



The Financial Reporting Bill (Hong Kong Legislative Council)

- 1 CIMA (the Chartered Institute of Management Accountants) is an international body of management accountants, with some 66,000 chartered members and more than 80,000 registered students worldwide. In Hong Kong, there are nearly 1000 CIMA members and about 800 registered students currently studying for the CIMA qualification. CIMA members are not auditors, but as accountants employed within organisations, are major users of auditors.
- 2 CIMA supports the need for greater regulation of auditors in general, and has therefore supported the foundation of, and participates in the work of, the Financial Reporting Council in the United Kingdom. Similarly it expects to join other bodies in the Republic of Ireland under the regulation of the Irish Auditing and Accounting Supervisory Authority (IAASA) in the near future.
- 3 Other countries have expressed interest in establishing national regulatory bodies, or legislating in other ways to regulate the work of auditors, reporting accountants and accountants in general public practice.
- 4 In general, CIMA prefers the notion of the establishment of supervisory regulatory bodies, independent of auditing or accountancy bodies, as proposed in Hong Kong.

The Financial Reporting Council as proposed

- 5 The concept of the new FRC is welcomed, as is the proposed composition of overwhelmingly “lay” members.
- 6 The powers proposed differ from those of the UK FRC, in that they are to be used solely in reaction to possible misdemeanours. There is no obvious scope for the proposed FRC to be pro-active in promoting best practice.
- 7 The Council as proposed seems to delegate much of its power to the proposed Audit Investigation Board (AIB) and the Financial Reporting Review Committee(s). CIMA questions whether the structure as proposed is unnecessarily complex.
- 8 The AIB, while being responsible for the investigation of suspected irregularities, is not responsible for discipline. This differs from the role of the AIDB in the UK, which takes up cases identified as relating to the public interest, and may not only investigate, but also deliver disciplinary sanctions in such cases. The division of responsibility with the HKICPA seems strange, as although the auditors concerned may

be members of the HKICPA, the independence of the AIB would (if responsible for discipline) increase the public confidence in the machinery. Any possible overlap or duplication of investigation duties with the HKICPA should be removed by the identification by the AIB of “public interest”, which would automatically allow the AIB to take up the case.

- 9 The proposal for the establishment of an FRRP, and the use of the panel to provide members for FRRCs for individual cases is strongly supported by CIMA.

Costs of operation

- 10 CIMA has some misgivings about the small proposed annual budget for the FRC and its subsidiaries; there are significant tasks ahead which will involve substantial professional expertise and administrative, legal and secretarial support at the highest level. An annual budget of HK\$10 million is likely to be inadequate to provide the necessary under-pinning suggested by the Bill. This view is strongly supported by members of the CIMA Hong Kong Division’s Council.
- 11 A formula for cost-apportionment which relies more substantially on the shoulders of the auditors than on the general membership of the HKICPA might be more equitable.

Detailed comment on proposed operation

- 12 CIMA Hong Kong Division has identified that while the investigatory provisions of the Bill will confer adequate powers on the FRC to conduct its necessary investigations, it believes that there is inadequate protection offered to those under investigation, whether identified in reports from the AIB under Section 35 or the FRRC under Section 47. The FRC has immunity protection under Section 53, and Section 47(3) empowers the FRC to publish reports (or parts of them). However CIMA Hong Kong Division suggests that it should be mandatory for the AIB and FRRC to provide copies of draft reports to the individuals identified in those reports, and to consider any representations which might be made as a result, before such reports are formally submitted to the FRC¹.

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¹ This suggested practice is similar to the current requirement under Regulation 11 of the Hong Kong Civil Aviation (Investigation of Accidents) Regulations (“Notice of Inspector’s Report and Representations thereon”), version date 30/06/1997.