

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

2016 Annual Report

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Chapter 1 : Background

Overview

1.1 The Process Review Panel for the Financial Reporting Council (“the PRP”) is an independent and non-statutory panel established by the Chief Executive of the Hong Kong Special Administrative Region in 2008 to review cases handled by the Financial Reporting Council (“the FRC”), and to consider whether actions taken by the FRC are consistent with its internal procedures and guidelines. The establishment of the PRP reflects the Administration’s continuing commitment to enhance the accountability of the FRC.

1.2 The FRC was established under the Financial Reporting Council Ordinance (Cap. 588) (“the FRCO”) in 2006 as an independent statutory body to investigate auditing and reporting irregularities and enquire into non-compliance with accounting requirements of listed entities (i.e. listed corporations and listed collective investment schemes) in Hong Kong. The FRC plays a key role in upholding the quality of financial reporting, promoting the integrity of the accounting profession, enhancing corporate governance and protecting investors’ interest.

1.3 Under the FRCO, the FRC is empowered to conduct independent investigations into possible auditing and reporting irregularities in relation to listed entities and is assisted by the statutory Audit Investigation Board (“the AIB”) comprising officers from the FRC executives. The FRC is also tasked to conduct independent enquiries into possible non-compliance with accounting requirements on the part of listed entities, and is assisted by the Financial Reporting Review Committees (“the FRRC”), whose members are drawn from the statutory Financial Reporting Review Panel comprising individuals appointed by the Financial Secretary (under the authority delegated by the Chief Executive) from a wide range of professions in addition to accountants.

Functions of the PRP

1.4 The terms of reference of the PRP are as follows –

- (a) to receive and consider periodic reports from the FRC on completed or discontinued cases;

- (b) to receive and consider periodic reports from the FRC on investigations and enquiries which have lasted for more than one year;
- (c) to receive and consider periodic reports from the FRC on complaints against the FRC or its staff;
- (d) to call for files from the FRC to review the handling of cases to ensure that the actions taken and decisions made adhere to and are consistent with internal procedures and guidelines of the FRC and to advise the FRC on the adequacy of its internal procedures and guidelines where appropriate;
- (e) to advise the FRC such other matters relating to the FRC's performance of statutory functions as the FRC may refer to the PRP or on which the PRP may wish to advise; and
- (f) to submit annual reports to the Secretary for Financial Services and the Treasury.

1.5 The internal procedures which the PRP would make reference to in reviewing the FRC's cases include guidelines on the handling of complaints, initiation and processing of investigations and enquiries, review of modified auditor's reports and financial statements under its risk-based financial statements review programme, working protocols with other regulatory bodies, preservation of secrecy and identity of informers, and relevant legislative provisions.

1.6 The PRP is tasked to review and advise the Council on the FRC's handling of cases, not its internal operation or administrative matters. Therefore, the work of the committees set up under the Council is not subject to direct review by the PRP.

Modus operandi of the PRP

1.7 At its inaugural meeting held in mid-November 2008, the PRP decided that except for the first review cycle that should start from July 2007 (when the FRC became fully operational) until end December 2008, all case review cycles thereafter should run on a calendar year basis.

1.8 Based on the FRC's caseload during the relevant review cycle, the PRP would select cases for review at the end of the cycle, and all the PRP members would join the case review session(s). The approach for case selection could be reviewed or fine-tuned as the PRP proceeds with the case review work.

1.9 The PRP members were reminded to preserve secrecy in relation to information furnished to them in the course of the PRP's work, and not to disclose such information to other persons. To maintain the independence and impartiality of the PRP, all PRP members would declare their interests upon the commencement of their terms of appointment and before conducting each case review.

Composition of the PRP

1.10 In 2016, the PRP comprised six members, including the Chairman who is a non-accountant, a member from the accountancy sector, three other members from the financial sector and academia, and the FRC Chairman as an ex-officio member.

