and make suggestions.

**Alfred:** I think different issues or problems call for different solutions or approaches. Sometimes I need to be persuasive, and at other times more consultative. Ultimately, I want to build up a relationship of trust in my team who will work towards our common goal.

**Godwin:** I encourage my teammates to think and work with a positive mindset to achieve positive results. My door is always open as I value constant communication. I lead by striving to be a role model while bringing out the best of others.

**Editor: Any other messages that you want to share with our readers?**

**Florence:** FRC is a young organisation with many young and energetic staff. I believe that the inclusive mindset and welcoming attitude to young talents and experts will help us to continue to build on our existing success.

**Alfred:** The FRC regulates auditors of listed entities. As a member of the legal profession, I understand the pride that members of the audit profession take in their work and the importance to them of the standards to which they are held. The public interest in maintaining the highest standards of audit quality is a goal shared not only by my colleagues at the FRC but also by the audit profession itself, and this is what the FRC and the profession together should be working towards.

**Wincey:** All players in the financial reporting ecosystem, such as listed companies, audit committees, regulators, investors, and auditors, have a role to play in upholding the quality of financial reporting thereby, enhancing investor protection and confidence in corporate reporting. The FRC, being the independent auditor regulator, has the mindset and determination to work towards this goal for the effective functioning of the capital market.

### **Safeguarding public interest in an orchestrated spirit**

After talking to the five leaders of the FRC, the editor has only one simple conclusion – ‘Great minds think alike’. Despite their different roles, they all share the same goal of upholding the quality of financial reporting and safeguarding public interest. It is this orchestrated spirit and their diversified experiences that make the FRC a vibrant organisation that delivers effective regulatory outcomes through efficient processes.

## **Debut of FRC Summer Internship Programme**

To cultivate the interest of university students in the accounting industry and nurture talent to reinforce Hong Kong’s position as an international financial centre, the FRC has debuted the Summer Internship Programme (SIP) to provide them with an opportunity to better understand the operations of the FRC.

### **6 outstanding interns**

Ms Florence Wong, Acting CEO said, “During the one-month application period, we received a total of 620 applications from which 18 were shortlisted for interviews. After a rigorous interview process, six outstanding applicants were selected for the programme.”

#### **4 programme elements**

The well-structured SIP comprises four elements including orientation, on-the-job training, in-house training and a group project assignment. The orientation took place on 6 July 2020 during which the Acting CEO and management warmly welcomed the interns to the FRC family. They were briefed on the history, mission, functions and operations of the FRC.

After the orientation, interns were attached to the Department of Inspection, the Department of Investigation and Compliance, the Department of Oversight, Policy and Governance, the Department of Discipline and the Legal Department on rotation to gain hands-on experience under the guidance of experienced department supervisors.



Orientation for summer interns

Training courses with themes ranging from the accounting industry and listed entities in Hong Kong to corporate governance and code of conduct are conducted once a week to impart practical knowledge and ethical values to the interns. Ms Florence Wong, Acting CEO said, “The FRC wants to shape our interns to be all-round professionals equipped not only with in-depth practical knowledge but also the highest professional and ethical standard. We achieve this through the provision of thematic training courses to our interns and job rotation. Instead of spoon-feeding, we require our interns to write a weekly reflection on what they have learnt to reinforce their understanding of the specific topics. We believe this is the most effective learning process.”



## **1 best team**

To develop their team spirit which is important in any career field, the interns were required to work in groups of two to work on a group project. A presentation competition was held at the end of the programme on 12 August 2020 in which the best team received an award from the Chairman.



## **What do our interns think?**



**Chu Hon Ho, Jason, Year 2, BBA (Accounting and Finance), The University of Hong Kong**

It has been a precious experience to join the FRC to gain hands-on knowledge about the accounting industry through rotation to three different departments. In this internship, I understood more about real business practices in terms of accounting standards and related quality control. Also, the staff at the FRC have lots of experiences and they are just like my mentors to guide me in my career path.



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**Lam Sui Ki, Alan, Year 4, BBA (Accounting), The Chinese University of Hong Kong**

It is a very fruitful learning experience during my internship with FRC. The programme is well-structured with rotation to different departments, which enhances my understanding of the regulatory operation and provides me with practical experience. Colleagues are very supportive and guide us through all the daily working processes and the issues involved. I can apply my classroom learning regarding financial reporting and accounting standards to my job assignments. It gives me a good preparation for my future career in the accounting and financial industry.



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**Shi Chung Yin, Nathan, Year 3, BBA (Accounting and Finance), Hong Kong Polytechnic University**

The summer internship programme offers me an opportunity to work in different departments in the FRC. The programme is well-designed, and it helps me to understand different functions and duties of the FRC. I understood a lot more about the accounting and auditing industry through my job assignments including conducting market research.



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**Wong Chui Ham, Joanna, Year 3, BBA (Accounting),  
City University of Hong Kong**

My internship experience with the FRC is extremely fruitful and fulfilling to me. I have gained valuable hands-on experience in the work of the independent auditor regulator through rotating to different departments. The training workshops have deepened my understanding of auditing and accounting issues, which I can apply in my academic pursuit and future career. I am also grateful for the professional mentorship given by all the caring colleagues.



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**Wong Ching Ying, Kaydence, Year 2, BBA  
(Professional Accounting), Hong Kong University of  
Science and Technology**

Joining the summer internship programme of the FRC is an unforgettable experience for me. By working with different departments, we have more opportunities to understand different concepts of independent regulation and the mission of the FRC. This also inspires me to reflect on how to uphold the quality of the accounting industry. Besides, the programme expands my social network as I can meet new friends from other universities in a cheerful workplace.



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**So Wing Hei, Joyce, Year 2, BBA (Accountancy), Hong Kong Baptist University**

I understand from the internship programme that the FRC plays a crucial role in the development of Hong Kong's financial industry. The programme broadened my horizon and enriched my learning and job experience. What is more, it inspired me to explore more career pathways and choose my future direction.



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## Contacts

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