

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

**2024-25 Annual Report**

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## **Message from the Chairperson**

The year 2024-25 has been another productive and rewarding period for the Process Review Panel (“PRP”) of the Accounting and Financial Reporting Council (“AFRC”). Since becoming a fully independent regulatory and oversight body on 1 October 2022, the AFRC has made steady and meaningful progress towards the full implementation of the new regulatory regime for the accounting profession. Drawing on the experience accumulated over the past years, it has improved its regulatory processes and further strengthened its capacity to uphold the quality and integrity of the profession. In parallel, the PRP has continued to review the cases handled by the AFRC, covering not only its oversight of Public Interest Entities (“PIEs”) auditors but also its broader statutory functions, including registration, inspection, investigation, and disciplinary matters relating to accounting professionals and practice units.

In the 2024-25 review cycle, the PRP reviewed the handling by the AFRC of (a) inspections on eight practice units and PIE auditors, five audit engagements as well as one case on Anti-Money Laundering / Counter-Terrorist Financing compliance monitoring; (b) two disciplinary cases; (c) 13 complaint, enquiry and/or investigation cases; (d) four applications for issuance and renewal of practising certificates or registration; and (e) the oversight of the specified functions of the Hong Kong Institute of Certified Public Accountants from 1 April 2023 to 31 March 2024. I am delighted to present the observations of the Process Review Panel and recommendations from our review process in this Annual Report.

I extend my sincere appreciation to all PRP members for their continued dedication of time, effort, and expertise to the work of the PRP. It has been particularly gratifying to see the PRP operating more smoothly and productively this year, yielding more in-depth findings as we reviewed an expanded range of complex cases, thereby enhancing the quality of our oversight. I also thank the AFRC, under the leadership of its Board, for its proactive engagement with the recommendations of the PRP to refine internal procedures and guidelines.

As the AFRC consolidates its regulatory experience under the new regime, the PRP remains committed to close collaboration to strengthen its operations. This partnership will be instrumental in fostering greater public trust, thereby safeguarding the financial reporting standards and market integrity of Hong Kong. With the review processes now well-established, it is expected that the PRP would provide more targeted and constructive feedback in the coming year, focusing on emerging challenges such as technological advancements in auditing and evolving standards for professional conduct.

***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”) 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, and consider whether actions taken 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 expanded regulatory functions of the AFRC. 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 the 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 cases of the AFRC 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 reporting cycles of the AFRC, the 2023-24 case review cycle covered the work of the AFRC over a 15-month period from 1 January 2022 to 31 March 2023. Thereafter, the case review cycles of the PRP will run on a financial year basis. In other words, the 2024-25 case review cycle covers the work of the AFRC from 1 April 2023 to 31 March 2024 ("review period").

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 2024-25, 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 2024-25 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 [before 1 January 2025]  
(in his capacity as the Chairman of the AFRC)

Dr David SUN Tak-kei, JP [from 1 January 2025 onwards]  
(in his capacity as the Chairman of the AFRC)

Ms Denise LAM Kien-sau [before 3 February 2025]  
(in her capacity as the representative of the Secretary for Justice)

Ms Quinnci WONG Hoi-kam [from 3 February 2025 onwards]  
(in her capacity as the representative of the Secretary for Justice)

