

Press Release

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AFRC Investigation Report shows auditors' inadequate response to increasing incidence of fraud in financial statements

The Accounting and Financial Reporting Council (AFRC) today issues its [2023 Annual Investigation and Compliance Report \(Annual I&C Report\)](#), covering the 12 months from 1 April 2022 to 31 March 2023.

The AFRC is the independent regulator of the accounting profession in Hong Kong. In 2022/23, the AFRC processed 253 pursuable complaints and handled 154 investigations and 33 enquiries. It also selected 130 sets of financial statements for proactive review, from which eight investigations/enquiries were initiated.

Speaking at the press briefing, Mr Marek Grabowski, CEO of the AFRC said, "In the past year, the total number of complaints we received with pursuable allegations increased by 83% and the number of investigations initiated by 88%. These significant increases reflect increased public awareness of the AFRC's whistleblowing channels and complaint guidelines, issues identified through our inspection work, close collaboration with other regulators and the community's strong confidence in our role as the sole regulator of the accounting profession."

Key findings of the Annual I&C Report

From the investigations and enquiries handled regarding listed entity financial statements, the AFRC identified the following common areas of potential misconduct and financial reporting non-compliance:

Top 5 areas of potential misconduct by PIE auditors

- i) obtaining sufficient appropriate audit evidence (87%)
- ii) performing engagement quality control review (71%)
- iii) exercising professional skepticism and professional judgment (63%)
- iv) performing audit work on accounting estimates (48%)
- v) meeting their responsibilities relating to fraud in their audit of the financial statements (30%)

Top 5 areas of potential financial reporting non-compliance

- i) impairment assessment and fair value measurement (34%)
- ii) recognition and measurement of financial instruments (25%)
- iii) fraudulent financial reporting or misappropriation of assets (20%)
- iv) going concern assessment and reporting (16%)
- v) revenue recognition (15%)

From our investigations in relation to professional persons (i.e. CPAs and practice units), the AFRC identified the following common areas of misconduct:

Top 4 areas of potential misconduct by professional persons

- i) maintaining integrity and proper professional conduct (59%)
- ii) complying with the auditing and assurance standards (42%)
- iii) exercising professional competence and due care (17%)
- iv) maintaining independence and complying with other ethical requirements (17%)

Ms Florence Wong, Head of Investigation and Compliance said, “The increasing number of investigations of PIE auditors’ potential failure to adequately respond to fraud risks relating to the financial statements of listed entities is a matter of grave concern. Fraud would significantly impact the reliability of financial statements. If undetected, it could lead to misinformed investment decisions with dire results for the investors concerned and the market as a whole.”

Ms Wong continued, “Auditors have a clear responsibility to identify, assess and appropriately address fraud risks during audits of financial statements. The AFRC expects auditors to carry out their audits in strict compliance with relevant auditing standards, be familiar with the types of fraud that are relevant to financial reporting non-compliance and the conditions that may indicate they have occurred, and design audit procedures that are adequate to enable them to address identified fraud risks.”

Dr Kelvin Wong, Chairman of the AFRC remarked, “Under the current volatile economic environment, the financial markets are more prone to financial reporting risks including risks due to fraud. The AFRC will continue applying its risk-focused approach to identify and enquire into cases of auditing misconduct and accounting non-compliance. We will resolutely take swift and robust regulatory actions to uphold the quality of audit and financial reporting, thereby protecting the public interest.”



Dr Kelvin Wong, Chairman (middle), Mr Marek Grabowski, CEO (right) and Ms Florence Wong (left) present to media the 2023 Annual Investigation and Compliance Report.

About the Accounting and Financial Reporting Council

The Accounting and Financial Reporting Council (AFRC) is an independent body established under the Accounting and Financial Reporting Council Ordinance. As an independent regulator, AFRC spearheads and leads the accounting profession to constantly raise the level of quality of professional accountants and thus protects the public interest.

For more information about the statutory functions of the AFRC, please visit www.afrc.org.hk.

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