1.11 The membership of the PRP in 2016 is at **Annex**.

Follow-up on the PRP's recommendation made in the 2015 Annual Report

1.12 In its 2015 Annual Report, the PRP considered that whilst it was justifiable under the circumstances of a case when all senior professional staff had declared interests for the FRC's decision to appoint another senior staff as coordinator to oversee the case handling process, it might be helpful to set out in the FRC's Operations Manual¹ the relevant policies and procedures to deal with similar situations in future.

1.13 In response to the PRP's recommendation, the FRC has added a new paragraph in its Operations Manual to set out the relevant

¹ The Operations Manual of the FRC sets out the internal procedures for handling complaints, investigations, enquiries and review of modified auditor's reports and financial statements under its risk-based financial statements review programme.

procedures in dealing with situations where all senior professional staff have declared interests in respect of a case. If all Directors who are eligible to be assigned as the Review Director of a complaint have declared interests in relation to the complaint, the CEO of the FRC may exercise his discretionary powers to deal with the situation. This would include assigning another senior staff to coordinate and oversee the complaint handling process under the supervision of the CEO or his deputy.

1.14 In response to the PRP's question on whether professional staff other than Directors could be the Review Director, the FRC had explained that in case a complaint was to be taken further to the review stage, a Complaint Officer would be assigned for the case, who might be a Director, an Associate Director or a Manager, depending on the seriousness and complexity of the alleged irregularity or non-compliance and after considering any potential conflict of interests. If an Associate Director or a Manager was the Complaint Officer, a Review Director at the rank of Director would be assigned to review the work of the Complaint Officer.

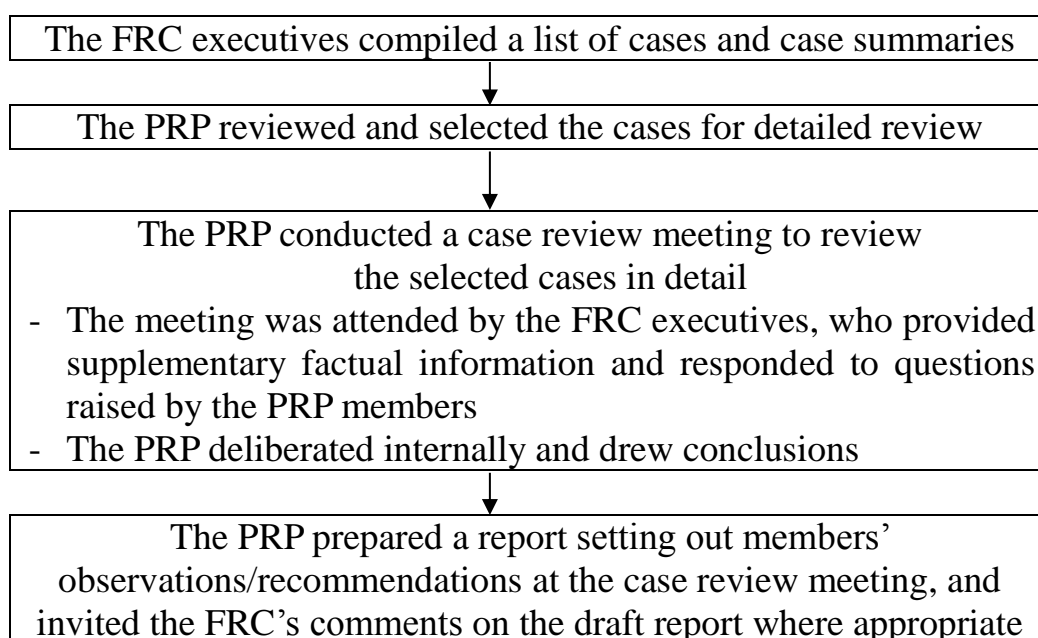
1.15 The PRP had noted the follow-up action taken by the FRC in the light of its recommendation made in the 2015 Annual Report and made no further comments.

Chapter 2 : Work of the PRP in 2016

2.1 This Annual Report covers the work of the PRP in 2016, which reviewed reports from the FRC on cases completed by it during the eighth review cycle (i.e. from January to December 2015).