**Secretariat**

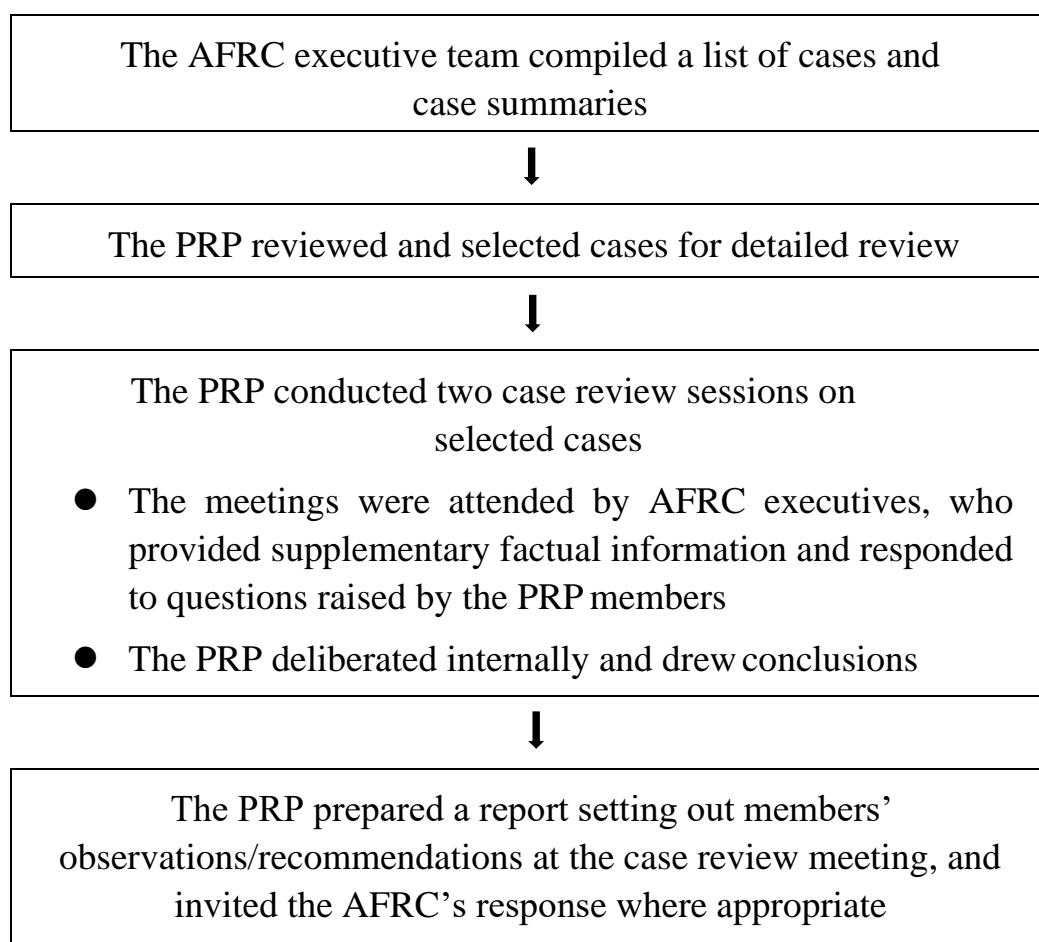
Financial Services and the Treasury Bureau

## Chapter 2 : Work of the PRP in 2024-25

2.1 This Annual Report covers the work of the PRP in 2024-25, which reviewed reports from the AFRC on cases it handled from 1 April 2023 to 31 March 2024.

### 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 –

<b><u>Category of cases</u></b>	<b><u>Number of cases</u></b>	<b><u>Number of cases selected for review</u></b>
<b>(A) Inspection</b>	<b>165</b>	<b>14</b>
<i>Completed inspection on quality management system of practice units (including PIE auditors)</i>	33	8
<i>Completed inspection on audit engagements</i>	99	5
<i>Completed standalone Anti-Money Laundering / Counter-Terrorist Financing compliance monitoring inspection</i>	9	1
<i>Completed cases transferred from the Hong Kong Institute of Certified Public Accountants</i>	24	-
<b>(B) Discipline</b>	<b>7</b>	<b>2</b>
<i>Cases completed during the review period</i>	5	1
<i>Ongoing cases as at 31 March 2024</i>	2	1
<b>(C) Handling of complaints, enquiries and investigations</b>	<b>313</b>	<b>13</b>
<i>Ongoing cases lasting more than one year as at 31 March 2024</i>	173	5
<i>Completed enquiries and investigation cases</i>	7	4
<i>Completed complaints without initiation of enquiry or investigation</i>	133	4
<b>(D) Issuance/Renewal of practising certificate, registration and</b>	<b>7 242</b>	<b>4</b>

<u>Category of cases</u>	<u>Number of cases</u>	<u>Number of cases selected for review</u>
<b>recognition</b>		
<i>Applications for issuance/ renewal of practising certificates</i>	5 130	1
<i>Applications for registration/ renewal of registration of CPA firms</i>	1 227	1
<i>Applications for registration/ renewal of registration of corporate practices</i>	745	-
<i>Applications for registration/ renewal of registration of local PIE auditors</i>	86	1
<i>Applications for recognition/ renewal of recognition of overseas PIE auditors</i>	54	1

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

2.4 Highlights of the observations and recommendations of the PRP are set out in Chapter 4. Follow-up actions taken by the AFRC on the PRP recommendations in the 2023-24 Annual Report are set out in Chapter 3.

