

January 2018

## Chief Executive Officer's Message

### 行政總裁的話



Paul F. Winkelmann Chief Executive Officer | 衛皓民 行政總裁

The second half of 2017 saw us undertake significant upgrades in several priority areas, which have not only enhanced our procedures in terms of quality and effectiveness, but have also borne in mind our future operations.

In conjunction with external legal counsel, we undertook a comprehensive review of our procedures in respect of enquiries and investigations. We carried out a detailed analysis of our procedures and linked each and every procedure in our operations manual to the specific requirements of our legislation as enshrined in the Financial Reporting Council Ordinance (FRCO). This confirms that we continue to be in full compliance with the FRCO. In addition, we examined each and every procedure to ensure that the quality and effectiveness of our work continues at the highest level and in a way that does not compromise these tenets for the sake of expediency. This exercise is now complete and our manual has been updated. While this exercise did lead to a slowdown in finalising some reports, our work continued and I now expect an upturn in finalising cases in 2018. Irrespective, we still managed to close the same number of cases as in 2016 which in itself was a record year. Some key operations statistics are included at the bottom of this newsletter.

I mentioned in my previous newsletter that in 2017 we received over 100 complaints which appear to have come from the same source. Having evaluated all of these complaints, Council decided to refer all of them to the Hong Kong Institute of Certified Public Accountants (HKICPA) for follow up and to consider what action may be appropriate in respect of these complaints.

財務匯報局於 2017 年下半年度積極完善若干重要工作範疇，此舉不但提升我們工作程序的質素及效率，並顧及日後運作的需要。

我們聯同外聘法律顧問對本局的查訊及調查程序進行全面檢討。我們對運作程序進行仔細分析，將運作手冊內的每項程序與財務匯報局條例的具體規定相連接，確認本局繼續在完全遵循財務匯報局條例的規定下運作。此外，我們審閱每項內部程序，確保工作質素及效率得以保持最高水平，以及不會因工作權宜而放棄應有原則。我們已完成有關檢討及更新本局運作手冊的工作。雖然檢討工作延遲了部分報告的完成，本局仍持續運作，我預期在 2018 年完成的個案數目將會回升。儘管如此，我們仍能完成等同於 2016 年創記錄的個案數目。本電子簡訊最後部分載列重要運作統計數字。

我於上一份電子簡訊曾提及本局於 2017 年共接獲超過百宗似乎來自同一來源的投訴。本局在經過對有關投訴評估後，已決定將這些投訴轉介香港會計師公會，以供其考慮合適的跟進行動。



Recruitment has been another focus. I am pleased to announce that we have recruited a very experienced barrister as our General Counsel and his experience is bringing significant new skills to our in-house legal function. In addition, we identified the need for an Information Technology Manager, as our I.T. systems are nearing the end of their useful lives, and we wish to introduce an electronic case management system. These items are now in hand.

本局亦集中招聘的工作。我很高興宣佈本局已聘用一名饒富經驗的大律師出任本局的法律顧問，他的經驗為局內法律職能帶來重要的技能。此外，由於我們的資訊科技系統將達最高可用年期及我們有意引進電子個案管理系統，本局確定對資訊科技管理人員的需求，並展開相關的工作。



FRC staff gathering.  
財務匯報局員工聚會。

We have continued our dialogue with the mainland authorities on a Memorandum of Understanding over access to working papers and we made good progress towards the end of the year.

我們繼續與內地監管機構就有關取得審計工作底稿的諒解備忘錄進行商討，並於去年年底取得良好進展。

Our Financial Statements Review Programme has been brought fully in-house. Several benefits have been identified. We cleared a backlog which developed over previous years and are up-to-date in reviewing financial statements issued during 2017. In addition, through this programme and a media watch, we have developed a "watch list" whereby we can monitor certain companies' financial reporting which may identify non-compliance with accounting standards and/or potential irregularities in the conduct of the audit on a more real time basis. All of this goes hand-in-hand with our regular liaison with the HKICPA, the Securities and Futures Commission and the Hong Kong Exchanges and Clearing Limited.