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 FRC executives advised the PRP that the FRC had completed 47 cases during the eighth review cycle. There were also 22 cases for which the review of complaints/review of relevant financial statements under the risk-based financial statements review programme had been completed but the investigations were still ongoing. Among these 22 cases, 14 had lasted for more than one year by the end of the cycle. The PRP members were provided with summaries of all the 69 cases for review as follows –

<u>Category</u>	<u>Distribution of cases</u>	<u>Number</u>
(I)	Ongoing investigations which had lasted for more than one year	14
(II)	Completed investigation cases	8
(III)	Unsubstantiated cases	15
(IV)	Cases that were referred to other regulatory bodies for follow-up	3
(V)	Cases that the FRC directly followed up with the relevant listed entity/auditor concerned	2
(VI)	Completed review of complaints/review of relevant financial statements with ongoing investigations	8
(VII)	Immaterial complaints	19
	Total	69

2.4 Out of the 69 cases, the PRP selected the following seven cases for review –

- (a) an ongoing investigation case which had lasted for more than one year (i.e. selected from Category I);
- (b) a completed investigation case arising from a review of complaint (i.e. selected from Category II);
- (c) an unsubstantiated case arising from a review of complaint (i.e. selected from Category III);
- (d) a case which was referred to another regulatory body for follow-up (i.e. selected from Category IV);
- (e) a completed investigation case arising from review of financial statements (i.e. selected from Category II);

- (f) a case arising from review of financial statements with an ongoing investigation (i.e. selected from Category VI); and
- (g) an immaterial complaint (i.e. selected from Category VII).

The PRP considered that the selection of these seven cases reflected a good mix of the cases which fell within the eighth review cycle.

Case review session

2.5 After the PRP selected the seven cases for review, and with the assistance of the FRC executives, the PRP Secretariat made preparation for the case review meeting which was held in December 2016 to review the selected cases.

2.6 The PRP Secretariat had invited all members to declare any potential conflicts of interest before the meeting. At the start of the case review meeting, the PRP Chairman further reminded members to declare any possible conflict of interest in the cases to be reviewed. Two PRP members had declared potential conflict of interests with regard to a case under review and were not present during the discussion of the case at the meeting.

2.7 The PRP's observations in respect of the selected cases and its suggestions to the FRC are set out in the following chapters.

Chapter 3 : The PRP's review of cases handled by the FRC

3.1 On the whole, having considered the seven cases reviewed in the eighth cycle, the PRP was of the view that the FRC had followed the internal procedures in handling the cases.

(1) Review of an ongoing investigation case which had lasted for more than one year

Case facts

3.2 The PRP reviewed a complaint case which led to formal investigations into suspected auditing irregularities. The investigations, which were still in progress as at the end of the eighth review cycle, were initiated in September 2014 in respect of the audits of the consolidated financial statements for the years ended 31 March 2010 and 31 March 2011 respectively of a listed entity. It was alleged that the auditors concerned had failed to observe and apply the relevant professional standards required in their audits of the consolidated financial statements concerned.

The FRC's actions

3.3 After receipt of the complaint in January 2013, the FRC had contacted the listed entity and auditors concerned for information to facilitate its review of the complaint and preparation of the complaint assessment report. Having considered the complaint assessment report, the Council approved the initiation of two investigations in September 2014 and directed the AIB to investigate the alleged auditing irregularities. The FRC had requested the respective auditors, the engagement partners and the engagement quality control reviewers concerned to provide information during the investigations. The investigations were still ongoing at the end of the eighth review cycle.

The PRP's areas of review

3.4 The PRP focused its review on the long time taken by the FRC to complete the two investigations. The FRC explained that there were a number of reasons leading to the prolonged handling of the cases. The complaint was complex as it involved two sets of financial

statements and a number of prior year adjustments. The complaint assessment and the investigations had to discontinue for some time as the Case Officer had declared potential conflict of interest in respect of the matters under investigation and incidentally the subject Complaint Officer had taken an extended leave during the period. The handling of the cases had to be transferred to another Director eventually and additional time had been taken in the transition.

