

Press Release

8 September 2021

FRC collaborates with IFEC to promote financial literacy on audit related topics to retail investors

The Financial Reporting Council collaborates with the Investor and Financial Education Council (IFEC) to promote financial literacy to retail investors and members of the public and rolls out today a series of reader-friendly articles on audit related topics.

Financial statements are prepared by listed entities to report to investors on their own financial performance. Independent audits of financial statements are part of the system of checks and balances required by law to ensure that the financial statements are credible and can be trusted by their users in making investment decisions.

The purpose of an audit is to enhance user confidence in the credibility of financial statements or to raise red flags when appropriate. The auditor's report is the auditor's communication channel to users and enables that purpose to be met when the auditor's report is read in conjunction with the financial statements by investors who have the necessary financial literacy.

Even though financial literacy in Hong Kong is high based on having the highest overall score in the 2020 OECD/INFE International Survey of Adult Financial Literacy, there is anecdotal evidence that there is less knowledge and use of auditor's reports in making investment decisions, especially among retail investors.

Our initiative today is part of our efforts to address the potential gap in financial literacy in this important area. Our purpose is to urge and help retail investors to understand how to read financial statements in conjunction with the related auditor's report. Our duties include upholding the quality of financial reporting by Hong Kong listed entities and upholding the quality of the related audits and auditor's reports so that such reports can fulfil their purpose.

The first two articles of our new series are titled '[Auditor's Opinion](#)' and '[Key Audit Matters of Financial Statements](#)' and are published today. These articles address two important elements of an auditor's report that even professional investors may not have paid enough attention to.

The first article explains the nature of the auditor's opinion about the financial statements, the four types of opinion that investors may encounter and what each of them can tell investors about the quality of the financial statements.

The second article explains what key audit matters (KAMs) are. Examples are given on some matters commonly reported to illustrate how they can provide useful

information to investors. Whereas the auditor's opinion is about the financial statements, KAMs are about the audit. They address those matters that the auditor considers to have been of most significance in the audit.

Mr Marek Grabowski, CEO of the FRC said, "The FRC embraces its responsibility to equip the investing public, and retail investors in particular, with essential knowledge, attitudes and skills about matters within our regulatory remit. Our responsibilities extend to the financial statements and related auditor's reports of listed entities. Our articles seek to demystify some of the more complex elements of financial statements and auditor's reports by explaining them simply and identifying how they can inform investors about the quality of the financial statements, including red flags to look out for.

Knowledge of these matters can enhance investor confidence in listed entity financial statements by assisting them in making informed investment decisions. It can also assist in understanding the significance to investors of the FRC's regulatory actions. We hope that members of the public will find the articles of practical use."

Dr Kelvin Wong, Chairman of the FRC, who was Chairman of IFEC from 2017 to 2018, remarked, "I am so glad to have this opportunity of working closely with IFEC again to promote responsible investment among retail investors. Financial education is highly important to the public in particular because the global financial markets are fast evolving and ever more complex. Retail investors would need to know how to read and interpret the complete set of financial information contained in the annual report, including the information in the auditor's report such as the auditor's opinion and key audit matters. Such information has significant implications for the credibility of the financial statements and their trustworthiness when investors make their investment decisions. Through our strategic collaboration with IFEC, we aim to engage directly with the public to share our knowledge and insights, thereby enhancing investor protection."

Please click the links below to read the articles:

- [**Auditor's Opinion**](#)
- [**Key Audit Matters of Financial Statements**](#)

If you wish to provide feedback to the FRC on these articles or on topics of future interest, please click [here](#).

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About the Financial Reporting Council

The FRC is the full-fledged independent listed entity auditor regulator for Hong Kong. We are committed to upholding the quality of financial reporting of listed entities of Hong Kong so as to enhance investor protection and strengthen investor confidence in corporate reporting.

For more information about the statutory functions of the FRC, please visit www.frc.org.hk.

For media enquiries:
Celian Cheung
Associate Director, Corporate Communications

Tel: +852 2236 6025 / +852 2236 6066
Fax: +852 2810 6320
Email: celiancheung@frc.org.hk