

The Financial Reporting Council publishes its third Annual Report

(March 30, 2010, Hong Kong) The Financial Reporting Council (FRC) publishes its third [annual report](#) for the year ended 31 December 2009 today.

The FRC is a statutory body established in December 2006 to conduct investigation of auditing irregularities and enquiries into non-compliance with accounting requirements in relation to listed entities. In addition to responding to complaints, the FRC has taken a proactive approach since July 2008 by making reference to modified auditors' reports on financial statements of all listed entities to identify potential non-compliance with accounting requirements and following up by reviewing the relevant financial statements.

Ms. Sophia Kao, Chairman of the FRC, said: "2009 was a productive year for the FRC. For the review of financial statements with modified auditors' reports, the FRC screened 129 modified auditors' reports and identified two cases of potential non-compliance with accounting requirements from the financial statements concerned which warranted the initiation of enquiries. Both enquiries have been completed and the reports were published in September 2009 and March 2010 respectively."

"As for the review of complaints, the FRC completed the assessment of 19 complaints, including six complaints received in 2008. Amongst them, the FRC initiated investigations into four cases and enquiry into one. The investigations are in progress and the enquiry was completed with the report published in September 2009." Ms. Kao continued, "For enquiries completed with non-compliance identified, the listed entities in question will take into account the findings in our enquiry reports in preparing their future financial statements. We are pleased that our work helps to uphold the quality of financial reporting of listed entities in Hong Kong."

The FRC published the report of its first investigation in June 2009. This investigation was initiated in October 2007 and completed in November 2008. The investigation report was referred to the Hong Kong Institute of Certified Public Accountants which, in turn, issued a "Disapproval Letter" to both the auditor and the engagement director concerned with regard to the need to exercise due care and to act with proper regard to the legal and professional obligations expected of them.

Furthermore, the FRC had a number of meetings with the Ministry of Finance (MoF) and other Mainland regulators in the past year to exchange views and discuss cooperation arrangements in respect of mutual assistance in conducting cross-border investigations. The FRC has signed a Memorandum of Understanding with the MoF to set up an investigation cooperation framework with regard to handling of potential auditing irregularities. This framework would enable the FRC to investigate, through the MoF, the relevant matters involving Mainland auditors of Hong Kong listed entities under the proposed new arrangements of accepting Mainland accounting and audit standards and qualified audit services provided to Mainland incorporated companies listed in Hong Kong.

Ms. Kao added, "The FRC has developed a Strategic Plan 2010-2012 based on its operational experience in the past two years. The FRC will focus on four major goals which include the adoption of a more proactive approach in the regulation of financial reporting by listed entities, increasing the effectiveness and efficiency of its operations, raising the level of understanding by the public on its role and functions, and raising public awareness of independent audit oversight regimes adopted by other major international financial centres."

"The FRC will continue to perform its statutory duties to uphold the quality of financial reporting in Hong Kong, enhance protection for investors and increase investors' confidence." concluded Ms. Kao.