3.5 Noting that the constraint of manpower resources and the increase of number of complaints appeared to be the main reasons for the prolonged investigation process, the PRP asked how the number of complaints in 2016 compared with that in 2013. The FRC replied that the number of complaints received had increased from around 20 in 2013 to over 100 in 2016. The surge in the number of complaints had added severe workload to the FRC staff, although the number of FRC staff had increased from 19 to 21 during the same period. Besides, the cases under investigation were complicated as they involved multiple years, multiple issues and large number of documents. In some other cases, complex or fraudulent issues were examined. All these had lengthened the handling time of cases.

3.6 The PRP noted that the Operations Oversight Committee (“OOC”)² of the FRC had been receiving progress reports from the FRC executives on the present case, and asked whether the OOC had taken any action or made any recommendation to the FRC executives when the investigations were not moving forward as expected. The FRC replied that the OOC was fully aware of the reasons attributable to the delay of the investigations as the progress report submitted to the OOC had contained information on, *inter alia*, the list of outstanding cases, the complexities and problems encountered by the FRC executives in each case, the competing priorities of the FRC executives and the expected completion dates of the cases. The OOC was empowered to advise the FRC executives to re-prioritize their work in relation to the outstanding cases should it consider that necessary.

² The OOC assists the Council in formulating policies, strategies, guidelines and procedures for the operation of the FRC, provides advice to the Council and the FRC operational staff on technical and business issues, and considers, *inter alia*, enquiry, investigation and complaint/review assessment reports before submission to the Council. It comprises members of the Council (one of whom would be the chair of the OOC) and co-opt members who have relevant experience and expertise in accounting-related matters.

3.7 The PRP further asked whether the OOC had accepted manpower constraint as a reason for the prolonged investigation on the present case. The FRC said that the OOC had expressed understanding on the amount of time taken to handle the case given the various factors mentioned.

3.8 In response to the PRP's question whether the auditors under these two investigations had complained about the prolonged time undertaken by the FRC, the FRC said that the auditors concerned had not made any complaint. The FRC further indicated that in fact, no such complaint had ever occurred in the handling of any case.

3.9 Noting that the two investigations were still ongoing at the end of the eighth review cycle, the PRP asked when the investigations would be completed. The FRC said that based on the progress so far, it should be able to conclude these investigations within 2017.

Conclusion

3.10 Having reviewed the FRC's handling of the case and in the light of the above clarification, the PRP expressed an understanding of the reasons for the conduct of the investigation to last for more than one year, and agreed that the FRC had been handling the case in accordance with its internal procedures.

(2) Review of a completed investigation case arising from a review of complaint

Case facts

3.11 The PRP reviewed a complaint case which led to a formal investigation into a suspected auditing irregularity in relation to the audit of the consolidated financial statements of a listed entity for the year ended 31 March 2012. The complainant referred the case to the FRC for investigating whether the auditor concerned had performed sufficient audit procedures in accordance with the relevant professional standards. The investigation was completed in around 11 months' time.

The FRC's actions

3.12 Having considered the complaint assessment report, the Council directed the AIB to investigate the alleged auditing irregularity. Based on its findings, the AIB was of the view that the auditor concerned failed to perform adequate audit procedures to obtain sufficient appropriate audit evidence in accordance with the professional standards. The Council adopted the investigation report by the AIB and referred the case to the Hong Kong Institute of Certified Public Accountants (“the HKICPA”) to determine if any disciplinary action was warranted.

The PRP's areas of review

3.13 Based on the case facts outlined above, the PRP reviewed the following steps taken by the FRC in handling the complaint case –

- (a) initial screening;
- (b) liaising with the listed entity and the auditor concerned to review the allegations;
- (c) preparation and submission of a complaint assessment report to the Council;
- (d) initiating a formal investigation;
- (e) issuing directions by the Council to the AIB to conduct the investigation;
- (f) preparation and issue of the investigation report by the AIB;
- (g) adoption of the investigation report by the Council; and
- (h) referral to another regulatory body for follow-up.