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

3.1 In its 2023-24 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 follow-up actions taken by the AFRC are summarised as follows.

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

3.2 The PRP noted that inspection cases with lower audit quality rating tended to take longer to complete. Although the AFRC advised that there was no definite correlation between inspection duration and outcome, it explained that prolonged processing was often due to regulatees submitting supplementary information at various stages of the inspection to justify deficiencies, which then required due process of review and analysis. While recognising the importance of allowing regulatees a reasonable opportunity to provide additional information, the PRP considered that appropriate measures should be established to guide inspection teams in setting a cut-off point for further submissions so as to avoid indefinite prolongation of the process and maintain better control over inspection duration.

3.3 In addressing the delayed submission of supplementary information, the AFRC adopted a more proactive approach in communicating its expectations to the firms, especially when supplementary information was required. This included providing templates for firms to organise their information better and increasing discussions on findings and concerns with the engagement teams, in order to shorten the time taken for poor-rating cases. It was observed that the number of cases which required additional information to be provided in several rounds was reduced.

### ***B. Control over duration of investigations***

3.4 The PRP also noted that the AFRC has been taking quite some time to complete certain investigation cases. The AFRC advised that the delay in completing these investigations was due in part to multiple

requests from regulatees for an extension to submit information in response to the AFRC's requirements. In response to the observations of the PRP, the AFRC has reminded the parties concerned, at the initiation of an investigation, that it is a criminal offence under section 59 of the Accounting and Financial Reporting Council Ordinance (Cap. 588) ("AFRCO") to destroy or dispose of records or documents related to cases, with a view to minimising the turnaround time required to obtain necessary documents from regulatees.

3.5 In order to achieve timely conclusion of complaints and investigations, the AFRC Board approved the policy of issuing compliance advice letters when the conduct of regulatees fell below the expected standards, to expedite the handling of more straightforward and less serious cases with guidance to promote self-correction and remedial measures. This practice is commonly adopted among financial regulators to convey their concerns to regulatees and avoid undue extension of investigation timelines.

***C. Case prioritisation under the enquiry and investigation functions***

3.6 The PRP noted a continued surge in the complaints, enquiries and investigation cases of the AFRC, with the caseload in the review period (i.e. 1 January 2022 to 31 March 2023) nearly doubling that of the previous year, driven by heightened market awareness of the AFRC's PIE audit regulation since 2019 and its expanded scope to non-PIE professionals and firms under the accounting profession regime since 2022. The PRP deemed it essential for the AFRC to develop an effective case prioritisation policy to strategically and timely deploy limited manpower for efficient case handling.

3.7 In response to the observations of the PRP, the Investigation and Compliance ("INC") Department of the AFRC explained that it followed the established policy and prioritised resources based on the public interest involved in the cases. Given the difference in terms of the scale and complexity of cases concerning PIE auditors as well as non-PIE-related practice units and certified public accountants (collectively referred to as professional persons ("PP")), the INC Department had established

specialised teams to handle the two categories of cases (i.e. those concerning PIE and PP respectively). Staff would be assigned cases according to their professional background and regulatory experience in order to optimise manpower resources and maximise case-handling effectiveness.

3.8 Despite the differences in the nature of allegations involved in complaints related to PIEs and PPs, the procedures for handling complaints against these two categories of regulatees are essentially the same and are well documented in the internal manuals of the AFRC for staff compliance. In any case, the AFRC would proceed with cases bearing in mind that time is of the essence, while adhering to established procedures to ensure fairness and robustness.

