



Annual Investigation and Compliance Report

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Scope of our investigation and enquiry functions

Since the establishment of FRC in 2006, we

- enquire into potential non-compliances financial statements of listed entities and give notice to listed entities concerned for removal of non-compliance identified
- investigate into potential misconduct of the auditors of listed entities and refer investigation findings to the HKICPA for consideration of appropriate follow up actions

Full-fledged independent auditor oversight body

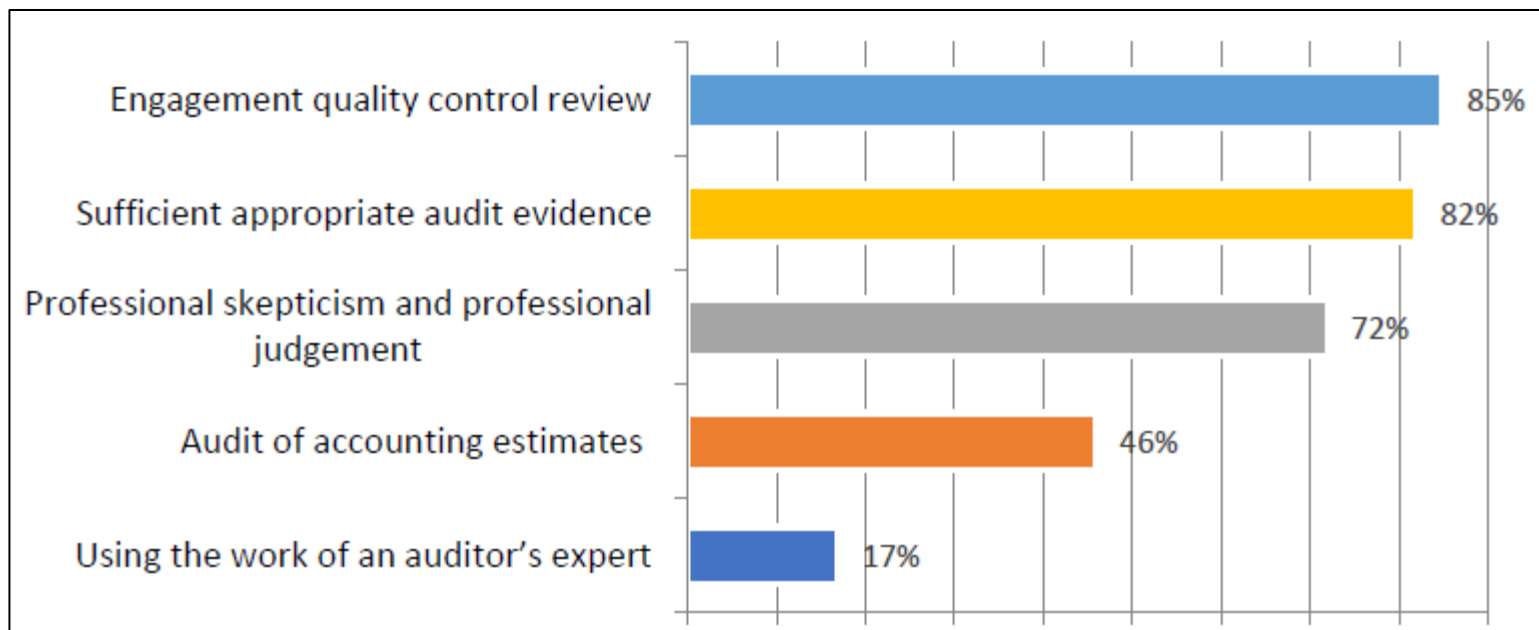
- Financial Reporting Council (Amendment) Ordinance 2019 commenced on 1 October 2019
- Investigation findings regarding audits of listed entities completed on or after 1 October 2019 will be referred to the FRC's Department of Discipline for consideration of any disciplinary sanctions

Intelligence about potential misconduct or non-compliance

We acquire intelligence about potential misconduct or non-compliance through:

- **reactive market surveillance activities** that encourage and scan for complaints, reports and referrals of misconduct or non-compliance from members of the public, whistleblowers and other regulators
- **proactive risk-based market monitoring activities** which include inspections of auditors of listed entities and reviews of financial statements of listed entities under the Financial Statement Review Programme

Major findings and observations on auditing irregularities



Major findings and observations on financial reporting non-compliances

During the period of eighteen months to 31 March 2021, our findings and observations regarding non-compliances with financial reporting requirements in involves:

- earnings per share
- fair value measurement and recognition of identifiable assets acquired in business combinations
- consolidated financial statements
- intangible assets
- financial instruments
- impairment of investments
- disclosure requirements

Our expectations

Boards, management and audit committees of listed entities

- ensure technical competence of their financial reporting functions
- consult appropriate internal or external experts when necessary

Listed entity auditors

- evaluate and response to risks of material misstatements in listed entity financial statements
- ensure technical competence of their engagement teams
- make appropriate consultation when necessary

Audit committees

- oversee management's preparation of financial statements and auditors' performance of the audits

All of them are expected to take note of our key findings and observations in respect of financial reporting non-compliance and auditing irregularities to avoid these matters from arising in their financial reporting processes and audits