

Process Review Panel for the Financial Reporting Council

2013 Annual Report

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

2013 Annual Report

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Chapter 1 : Background

Overview

1.1 The Process Review Panel for the Financial Reporting Council (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 (FRC), and to consider whether actions taken by FRC are consistent with its internal procedures and guidelines. The establishment of PRP reflects the Administration's continuing commitment to enhance the accountability of FRC.

1.2 FRC was established under the Financial Reporting Council Ordinance (Cap. 588) (FRC Ordinance) in 2006 as an independent statutory body to investigate auditing and reporting irregularities and enquire into non-compliance with accounting requirements of listed corporations and collective investment schemes in Hong Kong. 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 FRC Ordinance, 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 (AIB) comprising officers from the FRC Secretariat. 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 (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 PRP

1.4 The terms of reference of PRP are as follows –

- (a) to receive and consider periodic reports from FRC on completed or discontinued cases;

- (b) to receive and consider periodic reports from FRC on investigations and enquiries which have lasted for more than one year;
- (c) to receive and consider periodic reports from FRC on complaints against FRC or its staff;
- (d) to call for files from 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 and to advise FRC on the adequacy of its internal procedures and guidelines where appropriate;
- (e) to advise FRC such other matters relating to FRC's performance of statutory functions as FRC may refer to PRP or on which 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 FRC (the Council). The internal procedures which PRP would make reference to in reviewing 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 PRP is tasked to review and advise FRC on its handling of cases, not its internal operation or administrative matters. Therefore, the work of the committees set up under FRC is not subject to direct review by PRP.

Modus operandi of PRP

1.7 At its first meeting held in mid-November 2008, PRP decided that except for the first review cycle that should start from July 2007 (when FRC became fully operational) until end December 2008, all case review cycles thereafter should run on a calendar year basis.

1.8 Based on FRC's caseload during the relevant review cycle,

PRP would select cases for review at the end of the cycle, and all PRP members would join the case review session(s). The approach for case selection could be reviewed or fine-tuned as PRP proceeds with the case review work.

1.9 PRP members are reminded to preserve secrecy in relation to information furnished to them in the course of PRP's work, and to refrain from disclosing such information to other persons. To maintain the independence and impartiality of PRP, all PRP members would declare their interests upon the commencement of their terms of appointment and before conducting each case review.

Composition of PRP

1.10 At the time of the present review, PRP comprised six members, including the Chairman who is a lay person (i.e. non-accountant) to avoid conflict of interests, the FRC Chairman as an ex-officio member, a member from the accountancy sector, and three other members from the financial and legal sectors.

1.11 The membership of PRP is at [Annex](#).

Follow-up on PRP's recommendation made in the 2012 Annual Report

1.12 In its 2012 Annual Report, PRP recommended that FRC should consider the need to outsource its translation work to relevant professionals in future if internal resources and capabilities are challenged and to invite an appropriate person with relevant expertise to vet the translation work. In response to PRP's recommendation, FRC has introduced a new procedure requiring a complaint officer to consider the need to outsource the translation work when a Chinese translation of the request for information was sought by a listed entity.

1.13 In the same Annual Report, PRP also recommended that if there was a need for FRC to make informal requests for information before a formal investigation was initiated, it should put down a marker in its requests to the effect that if the party concerned was unable to provide the requested information by a specified deadline, the Council may consider initiating an investigation to compel the party to provide the information by law. In response to the recommendation, FRC has

amended its operations procedures to the effect that if a complaint officer was satisfied that there was no reasonable excuse for the relevant party not to comply with the request for information within two months or that the repeated demands by the relevant party for extension of the deadline for complying with the request for information was a delaying tactic, the complaint officer shall take into account such “non-cooperation” as one of the factors in deciding whether to recommend the Council to initiate an enquiry and/or investigation to compel the relevant party to provide the information by law.

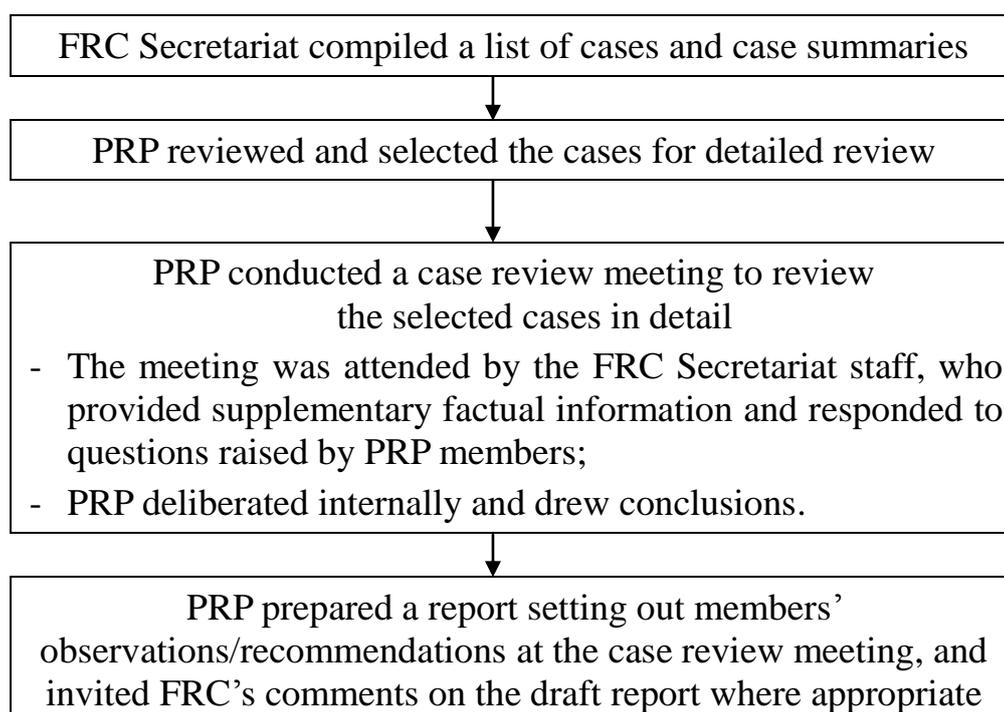
1.14 PRP has noted the follow-up actions taken by FRC in the light of its recommendation made in the 2012 Annual Report.

