

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

**2015 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 Secretariat. 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 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 above terms of reference apply to the main Council of the FRC ("the Council"). 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 the 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 2015, the PRP comprised six members, including the Chairman who is a non-accountant, the FRC Chairman as an ex-officio member, a member from the accountancy sector, and three other members from the financial sector and academia.

1.11 The membership of the PRP in 2015 is at **Annex**.

### **Follow-up on the PRP's recommendation made in the 2014 Annual Report**

1.12 In its 2014 Annual Report, the PRP considered that it might be helpful to set out in the FRC's Operations Manual<sup>1</sup> the relevant considerations and steps in reactivating a suspended case. At the same time, the PRP noted that if it were to prescribe conditions for reactivation of cases without careful consideration of the possible implications, it might inadvertently restrict the FRC's flexibility in handling these cases in future. The PRP therefore recommended deferring to the FRC to consider if it should set out guidelines on reactivation of suspended cases in the Operations Manual.

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<sup>1</sup> 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.

1.13 In response to the PRP’s recommendation, the FRC has added new paragraphs in its Operations Manual to set out the relevant procedures of suspending and reactivating review of cases. In particular, the responsible officer of a suspended case would be required to prepare bi-monthly progress report to update the Operations Oversight Committee (“the OOC”)<sup>2</sup> or the Council the status and development of the suspended case.

1.14 The PRP has noted the follow-up action taken by the FRC in the light of its recommendation made in the 2014 Annual Report and had no further comments.

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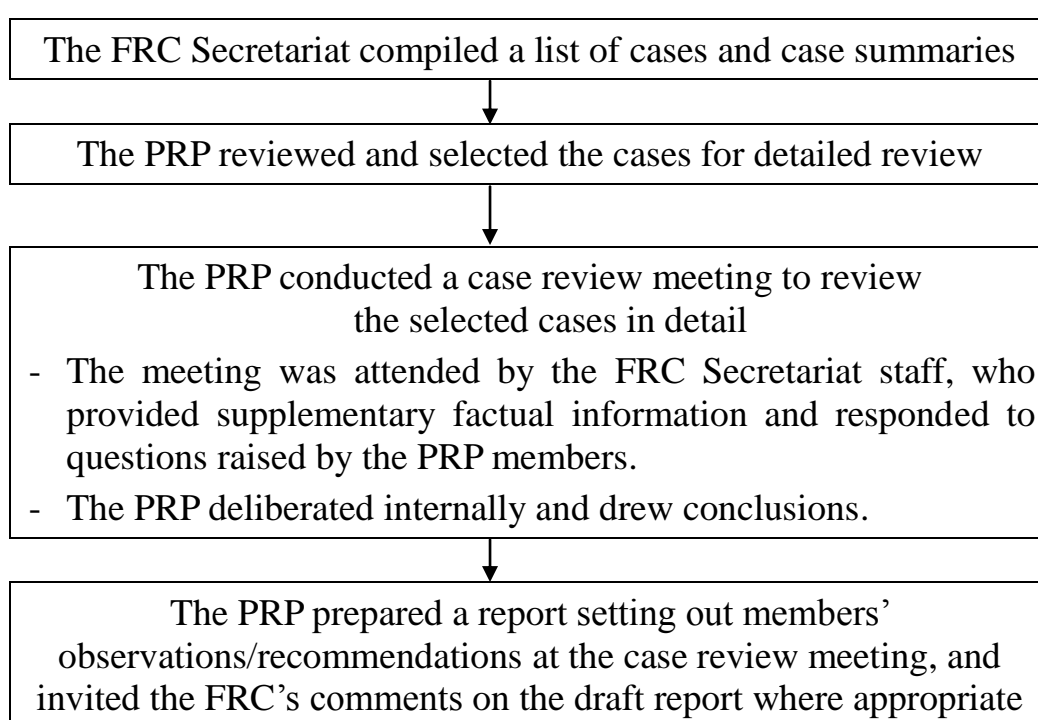
<sup>2</sup> The OOC assists the Council in formulating policies, strategies, guidelines and procedures for the operation of the FRC, provides advice to the Council and the FRC operational staff on technical and business issues, and considers, *inter alia*, enquiry, investigation and complaint/review 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-opts members who have relevant experience and expertise in accounting-related matters.

## Chapter 2 : Work of the PRP in 2015

2.1 This Annual Report covers the work of the PRP in 2015, which reviewed reports from the FRC on cases completed by it during the seventh review cycle (i.e. from January to December 2014).

