

Press Release

Financial Reporting Council publishes its 2013 Annual Report

(2 April 2014, Hong Kong) Financial Reporting Council (**the FRC**) has today published its annual report for the financial year ended 31 December 2013.

Mr John Poon, the Chairman of the FRC, said, “Since joining, my emphasis has been on three essential qualities: impartiality, transparency and simplicity. We have worked to infuse these qualities throughout our organisation at every level. Alongside the impartiality that comes with our independence as an audit regulator, we aim to operate as transparently as possible and in a manner that is both highly efficient, and powerfully robust. These are qualities that I believe are essential in building public trust and ensuring the financial statements of listed entities are reliably accurate and informative.”

Preparing for Audit Regulatory Reform

A major aspect of the FRC’s work over the past year has concerned preparations for audit regulatory reform in Hong Kong. The FRC has been assisting the Government in its efforts to develop proposals for reform suitable for Hong Kong. To this end, we commissioned an international comparative study by Deloitte LLP (UK) on the topic of independent audit oversight, which was published in October 2013. We also held a special press briefing, which was a major success in terms of the public interest aroused and the positive media coverage it received.

The FRC’s understanding is that the Government plans to carry out a public consultation regarding regulatory reform in 2014. We are very confident that these proposals can provide Hong Kong with an enhanced regulatory regime that will better protect the investing public, and will also strengthen confidence in the integrity of our financial reporting. Ultimately, the proposals should further entrench Hong Kong’s status and reputation as a major international financial centre.

Mr Poon commented, “Oversight of the audit profession is clearly moving from self-regulation towards a regime that emphasizes independence, transparency and robustness.”

Key Operations Statistics

	2013	2012
Pursuable complaints received	20	19
Modified auditors' reports screened	168	138
Financial statements selected for review	75	75
Investigations completed	5	9
Enquiries completed	2	1

Investigations

In 2013, the FRC initiated seven investigations and handled eight cases brought forward from the previous year; and also completed five investigations. Auditing irregularities identified in its investigations were referred to the Hong Kong Institute of Certified Public Accountants to determine if disciplinary action should be taken. By the end of 2013, ten investigations were in progress, most of which are expected to be completed by 2014.

Enquiries

In 2013, the FRC completed two enquiries brought forward from 2012. Once the enquiries were completed, the FRC would ask the listed entities involved to remove any identified non-compliance with accounting requirements, and to rectify the non-compliances by making appropriate prior year adjustments to subsequent financial statements. At the end of 2013, one enquiry was in progress, which was completed in the first quarter of 2014.

Advice Letters to Listed Entities and their Auditors

In some cases where potential non-compliance with accounting requirements does not compromise the presentation of the financial statements, the FRC does not initiate an investigation or enquiry. Instead, it issues a letter of advice, which includes findings and suggested improvements or remedial measures for the listed entities and/or their auditors to consider. The FRC issued 11 such letters of advice in 2013.

Work Source

Review of Complaints

For the 2013 reporting period, the FRC received 20 complaints, up from 19 in 2012.

	2013	2012
Complaints from the public	3	1
Complaints from Hong Kong Exchanges and Clearing Limited	13	4
Complaints from Hong Kong Institute of Certified Public Accountants	1	12
Complaints from Securities and Futures Commission	2	1
Complaints from both Securities and Futures Commission and the public	1	-
Complaints from Hong Kong Monetary Authority	-	1
	20	19

Review of Modified Auditors' Reports

Based on our screening of all 168 modified auditors' reports published by Hong Kong listed entities during 2013, 100 of them contained no apparent auditing irregularities or non-compliance with accounting requirements, and the other 68 modified auditors' reports were further reviewed. During the six months ended 30 June 2013, the financial statements of one listed company were sent to external reviewers for a comprehensive review under the risk-based financial statements review programme.

The review policy has been modified since July 2013. Under the new policy, if an audit qualification indicates prior period errors that were not identified in the prior period report, the FRC will now follow up the matter directly, without having first to send the financial statements to external reviewers for comprehensive review under the risk-based financial statements review programme.

Risk-based Financial Statements Review Programme

We completed reviews of 66 sets of financial statements out of the 75 sets of financial statements selected for the 2012/2013 review cycle and did not initiate any investigation/enquiry cases. We also shared the review work with the Hong Kong Exchanges and Clearing Limited and the Hong Kong Institute of Certified Public Accountants regarding the financial statements of 37 companies which chose to use eligible Mainland auditors for the 2012 financial year. No significant non-compliance with accounting requirements was identified during the review of the financial statements of these companies.

For the 2013/2014 review cycle, which began in July 2013, the FRC planned to review 75 sets of financial statements representing the financial statements of approximately 5% of all Hong Kong listed entities. We have also revised the criteria by which we select financial statements for review, with the breakdown by selection criteria as follows:



Looking Forward

Commenting on the future development of the FRC, Mr Mark Dickens, the Chief Executive Officer of the FRC, said, “The economic environment in Hong Kong and around the world remains uncertain. It is in such times that the role of an independent regulator such as the FRC is especially important. We remain committed to serving the best interest of the public by promoting high quality financial reporting of Hong Kong listed entities.”

Mr Poon further concluded, “I believe we are on the threshold of an era of historic transformation in audit regulation in Hong Kong. I am confident that, with the support of our stakeholders, the FRC will negotiate this transformation with energy, commitment, and competence, and we will see Hong Kong emerge as a full-fledged independent audit regulator jurisdiction, operating on a full par with best global practice.”

- End -

Note to editors

About the FRC

The FRC is a statutory body established in December 2006 under the Financial Reporting Council Ordinance. The FRC is entrusted with the statutory responsibilities to conduct independent investigations into possible auditing or reporting irregularities in relation to listed entities and to enquire into possible non-compliance with accounting requirements on the part of listed entities. The FRC has 11 members with a variety of professional backgrounds and the majority of whom, including the Chairman, are lay persons. For more information, please visit www.frc.org.hk.