本局的財務報表審閱計劃現已改為全部由本局人員負責。此舉已帶來裨益，我們已完成了於過往年度積壓未處理的審閱工作，現正及時審閱 2017 年度的財務報表。我們透過財務報表審閱計劃及監察媒體報導制訂了「監察名單」，藉此監察若干公司的財務報告，並更實時地識別可能沒有遵從會計規定的事宜及 / 或審計方面的不當行為。這些都與本局跟香港會計師公會、證券及期貨事務監察委員會及香港交易及結算所有限公司的定期聯絡密切相關。



During our work on investigations in the second half of the year, a single common area relating to financial instruments has been prominent. This was one of the common areas found in the first half of the year and continues to be an area of difficulty in financial reporting. Further below I have cited two examples of continuing challenges in this area.

Recently, Government gazetted and introduced the auditor regulatory reform bill. I am personally elated about this amendment bill which should soon see us operating as the independent regulator of auditors of listed entities in Hong Kong. I look forward to the challenges this will bring and I am convinced the passing of the bill will enhance the interests of the investing public in Hong Kong.

於下半年的調查工作中，本局發現金融工具的會計處理時常出現問題，屬財務匯報中相對較困難的範疇。我將於下一部份列舉了兩個相關例子。

最近，政府在憲報上刊登及提交了核數師監管改革法案。此修訂法案應很快讓財務匯報局成為香港上市實體核數師的獨立監管機構，我本人對此感到興奮。我期待即將帶來的挑戰，並有信心法案獲通過後，能提高香港大眾投資者的利益。



Lunch meeting with the Society of Chinese Accountants & Auditors on 1<sup>st</sup> November 2017.  
2017年11月1日與香港華人會計師公會午餐會議。

The Lunar New Year will be upon us shortly and I take this opportunity to wish you all Kung Hei Fat Choy.

農曆新年即將到來，我藉此機會祝各位恭喜發財。

**Paul F. Winkelmann**  
Chief Executive Officer

**衛皓民**  
行政總裁



## Summary of Cases 個案摘要

In the second half of 2017, financial instruments related issues continued to be the theme in investigations.

In one case, a listed entity failed to recognise that a significant decline in the fair value of a quoted equity investment, which was classified as an available-for-sale financial asset, should have been recognised as an impairment loss.

The investigation revealed that the auditor had failed to (a) properly identify the significant decline in fair value as objective evidence of impairment; and (b) thoroughly discuss the matter with the management of the listed entity. Consequently the loss for the year was understated by a significant amount.

In another case a listed entity's wholly owned subsidiary issued a number of preferred shares which caused a deemed disposal with the Group's interest reduced to less than 50%. The listed entity continued to account for the investee as a subsidiary. The terms of the preferred shares included specific events and conditions that (a) might trigger the repayment of the principal amount of the preferred shares and accrued dividends, whether or not declared; and (b) require consent of the holders of a majority of the preferred shares on a number of matters.

The investigation found that the auditor failed to consider (a) the substance of the contractual arrangements and compare these to the definitions of financial liability and equity in Hong Kong Accounting Standard (HKAS) 32 *Financial Instruments: Presentation* when determining whether the classification of the preferred shares and the treatment of the related dividend were appropriate; and (b) whether the rights provided to the holders of the preferred shares would affect the Group's ability to control the investee following the deemed disposal.

2017年的下半年，與金融工具相關的問題繼續成為主要調查主題。

在一宗個案中，上市實體沒有對分類為可供出售金融資產的報價股權投資，在公允價值顯著下降時，確認減值損失。

調查發現核數師沒有(a)適當地識別公允價值顯著下降為減值的客觀證據，以及(b)徹底地與上市實體管理層討論有關事宜。因此，當年虧損出現重大少報。

在另一宗個案，上市實體的全資擁有附屬公司發行若干優先股，被視作出售附屬公司的權益，集團擁有權益因而減少至低於50%。該上市實體繼續將被投資公司列帳為附屬公司。該等優先股的條款包括具體事項及條件從而(a)可觸發償還優先股本金及應計股息（不論宣派與否）；以及(b)需要在若干事項上取得優先股大部分股東同意。