### 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 Secretariat advised the PRP that the FRC had completed 59 cases during the seventh 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, six had lasted for more than one year by the end of the cycle. The PRP members were provided with summaries of all the 81 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	6
(II)	Completed investigation cases	4
(III)	Completed enquiry cases	1
(IV)	Unsubstantiated cases	50
(V)	Cases that the FRC directly followed up with the relevant listed entity/auditor concerned	4
(VI)	Completed review of complaints/review of relevant financial statements with ongoing investigations	16
	<b>Total</b>	<b>81</b>

2.4 Out of the 81 cases, the PRP selected the following seven cases for review –

- (a) an ongoing investigation case which had lasted for more than a year (i.e. selected from Category I);
- (b) two completed investigation cases arising from the review of complaints (i.e. selected from Category II);
- (c) an unsubstantiated case arising from the review of complaints (i.e. selected from Category IV);
- (d) an unsubstantiated case arising from the proactive review of financial statements (i.e. selected from Category IV);
- (e) a completed review of complaint case with an ongoing investigation (i.e. selected from Category VI); and



- (f) a completed case followed up directly by the FRC with the listed entity (i.e. selected from Category V).

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

### **Case review session**

2.5 After the PRP selected the seven cases for review, and with the assistance of the FRC Secretariat, the PRP Secretariat made preparation for the case review meeting which was held in September 2015 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 recommendation 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 seventh 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 a year**

#### *Case facts*

3.2 The PRP reviewed a complaint case which led to a formal investigation into suspected reporting and auditing irregularities. The investigation, which was in progress as at the end of the seventh review cycle, was initiated in September 2012 in respect of the accountant's report in the listing document and the audit of the consolidated financial statements for the year ended 31 December 2009 of a listed entity. It was alleged that the reporting accountant and/or the auditor concerned had failed to observe and apply the relevant professionals standards required of him in the preparation of the accountant's report and the audit of the consolidated financial statements.

#### *The FRC's actions*

3.3 After receipt of the complaint, the FRC had contacted the reporting accountant and auditor 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 investigation in September 2012 and directed the AIB to investigate the alleged reporting and auditing irregularities. The FRC had requested the reporting accountant, auditor and the engagement partners concerned to provide information during the investigation. The investigation was still ongoing at the end of the seventh 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 investigation. The FRC explained that the main reason for such a prolonged investigation was because of the complexity of the

case. The investigation involved multiple auditing issues and accountants' report covering three years' financial information of the listed entity concerned. Amongst other things, the investigation team had to go through massive number of documents during the investigation.

3.5 The PRP noted that a meeting had been held between the FRC and the auditor concerned at the initial stage of the investigation, and asked for the purpose of the meeting. The FRC explained that the meeting was held at request of the auditor concerned as the latter would like to have more information on the investigation procedures. Two subject case officers from the FRC attended the meeting to address questions from the auditor.

3.6 Noting the complexity of the case, the PRP asked whether the FRC had explored the option of outsourcing parts of the investigation process to external parties or making referrals, e.g. cases involving criminal offences, to relevant authorities where possible, with a view to reducing the overall workload of the FRC. The FRC replied that quality control would be a major issue in outsourcing the work to external parties. In addition, outsourcing might not be able to reduce the workload of the FRC as it would still have to review the outsourced work to ensure that it was of the same standard that was applied across different investigation cases. On the other hand, the FRC would refer cases to relevant authorities if there were issues outside the remit of the FRC. For instance, cases would be referred to the Police once suspected criminal offence was identified.

3.7 In response to the PRP's inquiry about the extension of deadline sought by the auditor concerned in replying to the FRC's request for information, the FRC confirmed that, in accordance with the internal procedures, approvals from the OOC Chairman had been sought before granting extensions of more than a month to the auditor concerned.

### ***Conclusion***

3.8 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 a

year, and agreed that the FRC had been handling the case in accordance with its internal procedures. Nevertheless, for monitoring purpose, the PRP requested the FRC to report to the PRP through the PRP Secretary when the case was near completion.

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

*Case facts*

3.9 The PRP reviewed a complaint case leading 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 December 2010. The complainant alleged that the auditor concerned had not performed sufficient audit procedures in accordance with the relevant professional standards. During the course of investigation, the auditor concerned had sought several extensions for replying to the FRC's request for information. The investigation was completed in around 15 months' time.

*The FRC's actions*

3.10 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 obtain sufficient and appropriate audit evidence and to prepare sufficient audit documentation. 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*

3.11 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 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.