3.14 Noting that the investigation report was adopted by the FRC Council by circulation of papers, the PRP asked under what circumstances the FRC would decide to adopt an investigation report by circulation instead of adopting it at a Council meeting. The FRC replied that under most circumstances the investigation report would be adopted at a Council meeting. However, for the present case, the Council meeting originally scheduled for endorsing the report had been called off due to insufficient quorum. Council members had no objection to endorse the report through circulation of papers to avoid delay in referring the case to the HKICPA, although they were entitled to request to convene another meeting to deal with the report. The FRCO had contained provisions enabling the Council to transact any of its business by circulation of papers provided that the written resolution is

approved in writing by all the members of the Council present in Hong Kong.

Conclusion

3.15 Having reviewed the FRC's handling of the case, the PRP took the view that the FRC had handled the case in accordance with its internal procedures.

(3) Review of an unsubstantiated case arising from a review of complaint

Case facts

3.16 The PRP reviewed an unsubstantiated case arising from a complaint received by the FRC. The complainant referred the case to the FRC alleging that the auditor concerned failed to comply with the relevant auditing and assurance standards in relation to a number of transactions undertaken by the listed entity concerned.

The FRC's actions

3.17 Upon receipt of the complaint, the FRC sought information from the complainant, the auditor and the listed entity concerned. After reviewing the information gathered, the executives were of the view that there had been no indication of auditing irregularity on the part of the auditor. With the OOC's approval of the report from the executives, the case was concluded as an unsubstantiated complaint. It took around 21 months' time from receipt of the complaint to closing the case.

The PRP's areas of review

3.18 Against the above background, the PRP reviewed the following steps taken by the FRC in handling the case –

- (a) initial screening;
- (b) liaising with the complainant, the auditor and the listed entity concerned to review the allegations;
- (c) preparation and submission of a complaint assessment report to the OOC; and
- (d) closing the case.

3.19 The PRP was of the view that in referring the case to the FRC for review, the complainant should have reasonable cause to believe that the auditor might have committed an auditing irregularity, and asked whether the complainant had been informed of the outcome after the conclusion of the case. The FRC confirmed that the complainant had been informed of the outcome by letter and did not raise any issue with the FRC's decision.

Conclusion

3.20 Having reviewed the FRC's handling of the case, the PRP concluded that the FRC had handled the case in accordance with its internal procedures.

(4) Review of a case which was referred to another regulatory body for follow-up

Case facts

3.21 The PRP reviewed a complaint received by the FRC alleging that the auditor of a listed entity failed to obtain sufficient audit evidence to support the audit of the consolidated financial statements of a listed entity for the year ended 31 December 2013 ("the 2013 Financial Statements") as there had been inconsistency in the recognition of equity interests acquired by the listed entity concerned in the pro forma financial information in a circular regarding a major transaction under the Listing Rules ("the Major Transaction Circular") and the 2013 Financial Statements respectively.

The FRC's actions

3.22 After the receipt of the complaint, the FRC had sought information and explanation from the auditor and the listed entity concerned. Based on the information and explanations obtained, the executives concluded that there was no evidence suggesting that there was an auditing irregularity in respect of the audit of the 2013 Financial Statements. With the OOC's approval of the report from the executives, the case was closed.

3.23 On the other hand, the FRC considered that there was concern as to whether the auditor had carried out appropriate and adequate procedures to ensure the correctness of the pro forma financial information in the Major Transaction Circular. Therefore, the FRC referred the case to the HKICPA for follow-up action regarding the incorrect pro forma financial information in the Major Transaction Circular issued by the listed entity.