調查發現核數師(a)於判斷該等優先股的分類及相關股息的會計處理是否恰當時，沒有考慮合約安排的本質及與Hong Kong Accounting Standard (HKAS) 32 *Financial Instruments: Presentation*對金融負債及股本的定義進行比較；以及(b)沒有考慮於視作出售事項完成後，優先股持有人獲賦予的權利會否影響集團對被投資公司的控制能力。



## Letters of Advice

### 致上市實體及其核數師的意見函

For the purpose of improving the quality of financial reporting, we sometimes issue letters to the listed entities and their auditors pointing out our findings and suggesting improvement measures. The following findings were identified in our financial statement reviews:

1. In calculating earnings per share, listed entities should compare the offer price in a rights issue with the market price of its own shares to identify any bonus element in the rights issue.
2. When there is a retrospective restatement or reclassification of a financial statement item which has a material effect on the information at the beginning of the preceding period, preparers of financial statements are reminded to present an additional statement of financial position at the beginning of the preceding period. Merely restating the "five-year summary", which is not a part of a complete set of financial statements, does not satisfy the requirement of the financial reporting standard.
3. Sales rebates should generally be netted off against revenue instead of including them in selling expenses.
4. Paragraph 17 of HKAS 23 *Borrowing Costs* specifies conditions that are required to be met before the commencement of the capitalisation of borrowing costs. In respect of the condition that the entity "undertakes activities that are necessary to prepare the asset for its intended use or sale", preparers of financial statements are reminded that merely holding an asset without production or development does not meet the specified condition for capitalisation of incurred borrowing costs.
5. Preparers of financial statements are reminded to provide adequate information in the financial statements for users to understand the impact of various specific transactions and events. In particular, this relates to the adequacy of information on the effect of entrusted financing arrangements and assets, significant terms of financial instruments that would affect their recognition and measurement and users' ability to evaluate the relevant risks, circumstances or events that led to the reversal of a write-down of inventories, the reasons for using a budget/forecast period that is longer than five years when determining the value in use of assets for the purpose of impairment assessment.

為了改善財務匯報的質素，本局會向上市實體及其核數師發出意見函，指出我們的發現，並提供改善建議。下列是我們於審閱財務報表時的發現：

1. 於計算每股盈利時，上市實體應將供股價與股份市價比較，以識別供股是否有任何紅股成份。
2. 當需要對前期財務報表期初的資料進行具重大影響的追溯重列或重新分類時，財務報表編制人員需提供一份前期期初的財務狀況報表。因「五年財務摘要」並不構成完整財務報表的一部分，只是重列該摘要並不能符合財務報告準則的規定。
3. 銷售回扣一般應在收入金額中扣除，而非列入銷售開支。
4. HKAS 23 *Borrowing Costs* 第17段規定借款費用開始資本化前須滿足的條件。有關實體「進行所需經營活動使資產達到預定可使用狀態或可銷售狀態」的條件，財務報表編制人員應留意只持有資產而不進行生產或發展是不能滿足將所產生借款費用資本化的指定條件。
5. 財務報表編制人員須於財務報表提供足夠資料，讓使用者了解各種特定交易及事項所帶來的影響。尤其是下列資料的充足性：有關委託貸款安排及資產的影響、可影響金融工具的確認及計量及使用者評估有關風險的能力的重大條款、導致撥回存貨撇減的情況或事項、在減值測試中釐定資產使用價值時，使用超過五年的預算/預測期間的原因。



	Jan – Dec 2017 2017年1月至12月	Jan – Dec 2016 2016年1月至12月
Pursuable complaints received 接獲可跟進的投訴	126	118
Complaints completed 完成審閱的投訴	126	128
Investigations completed 完成調查的個案	11	11

Note : detailed operations statistics are available in the “[Operations Statistics](#)” section of our website.

附註：詳細的主要運作數據，載於我們的網站「[運作統計數字](#)」一節。



If you have any enquiries or comments,  
please feel free to contact us.  
如有任何查詢或意見，歡迎與我們聯絡。

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