3.12 In respect of procedure (h) viz. referring the case to the HKICPA for follow-up, the PRP inquired what the FRC had provided to the HKICPA and whether the FRC would monitor the outcome of the case after the referral. The FRC explained that the investigation report sent to the HKICPA might become the supporting evidences for the latter to initiate disciplinary proceedings. While the FRC did not have an official role in the HKICPA's disciplinary proceedings under the present regime, the FRC would hold regular meetings with the HKICPA to discuss matters of mutual interests, including the progress and results of the investigation cases that had been referred to the HKICPA.

3.13 Noting that the engagement quality control reviewer ("EQCR") of the audit engagement was invited to comment on the investigation report, the PRP inquired about the purpose of this action as the EQCR had not been involved in the entire investigation process before that. The FRC replied that the EQCR had been consulted on the draft report as the latter was named in the report. According to the FRCO, the FRC might invite any person named in the report to comment on the investigation report or any part of it within a specified period of time.

### ***Conclusion***

3.14 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 a completed investigation case arising from a review of complaint**

#### ***Case facts***

3.15 The PRP reviewed a complaint case leading to a formal investigation into suspected auditing irregularity in relation to the audit of the consolidated financial statements of a listed entity for the year ended 31 December 2007, 31 December 2008 and 31 December 2009 respectively. Given that the auditor concerned had failed to observe professional standards, it was alleged that the EQCR concerned had not carried out a proper review. The investigation was completed in around two years' time.

#### ***The FRC's actions***

3.16 The Council examined the case and directed the AIB to investigate the alleged auditing irregularity. The investigation of the case had lasted for around two years mainly because of the auditor's delay in responding to the FRC's request for information. Despite issue of repeated reminders and a warning letter, the auditor concerned still did not respond to the FRC's request. The FRC applied to the Court of First Instance for a court order to compel the auditor concerned to comply with the request. The case was finally concluded in September 2014. The Council adopted the investigation report by the AIB and referred it to the HKICPA to determine if any disciplinary action was warranted.

#### ***The PRP's areas of review***

3.17 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, the auditor and the EQCR 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 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.

3.18 Noting that an honorary adviser of the FRC had provided oral comments on the draft investigation report before it was sent to relevant parties for comments, the PRP inquired about the relevant procedures in consulting honorary advisers including the time allowed for them to provide comments. The FRC explained that the Council had appointed a panel of honorary advisers, who were reputable individuals from the accounting profession with considerable experience in auditing to advise on investigation cases. In each investigation case, an honorary adviser from the panel would be invited to comment on the investigation report. The FRC might also consult the honorary adviser on technical issues in respect of the case as and when needed. The honorary adviser normally would be invited to provide comments on an investigation report within two weeks' time and they might provide their comments verbally or in writing. In response to the PRP's further inquiries, the FRC confirmed that the honorary adviser would be required to declare interest in respect of the case and all comments from the honorary adviser would be properly documented for records.

### ***Conclusion***

3.19 Having reviewed the FRC's handling of the case and taking into account the above clarifications, the PRP expressed understanding that the investigation had to last longer than usual as the auditor concerned was not cooperative, and took the view that the FRC had handled the case in accordance with its internal procedures.

#### **(4) Review of an unsubstantiated case arising from a review of complaint**

##### ***Case facts***

3.20 The PRP reviewed a completed case arising from a complaint received by the FRC which was not pursued further. The complaint involved possible non-compliance with accounting requirements in the accountants' reports of a number of listed entities and possible reporting irregularities by the reporting accountants who had not conducted proper evaluation in the relevant financial statements to ensure compliance with the relevant professional standards.

##### ***The FRC's actions***

3.21 Upon receipt of the complaint, since all senior professional staff who might be assigned as the complaint officer overseeing the complaint handling process in accordance with the Operations Manual had declared interests in relation to the accounting firms concerned pursuant to section 53(3) of the FRCO, another senior staff of the FRC was appointed as the coordinator in respect of the complaint to oversee the case handling process with support from other professional staff of the FRC. Having reviewed the case facts, the FRC concluded that there was significant diversity in professional practice on the issue at the relevant time. Instead of initiating a formal investigation, the FRC considered that it should be more appropriate for the HKICPA to promote the best practices to be adopted to its members through professional development programme. Having confirmed with the HKICPA regarding the relevant promotional efforts, the FRC decided not to conduct investigation for this case.

##### ***The PRP's areas of review***

3.22 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 to review the allegations;



- (c) preparation and submission of a complaint assessment report to the OOC; and
- (d) closing the case.