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

3.9 Building on the previous recommendation regarding resource allocation, the PRP deemed it valuable for the AFRC to review and, where feasible, explore streamlined procedures for handling complaints concerning non-PIE practice units and accounting professionals, so as to spare resources for cases with greater public interest implications.

3.10 In response, the INC Department of the AFRC streamlined the processes for handling complaints related to PP, with targeted duration for case completion imposed to gauge the handling process. Specifically, the INC Department set targets on the time taken to complete complaints: (a) to complete PIE-related complaints within 180 working days from the date of receipt; and (b) to complete 80% of PP-related complaints within 90 working days, and 99% within 180 working days from the date of receipt, unless otherwise approved by the Head of INC. With such internal targets imposed, there was significant improvement in the average aging of complaint cases, with the average time taken for handling PIE-related complaints reduced from around six months to four months, and that for handling PP-related complaints reduced from around five months to one month.

***E. Coordination between the AFRC and the HKICPA on registration renewal timeframes***

3.11 Under the new accounting profession regulatory regime, the HKICPA awards CPA qualifications while the AFRC issues practising certificates to CPAs, registers practice units and PIE auditors. While these practising certificates and registrations expire on 31 December annually, the Professional Accountants Ordinance (Cap. 50) (“PAO”) and the AFRCO set 15 December as the deadlines for making applications for renewal of CPA qualifications, practising certificates, and practice unit registrations, and stipulate that applications for renewal of PIE auditor registrations must be made no earlier than three months and no later than 45 days before expiry.

3.12 In some of the cases reviewed by the PRP, practising certificates and PIE auditor renewals were only granted after the expiry date of 31 December due to the pending CPA renewal by the HKICPA, which was a prerequisite for renewal of practising certificate or registration of practice units and PIE auditors by the AFRC. Despite the delay, the AFRCO contains provisions to the effect that a practising certificate or registration remains in force after the expiry date if a renewal application had been made but was not finally determined by the AFRC before the expiry date. However, to shorten these pending periods for regulatory certainty, the PRP recommended closer coordination between the AFRC and the HKICPA on renewal timeframes.

3.13 In response, the AFRC liaised with the HKICPA on this matter. The HKICPA advanced the timeline for removing those who failed to renew their registrations by two weeks. With a reduction in processing time, the renewal rate increased from 94% to 97% over the year.

3.14 The PRP welcomed the above follow-up actions and looked forward to the continuous efforts of the AFRC 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 handling by the AFRC of (a) inspections on eight practice units (including PIE auditors), five audit engagements as well as one case on Anti-Money Laundering / Counter-Terrorist Financing compliance monitoring inspection; (b) two disciplinary cases; (c) 13 complaint, enquiry and/or investigation cases; (d) four applications for issuance and renewal of practising certificates or registration; and (e) the oversight of the specified functions of the HKICPA. The PRP recognised the efforts of the AFRC 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 Operations Manuals.

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

**A. *Developing a team with expertise on evolving market trends as well as accounting and audit regulation***

### Observations and recommendations

4.3 Noting that the investigation team has stabilised over time, the PRP took the view that the AFRC could focus on expanding its capabilities by bringing in expertise focusing on areas of high public interest and high-risk emerging trends.

### Response from the AFRC

4.4 Acknowledging its role in promoting the development of the profession in addition to performing its regulatory duties, the AFRC would review its manpower deployment to fill existing staffing gaps. In view of the trend towards higher case complexity, the AFRC had recruited several staff members with expertise in forensic investigation. To address evolving market needs and the demand for specialised expertise to carry out its regulatory functions, the AFRC would look into recruiting and

building its talent pool in areas such as AI, virtual assets, sustainability and risk management, as well as handling more complex inspections, investigations and enforcement cases that span regulatory bodies, jurisdictions, and high-profile issues.

***B. Post-service of former AFRC staff members***

Observations and recommendations

4.5 The PRP raised the observation on former staff members of the AFRC re-joining private practices, which may lead to potential conflicts. The PRP also pointed out the phenomenon of former staff providing advisory services to small-and-medium audit practices, particularly on regulatory matters, such as the modus operandi of the AFRC in exercising its various regulatory functions.

