

## Press Release

### **Financial Reporting Council publishes its 2015 Annual Report**

(20 April 2016, Hong Kong) The Financial Reporting Council (**the FRC**) has today published its [annual report](#) for the financial year ended 31 December 2015 (**the 2015 Annual Report**).

The 2015 Annual Report contains a review of its operations including a summary of the 9 investigations completed during the year.

#### **Investigations of audit irregularities and enquiries of listed issuers**

In 2015 the FRC initiated 11 investigations and handled 28 investigations brought forward from the previous year. In total, 9 investigations were completed, and the investigation reports have been referred to the Hong Kong Institute of Certified Public Accountants, which will determine whether any disciplinary or other action is warranted. The remaining 30 were still in progress at the end of 2015.

During the year, the FRC brought forward 1 enquiry from last year and initiated 1 new enquiry in 2015.

#### **Review of complaints**

We handled all 14 complaints brought forward from the previous year, along with 46 pursuable complaints received during the year. 28 of these were completed and no follow up action was required. 6 investigations/enquiries were initiated and 2 were referred to another regulator. 24 complaints were under review at the end of 2015.

#### **Review of modified auditors' reports**

The FRC screened all 174 modified auditors' reports issued by auditors of Hong Kong listed entities in 2015. Of this total, 95 did not include any apparent auditing irregularities or non-compliance with accounting requirements as the auditors issued an "emphasis of matter" opinion in their auditors' reports which did not require further review. The FRC reviewed all the other 79 modified auditors' reports (such as "Qualified opinion", "Disclaimer of opinion" and "Adverse opinion") in order to consider follow-up action. 4 modified auditors'

reports required direct follow-up action by the FRC in 2015 because the audit qualifications in these modified auditors' reports indicated prior period errors that were not identified in the prior period reports.

### **Risk-based financial statements review programme**

The FRC selects financial statements for review based on risk factors currently prevailing in the market. In 2015, the FRC brought forward the review of 62 financial statements from 2014 and initiated the review of 61 financial statements. Out of these, 32 of them have been reviewed with no follow-up action, 2 letters of advice have been issued and 8 financial statements required follow-up review. 81 financial statements were still under review at the end of 2015.

### **Collaboration with other regulators**

The FRC holds regular liaison meetings with other regulators in Hong Kong to discuss matters of mutual interest, update each other on the status of referred cases, and share the progress of our respective financial statements review programmes.

The FRC is also in constructive discussions with the PRC's Ministry of Finance and the China Securities Regulatory Commission on ways to improve access to audit working papers under current Mainland regulations for the purpose of our investigations.

Further afield, the FRC sent representatives to various international conferences and related events in 2015, where they were able to share insights with other regulators. These included the Third ASEAN Audit Regulators Group Dialogue held in Kuala Lumpur and the US Public Company Accounting Board's 2015 International Auditor Regulatory Conference in Washington.

### **Looking forward**

Mr Paul F. Winkelmann, the recently appointed Chief Executive Officer, said, "My predecessors have left a legacy for the FRC, which is our unwavering commitment to effective auditor regulation in Hong Kong. We propose to build on this by looking at our operations with a view to increasing the efficiency of resource allocation, better automation where it can be achieved and a renewed focus on our investigatory role."

### **Development of auditor regulatory reform**

The government's publication of its consultation conclusions arising from the

2014 consultation process is a vital step towards Hong Kong having an independent body charged with regulatory functions for listed entity auditors. This will bring Hong Kong in line with international best practices and the expectations of the international and local investing community, and enable Hong Kong to properly co-ordinate with independent regulators globally.

In concluding, Dr John Poon, Chairman of the FRC said, “We will continue to assist the Government in the legislative process and provide input regarding the ongoing listed entity auditor regulatory reform process. We are hopeful that the Government’s reform proposals will lead to the FRC being mandated with additional responsibilities and be transformed into a fully-fledged auditor regulator in the near future. The successful implementation of the reform proposals will further enhance the professional standards and conduct of the audit profession, benefiting the profession itself and investors, and elevate the status of Hong Kong as an international financial centre.”

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## **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](http://www.frc.org.hk).