3.23 In response to the PRP's inquiry on the decision to appoint the senior staff concerned to be the coordinator of the case, the FRC explained that the Operations Manual had set out the procedures for situations where a professional staff had declared interests in relation to a case. However, there were no prescribed rules for the situation under the present case, where all senior professional staff who might be assigned as the complaint officer overseeing the complaint handling process were not able to take up the responsibility due to declaration of interests. To resolve the situation, the Chief Executive Officer ("CEO") of the FRC decided to appoint the senior staff concerned to coordinate and oversee the complaint handling process. Having considered the FRC's clarification, the PRP was of the view that it might be helpful to set out relevant policies and procedures to deal with the situation when all the senior professional staff who might be assigned as the complaint officer declared interests in respect of a matter.

3.24 The PRP asked for the reasons why the FRC was only able to acknowledge the receipt of the complaint after nearly a month from the date of receipt whereas the Operations Manual had prescribed that the FRC should issue such acknowledgement within five working days. The FRC explained that it had been seeking external legal advice on whether it had jurisdiction over the case and forthwith issued the formal acknowledgement of receipt after obtaining legal advice. Although the FRC was only able to issue the formal receipt in around a month's time, it had verbally confirmed with the complainant upon receipt of the complaint.

### ***Conclusion***

3.25 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 an unsubstantiated case arising from the proactive review of financial statements**

***Case facts***

3.26 The case arose from a proactive review of financial statements by the FRC under the risk-based financial statements review programme. The auditor concerned in the case was an overseas auditor. The case involved possible non-compliance with accounting requirements in relation to the recognition of revenue from sales and possible auditing irregularity by the auditor concerned who might not have obtained sufficient and appropriate audit evidence to support the conclusion in view of the aforementioned possible non-compliance.

***The FRC's actions***

3.27 After reviewing the relevant financial statements of the listed entity under the risk-based financial statements review programme, the FRC contacted the auditor concerned for information but the latter declined to provide the requested information, citing jurisdictional issues as the reason. The FRC then sent a letter to the auditor regulatory body of the overseas auditor's jurisdiction for assistance. After obtaining confirmation from the overseas auditor regulatory body that it had initiated investigation on the auditor concerned, the FRC decided, with the approval from the OOC, not to take further action against the auditor concerned from its end.

***The PRP's areas of review***

3.28 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 auditor concerned and the overseas auditor regulatory body to review the allegations;
- (c) preparation and submission of a review assessment report to the OOC; and
- (d) closing the case.

3.29 In response to the PRP's inquiry, the FRC explained that it had decided not to take further action against the auditor concerned from its end as it considered that the overseas auditor regulatory body was in a better position to make further inquiries and obtain documents, evidences, etc. from the auditor concerned. The FRC remarked that the case illustrated the importance of the auditor regulatory reform, which would enable Hong Kong to be eligible for being represented on the International Forum of Independent Audit Regulators ("the IFIAR"), an influential international organisation for independent regulators of auditors established in 2006. This would in turn enable the FRC to enter into reciprocal arrangements with overseas regulators of some 50 jurisdictions who were also members of the IFIAR for stepping up cross-border regulatory cooperation.

3.30 The PRP asked whether the FRC would refer a case to the overseas regulator whenever overseas auditors were involved and how often the FRC had to refer cases to overseas regulators. The FRC replied that it would endeavour to ensure that the misconduct committed by an overseas auditor was properly addressed. The FRC would investigate into the misconduct and refer the case and findings to relevant authorities, such as the overseas auditor regulatory body which had disciplinary powers over the auditor concerned. At present, the need for the FRC to refer cases to overseas auditor regulatory body was not frequent, considering that there were relatively few entities listed in Hong Kong which used overseas auditors.

### *Conclusion*

3.31 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 completed complaint case with an ongoing investigation**

### ***Case facts***

3.32 The PRP reviewed a complaint case leading to a formal investigation into a suspected auditing irregularity. The complainant alleged that the auditor concerned had not performed sufficient audit procedures to identify potential non-compliance with accounting requirements in the valuation of assets in the financial statements. The investigation was still ongoing as at the end of the seventh review cycle.

### ***The FRC's actions***

3.33 The FRC examined the complaint and requested the listed entity and the auditor concerned to provide information for a number of times before submitting a complaint assessment report to the Council for consideration. Having reviewed the complaint assessment report, the Council directed the AIB to investigate the alleged auditing irregularity in July 2014.

