

## Press Release

### Financial Reporting Council publishes its 2016 Annual Report

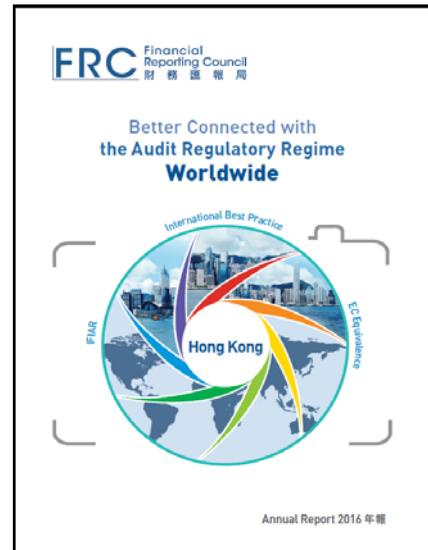
(12 April 2017, Hong Kong) The Financial Reporting Council (**the FRC**) has today published its annual report (**the 2016 Annual Report**) (<http://frc.org.hk/en/ar.php>) for the financial year ended 31 December 2016.

Dr John Poon, Chairman of the FRC, said, “The year 2017 marks the 10<sup>th</sup> anniversary of the FRC. These are exciting and challenging times to be part of an organisation at the forefront of regulatory reform.” He added, “I would like to take this opportunity to restate my full commitment to upholding the core values of the FRC, which include independence and impartiality, accountability and transparency, integrity and proficiency.”

#### Audit regulatory reform

As a major international financial centre, the global investing community rightly expects that the Hong Kong audit regulatory regime should be independent of the audit profession, adopt international best practices and be in line with other major capital markets worldwide. To meet these expectations, reform is essential. The legislative framework should enable Hong Kong to become eligible for membership of the International Forum of Independent Audit Regulators and to be recognised as having regulatory equivalence with the European Commission.

In his budget speech, the Financial Secretary confirmed that the Government is planning to introduce the relevant amendment bill into the Legislative Council in the second quarter of this year. Under the proposals, the FRC will become Hong Kong’s independent audit oversight body, vested with direct powers of inspection, investigation and discipline with regard to auditors of listed entities. The FRC will also be vested with oversight powers over the Hong Kong Institute of Certified Public Accountants (HKICPA) in relation to registration, the setting of standards in professional ethics, auditing and assurance, and the setting of continuing professional development requirements for auditors of listed entities.



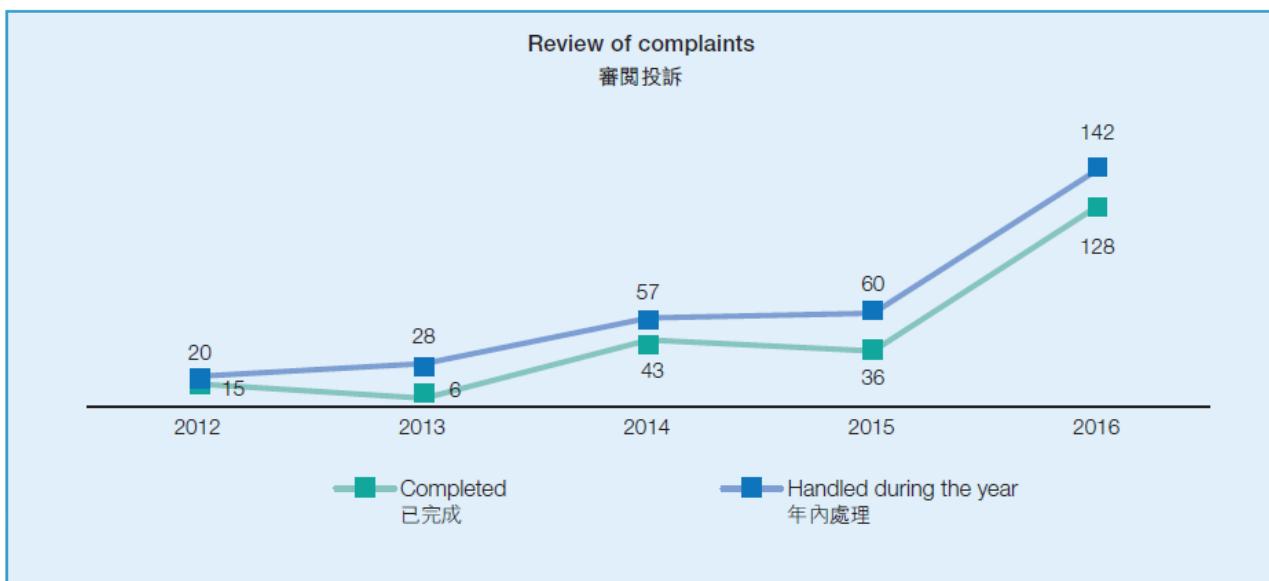
2016 Annual Report of the FRC

## Operations

Mr Paul F. Winkelmann, Chief Executive Officer of the FRC, said, “2016 was an active year for the FRC. We focused on enhancing our operational efficiency, continued our support for the audit regulatory reform and fostered collaboration with other regulators. We will continue to work on these three priorities in the coming year.”

### *Review of complaints*

The FRC received and handled an unprecedented number of pursuable complaints in 2016. Having averaged 25 a year over the previous five years, the number of complaints received in 2016 rose to 118. Taking into account the 24 brought forward from last year, a total of 142 complaints were handled. A total of 11 complaints led to 13 investigations/enquiries being initiated and 4 complaints were referred to another regulator, whereas no follow up action was required in respect of 113 complaints as no apparent non-compliance/auditing irregularity was identified. At the end of 2016, 14 complaints were under review.



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

In 2016, the FRC initiated 18 investigations and handled 30 investigations brought forward from the previous year. In total, 11 investigations were completed, the highest number since the FRC commenced operations. These 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.

During the year, the FRC brought forward 2 enquiries from last year, completed 1 enquiry and initiated 1 new enquiry.

## *Financial statements review programme*

The financial statements review programme was enhanced to focus on areas of likely non-compliance/irregularity as identified by the use of a “filtering” mechanism. The review of modified auditors’ reports was integrated as one of the filters and is no longer a separate exercise.

## **Collaboration with other regulators**

The FRC holds regular liaison meetings with other regulators in Hong Kong to discuss matters of mutual interest, share information regarding common findings from our respective financial statements review programmes and discuss how we can collectively improve on our responses.

The FRC is also in constructive discussions with the PRC’s Ministry of Finance on access to audit working papers located in the Mainland.

On a wider scale, the FRC has actively participated in various international conferences and meetings in 2016, where the FRC’s representatives were able to share insights with other regulators.

## **Looking ahead**

Dr John Poon concluded, “I believe that the audit regulatory reform is in the best interests of the investing public and will strengthen Hong Kong as a major international financial centre, as well as better aligning it with other major capital markets. With the support from the Council and the Honorary Advisory Panel, coupled with the efforts of our dedicated and professional staff, I am confident that we have laid a solid foundation which will enable us to competently tackle any future challenges that may arise.”

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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).

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