The PRP's areas of review

3.24 Against the above background, the PRP reviewed the following steps taken by the FRC in handling the case –

- (a) initial screening;
- (b) liaising with the listed entity and the auditor concerned to review the allegations;
- (c) preparation and submission of a complaint assessment report to the OOC; and
- (d) concluding the review and referring the case to another regulatory body for follow-up.

3.25 In response to the PRP's question, the FRC explained that while the auditor's report on the 2013 Financial Statements fell within the remit of FRC, the pro forma financial information in the Major Transaction Circular was under the purview of the HKICPA. Therefore, it was appropriate for the FRC to refer the case to the HKICPA for follow-up action in respect of the pro forma financial information.

3.26 Noting that it took eight months' time from receipt of the complaint to referring the case regarding the pro forma financial information to the HKICPA, the PRP asked why it had taken such a long time to make the referral if it was clear that such pro forma financial information was not under the remit of the FRC. The FRC replied that time had been taken to collect further information from the auditor and the listed entity concerned to assess the appropriate accounting treatment in the recognition of equity interests acquired by the listed entity concerned. The FRC referred the case to the HKICPA after it was satisfied that there was a genuine concern regarding the information.

Conclusion

3.27 Having reviewed the FRC's handling of the case, the PRP concluded that the FRC had handled the case in accordance with its internal procedures.

(5) Review of a completed investigation case arising from review of financial statements

Case facts

3.28 The case arose from a proactive review of financial statements by the FRC. The subject financial statements of the listed entity were identified with a number of significant non-compliance with accounting requirements. There was a question whether the auditor had obtained sufficient appropriate audit evidence to support its opinion on the financial statements. During the course of investigation, the engagement director of the auditor concerned had in several times sought extension for replying to the FRC's requests for information. The investigation was completed in around 24 months' time.

The FRC's actions

3.29 The Council directed the AIB to investigate the alleged auditing irregularity. Based on its findings, the AIB was of the view that the auditor concerned failed to perform adequate audit procedures to obtain sufficient appropriate audit evidence in accordance with the professional standards. The AIB also found that the engagement director of the auditor failed to maintain professional knowledge and skill at the level required and act diligently in the audit of the financial statements. The Council adopted the investigation report by the AIB and referred the case to the HKICPA to determine if any disciplinary action was warranted.

The PRP's areas of review

3.30 Based on the case facts outlined above, the PRP reviewed the following steps taken by the FRC in handling the case –

- (a) initial screening;
- (b) liaising with the listed entity, engagement director and the

- auditor concerned to review the allegations;
- (c) preparation and submission of a review assessment report to the Council;
- (d) initiating a formal investigation;
- (e) issuing directions to the AIB to conduct the investigation by the Council;
- (f) preparation and issue of the investigation report by the AIB;
- (g) adoption of the investigation report by the Council; and
- (h) referral to another regulatory body for follow-up.

3.31 The PRP asked whether the repeated extensions requested by the engagement director concerned for replies to the FRC were made on valid grounds and approved by the OOC. The FRC replied that the extensions were made on medical grounds by the engagement director concerned and they had been approved by the OOC and the Council had also been informed of the situation. The FRC added that it was rare for such repeated requests.

3.32 The PRP asked whether the FRC had considered, as empowered under the FRCO, to apply to the Court for an order to compel the engagement director concerned to comply with the requirements. The FRC replied that it had not considered seeking for a Court order in the present case as the engagement director concerned had presented the FRC with medical certificates to substantiate his requests. Having duly assessed the situation, the FRC considered that the chance of successfully obtaining the Court order might not be high.

3.33 The PRP noted that the delay by the engagement director in responding to FRC's requirements was mainly due to his medical situation, and asked whether any staff of the auditor other than the engagement director concerned could provide the requested information. The FRC replied that the auditor indicated that the engagement director concerned was the only partner responsible for listed entities within the firm and the other engagement team members had already left the firm. Therefore, the information requested by the FRC could only be provided by the engagement director concerned.