### ***The PRP's areas of review***

3.34 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 complaint assessment report to the Council;
- (d) initiating a formal investigation; and
- (e) issuing directions to the AIB to conduct the investigation by the Council.

3.35 In response to the PRP's inquiry on the reason for the longer time used in preparing the complaint assessment report, the FRC said that it had spent considerable time and effort in the preparatory work, e.g. scrutinizing the relevant audit working papers before submitting the complaint assessment report to the Council. Since most of the ground work had been completed before the initiation of the investigation, the FRC expected that the investigation process could be expedited as a result.

3.36 Noting that the investigation was still ongoing at the date of the case review session, for monitoring purpose, the PRP requested the FRC to report to the PRP through the PRP Secretary when the case was near completion.

### ***Conclusion***

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

### **(7) Review of a completed case directly followed up by the FRC with the listed entity**

#### ***Case facts***

3.38 The case arose from a proactive review of financial statements by the FRC under the risk-based financial statements review programme. The issue of possible non-compliance with accounting requirements was in relation to the recognition of the gain on disposal of a subsidiary in the financial statements.

### ***The FRC's actions***

3.39 The FRC sought clarification from the listed entity concerned regarding the above issue of possible non-compliance with the accounting requirements. On the basis of their clarification, the FRC considered that there was no apparent non-compliance with accounting requirements in relation to the recognition of the gain on disposal of a subsidiary. However, there was a disclosure deficiency in the note to the financial statements and, upon approval by the OOC, the FRC had advised the company by way of a letter accordingly.

### ***The PRP's areas of review***

3.40 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) liaising with the listed entity concerned to review potential non-compliance;
- (c) preparation and submission of a review assessment report to the OOC; and
- (d) following up directly with the listed entity concerned with advice.

3.41 Noting that the review assessment report of the case was submitted to the OOC only while reports of some other cases were also submitted to the Council, the PRP inquired whether all reports should be submitted to the Council. The FRC replied that the Operations Manual prescribed that the OOC might decide on the course of action of each complaint/review case. In practice, the progress reports and the assessment report of a complaint/review case would normally be submitted to the OOC. Unless the OOC considered that there was a need to initiate investigation and/or enquiry, the complaint/review case would not be brought up to the Council. However, in some special cases in which the FRC Secretariat considered that Council's attention was necessary, progress reports of a complaint/review case would also be submitted to the Council for its information.

3.42 In response to the PRP's inquiry, the FRC confirmed that external reviewers would be invited to review the financial statements under the risk-based financial statement review programme. The financial statements so reviewed would be re-examined by the FRC Secretariat to ensure that all potential non-compliance with accounting requirements were dealt with consistently.

### *Conclusion*

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

## Chapter 4 : Recommendation and way forward

4.1 On the seven cases selected for review during the seventh review cycle, the PRP concluded that the FRC had handled the cases in accordance with its internal procedures. Arising from the discussions in connection with Case No. 4 in Chapter 3, whilst the PRP considered the FRC's decision to appoint another senior staff as coordinator to oversee the case handling process when all senior professional staff have declared interests to be justifiable under the circumstances, it considered that it might be helpful to set out in the FRC's Operations Manual the relevant policies and procedures to deal with similar situations in future.

4.2 The FRC took note of the PRP's recommendation above and will duly consider whether it should set out the relevant policies and procedures in the Operations Manual, and if so, what the appropriate policies and procedures should be.

4.3 The PRP will continue its work on the review of completed cases to ensure that the FRC adheres to its internal procedures consistently. For 2016, the PRP will select cases that the FRC has completed during the period between January and December 2015 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, 15<sup>th</sup> Floor, Queensway Government Offices, 66 Queensway, Hong Kong) or by email (email address: [frcprp@fstb.gov.hk](mailto:frcprp@fstb.gov.hk))<sup>3</sup>.

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

By post : 29<sup>th</sup> 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](mailto:general@frc.org.hk) or [complaints@frc.org.hk](mailto: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 2016**

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

**2015 Membership**

**Chairman**

Mr. Anthony CHOW, SBS, JP

**Members**

Ms. Angelina Agnes KWAN<sup>4</sup>

Ms. Florence CHAN

Mr. Vincent KWAN

Prof. CK LOW

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

(With Secretariat support provided by  
the Financial Services and the Treasury Bureau)

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<sup>4</sup> The term of appointment of Ms Angelina Agnes Kwan expired on 31 December 2015. Mr KK Tse was appointed to the PRP with effect from 1 January 2016.