Response from the AFRC

4.6 As regards the observation of former AFRC staff members participating in private practices or providing advisory services on regulatory matters, the AFRC was of the view that there could be merits in such services in terms of facilitating the profession's understanding of and compliance with the regulatory requirements of the AFRC. On the premise that the provision of such services did not involve unauthorised disclosure of confidential information which would constitute an offence, it was considered not necessary to mandate post-employment approval from the AFRC by former staff.

***C. Leveraging artificial intelligence (“AI”) to enhance case-processing efficiency and effectiveness***

Observations and recommendations

4.7 In light of the increasing caseload of the AFRC and the rapid advancement in AI, the PRP took the view that the AFRC should consider leveraging AI, either through engagement of external service providers or in-house development of customised systems, to enhance case-processing efficiency and effectiveness. Reference could also be made to the practice

of independent accounting and audit regulators in other comparable jurisdictions.

#### Response from the AFRC

4.8 The AFRC explained that the relevant departments of the AFRC had begun exploring the use of AI to assist in the handling of more straightforward cases to improve work efficiency. However, for complex cases, particularly those involving PIEs, AI currently provides limited assistance because they require substantial professional judgment and in-depth discussion of the deficiencies. Such requirements go beyond automated issue identification performed by AI. The AFRC would continue to explore the use of AI and other technological solutions in a prudent and incremental manner, with a view to enhancing operational efficiency while maintaining the necessary level of professional judgment. The AFRC is developing a new digitalised case management system that connects case data with an AI knowledge layer to make data screening and collection more efficient.

#### ***D. Enhancing information packs for balanced review by PRP Members***

##### Observations and recommendations

4.9 The PRP appreciated the inspection team's use of summary tables for key dates of notifications, meetings, and extensions, which facilitate quick timeline comparisons. It is therefore recommended that teams responsible for other functions adopt a similar approach. The PRP members valued the information packs provided highlighting case focuses and team challenges for better pre-meeting understanding, though the heavy sanitisation through redaction of names, timelines, staff absences, and relevant findings renders the information packs too sparse in presenting meaningful case details. The PRP discussed conflict-of-interest rationales for redactions but deemed excessive sanitisation for closed cases unwarranted.

4.10 In light of the above observations, the PRP suggested that the AFRC appropriately restore limited, process-focused details of

anonymised context in case packs, such as basic firm profiles, complaint sources, case spectra, etc., while maintaining name redactions. This would enable the PRP Members to make better-informed case selections and prepare more targeted questions for review sessions in advance.

#### Response from the AFRC

4.11 The AFRC welcomed the constructive observations and recommendations of the PRP on the preparation of case information packs. The AFRC also noted the appreciation of the PRP regarding the summary table tracking key dates for notifications, meetings and extensions, and committed to adopting the same format across other functions for a clearer presentation of case details.

4.12 The AFRC agreed to pursue greater standardisation of document formats from the next review of its disciplinary function. On the information packs provided by INC, the AFRC acknowledged that extensive sanitisation through the redaction of anonymised contextual details, such as basic firm profiles by size, complaint sources, and case characteristics, had limited their utility for informed case selection and preparation. To facilitate the case selection process, additional details, including audit firm category and indicators of prioritised cases, would be provided. Additionally, a summary of case details would be provided for selected cases to assist PRP Members in their review. While such redactions sought to address potential conflicts of interest and maintain a process focus, the AFRC accepted the suggestion of the PRP to restore a limited, process-relevant anonymised context for closed cases. This balanced restoration would better equip PRP Members to select cases equitably and prepare targeted questions. With a view to ensuring consistency while safeguarding confidentiality, the AFRC would promptly update its preparation guidelines to reflect these enhancements.

## Chapter 5 : Way Forward

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

5.2 In the year ahead, the PRP will continue its work to ensure 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 to the AFRC for its assistance in facilitating the review work, and its cooperation in responding to the enquiries and recommendations of the PRP in the past year.

**Secretariat of the Process Review Panel  
for the Accounting and Financial Reporting Council  
June 2026**