3.34 The PRP asked whether the HKICPA had taken any follow-up action after the FRC had completed the investigation and referred the case to them. The FRC replied that according to their understanding, a

Disciplinary Committee had been formed in early 2016 and the disciplinary proceeding was on-going as at the date of the case review session.

Conclusion

3.35 Having reviewed the FRC's handling of the case and taking into account the above clarifications, the PRP agreed that the FRC had handled the case in accordance with its internal procedures.

(6) Review of a case arising from review of financial statements with an ongoing investigation

Case facts

3.36 The case arose from a proactive review of financial statements by the FRC under the risk-based financial statements review programme. The listed entity in the case had recognised full impairment and substantial loss on goodwill and intangible assets within the same year of acquiring a subsidiary. There were questions as to whether the assets and liabilities had been properly measured according to accounting standards at the date of the acquisition and whether the auditor concerned had obtained appropriate evidence in conducting the audit of the relevant financial statements.

The FRC's actions

3.37 After reviewing the relevant financial statements of the listed entity under the risk-based financial statements review programme, the FRC made a number of requests to the listed entity and the auditor concerned to provide information before submitting a review assessment report to the Council for consideration. Having considered the review assessment report, the Council directed the AIB to investigate the alleged auditing irregularity in May 2015. The investigation was still ongoing as at the end of the eighth review cycle.

The PRP's areas of review

3.38 With the above background, the PRP reviewed the following steps taken by the FRC in handling the case –

- (a) initial screening;
- (b) liaising with the listed entity and the auditor concerned to review the allegations;
- (c) preparation and submission of a review assessment report to the Council;
- (d) initiating a formal investigation; and
- (e) issuing directions to the AIB to conduct the investigation by the Council.

3.39 The PRP asked how impairment to an asset would be determined and why it was possible for a company to recognise full impairment of a subsidiary at the same year that it was acquired. The FRC replied that normally impairment to an asset would be determined on the basis of the amount of cashflow it could generate. The accounting and auditing standards stipulated clearly the importance that the assets acquired and liabilities assumed should be measured at fair values and the auditor was responsible for obtaining sufficient appropriate audit evidence to support that these assets and liabilities were measured at fair values. According to the relevant accounting standards, it was not impossible, though unlikely, for full impairment of a subsidiary to occur at the same year of its acquisition, for example, the management had discovered significant loss during the year.

3.40 The PRP noted that as at the date of the case review session, it had been a year since the FRC last contacted the auditor for information, and asked about the progress of the case. The FRC explained that there had been some delay to the preparation of the investigation report as the previous Case Officer responsible for the case had left the FRC during the investigation and some time had to be allowed for the replacement Case Officer to familiarise himself with the case. The FRC had sent the draft investigation report to the relevant parties for comment as at the date of the case review session and should be able to conclude the case in 2017.

Conclusion

3.41 Having reviewed the FRC's handling of the case and in the light of the FRC's explanation, the PRP opined that the FRC had handled the case in accordance with its internal procedures.

(7) Review of an immaterial complaint

Case facts

3.42 The PRP reviewed a complaint case which was categorised as an immaterial complaint by the FRC. The complaint was lodged to the FRC anonymously in July 2015 among a batch of 16 complaints. The complainant alleged that the auditor failed to identify a number of disclosure deficiencies, arithmetical errors, typing or grammatical issues or presentation issues in the relevant financial statements.

The FRC's actions

3.43 The case was considered immaterial as the allegations did not have material impact on the relevant financial statements. Upon the CEO's approval, the recommendation was submitted and endorsed by the OOC in November 2015.

The PRP's areas of review

3.44 The PRP noted the issues involved in the selected case and reviewed the following steps taken by the FRC in handling the case –

- (a) initial screening;
- (b) studying the relevant financial statements to review the allegations;
- (c) preparation and submission of a complaint handling report to the OOC; and
- (d) closing the case.

3.45 In response to the PRP's question, the FRC explained that although arithmetical errors, typing or grammatical issues or presentation issues had no financial impact on the financial statements, the FRC would seek further information from the complainant if it had doubt as to the facts involved in the complaint which might have a bearing on the materiality of the complaint.

3.46 The PRP asked whether complainants would be informed of the FRC's decision and whether they could appeal against the decision if they were not satisfied with the outcome. The FRC replied that as the case under review was made anonymously, it was not able to issue such

notification. However, for other similar cases where the complainants could be contacted, the FRC would issue a conclusion letter to the complainant to inform him/her that the case was not pursued with reasons. The conclusion letter would also state that the complainant could request for a review of his/her complaint if he/she was not satisfied. The information about making review was also available on the FRC's website. If a review was requested, the FRC would assign another professional staff to handle it.

3.47 The FRC also took the opportunity to brief the PRP on the latest procedures adopted by the FRC in handling similar immaterial complaints. While there were 24 immaterial complaints in 2015, the number of such complaints had increased to over 90 in 2016. In view of the surge, the FRC had initiated amendments to the Operations Manual such that if a Complaint Handling Officer considered that a complaint was vexatious and abusive, he should discuss with the CEO who would determine if any further action should be taken. The Complaint Handling Officer should properly document the recommended action in a complaint handling report which would be submitted to the OOC for approval.

3.48 In response to the PRP's question, the FRC indicated that the new guidelines were approved by the Council in November 2016 and had been applied to complaints received thereafter. In other words, the present case (i.e. Case No.7) had been handled in accordance with the previous Operations Manual as it was received in 2015, and cases that were handled in accordance with the new rules, if any, would be reviewed by the PRP starting from the next review cycle.

Conclusion

3.49 Having reviewed the FRC's handling of the case and taking into account the above clarifications, the PRP concluded that the FRC had handled the case in accordance with its internal procedures.

Chapter 4 : Observations and way forward

4.1 On the seven cases selected for review during the eighth review cycle, the PRP concluded that the FRC had handled the cases in accordance with its internal procedures. Arising from the discussion in connection with Case No.1 and Case No.6 in Chapter 3, the PRP observed that a relatively long time had been taken for handling the investigations for a number of reasons including the increase in the number of complaints, the resignation of subject case officers and the additional time required for the replacement case officers to familiarise themselves with the cases. Noting the practical difficulties and constraints faced by the FRC, the PRP suggested the FRC to explore ways to enhance efficiencies in handling investigation cases.

4.2 The FRC took note of the PRP's observations and comments above and undertook to duly consider how to enhance efficiencies in handling investigation cases. Meanwhile, the FRC expected that there would be improvements with the recruitment of new and additional professional staff in 2016 and 2017.

4.3 The PRP will continue its work on the review of cases handled by the FRC to ensure that the FRC adheres to its internal procedures consistently. For 2017, the PRP will select cases that the FRC has handled during the period between January and December 2016 for review.

4.4 Comments on the work of the PRP can be referred to the Secretariat of the PRP for the FRC by post (Address: Secretariat of the PRP for the FRC, 15th Floor, Queensway Government Offices, 66 Queensway, Hong Kong) or by email (email address: frcprp@fstb.gov.hk)³.

³ For enquiries or complaints not relating to the process review work of the FRC, they should be made to the FRC directly –

By post : 29th Floor, High Block, Queensway Government Offices, 66 Queensway,
Hong Kong
By telephone : (852) 2810 6321
By fax : (852) 2810 6320
By email : general@frc.org.hk or complaints@frc.org.hk

Chapter 5 : Acknowledgement

5.1 The PRP would like to express its gratitude to the FRC for its assistance in facilitating the review work, and its cooperation in responding to the PRP's enquiries and recommendations in the past year.

**Secretariat of the Process Review Panel
for the Financial Reporting Council
April 2017**

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

2016 Membership

Chairman

Mr. Anthony CHOW, SBS, JP

Members

Ms. Florence CHAN

Mr. Vincent KWAN

Prof. CK LOW

Mr KK TSE

Dr. John POON, BBS, JP (ex-officio member)

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