Chapter 2 : Work of PRP in 2013

2.1 This Annual Report covers the work of PRP in 2013, which reviewed reports from FRC on cases completed by it during the fifth review cycle (i.e. from January to December 2012).

Case review workflow

2.2 The workflow adopted by PRP in reviewing the cases is set out below –



Selection of cases for consideration/review

2.3 The FRC Secretariat advised PRP that FRC had completed 25 cases during the fifth review cycle. The PRP members were provided with summaries of all the 25 cases for review. The distribution of the 25 cases is as follows –

<u>Distribution of cases</u>	<u>Total number</u>
Completed investigation cases	7
Completed cases which involved both investigation and enquiry	2

<u>Distribution of cases</u>	<u>Total number</u>
Unsubstantiated cases	11
Cases referred to other regulatory bodies for follow-up	3
Cases that FRC directly followed up with the relevant listed entity/auditor	2

2.4 Out of the 25 cases, PRP selected nine cases for review –

- (a) two completed investigation cases arising from the review of complaints;
- (b) a completed case arising from the review of complaints which involved both an enquiry and an investigation;
- (c) a completed case which was referred to another regulatory body for follow-up;
- (d) two completed investigation cases arising from the proactive review of financial statements concerning the same listed entity but involving different auditors;
- (e) a completed case arising from the proactive review of financial statements which involved both an enquiry and an investigation;
- (f) an unsubstantiated case arising from the proactive review of financial statements; and
- (g) a completed case followed up directly by FRC with the listed entity.

PRP considered that the selection of these nine cases reflected a good mix of the cases which fell within the fifth review cycle.

Case review session

2.5 After PRP has selected the nine cases for review, and with the assistance of FRC, the PRP Secretariat made preparation for the case review meeting which was held in September 2013 to review the selected cases.

2.6 The PRP Secretariat had invited all members to declare interest before the meeting. Two PRP members had declared their potential conflict of interests with regard to the cases under review. 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. The meeting agreed that for one of the members who had declared interest, since neither the member nor the member's relatives had been personally involved in the cases concerned, there was no apparent conflict of interest and it was not necessary for the member to withdraw from the review. As for the other member, the meeting noted that the member had volunteered to abstain from both the discussion and voting in respect of one case to avoid any perceived conflict of interests having regard to the fact that the Independent Non-Executive Director of a listed entity involved in the case was a family member of the member.

2.7 PRP's observations in respect of the selected cases and its recommendations to FRC are set out in the following chapters.

Chapter 3 : PRP's review of cases handled by FRC

3.1 On the whole, having considered the nine cases reviewed in the fifth cycle, PRP was of the view that FRC had followed its internal procedures in handling the cases.

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

Case facts

3.2 PRP reviewed a complaint case which led to a formal investigation into a suspected auditing irregularity in relation to the audits of the consolidated financial statements of a former listed entity for the years ended 31 March 2001 and 31 March 2002 respectively. The complainant alleged that the auditor concerned had issued audit reports with unmodified audit opinion but failed to identify fictitious documentation and irregular issues during the course of the audits. FRC took 26 months to complete the case and the time taken by FRC to process the case was the longest amongst all cases completed during the fifth review cycle.

FRC actions

3.3 The Council had examined the case and directed AIB to investigate the alleged auditing irregularity. Based on its findings, AIB was of the view that the auditor had not obtained sufficient appropriate audit evidence and had not prepared sufficient and appropriate audit documentation in relation to the audit procedures performed. The Council adopted the investigation report by AIB and referred it to the Hong Kong Institute of Certified Public Accountants (HKICPA) to determine if any disciplinary actions were warranted.

PRP's areas of review

3.4 Based on the case facts outlined above, PRP reviewed the following steps taken by FRC in handling the case –

- (a) initial screening;
- (b) liaising with the listed entity and the audit firm to review the allegations;
- (c) preparing and submitting a complaint assessment report to the Council;

- (d) initiating a formal investigation;
- (e) directing AIB to conduct the investigation;
- (f) preparing and issuing the investigation report by AIB;
- (g) adoption of the investigation report by the Council; and
- (h) referring to another regulatory body for follow-up.

3.5 Noting that some of the audit working papers of the listed entity in question were kept by the Commercial Crime Bureau of the Police Force (CCB), PRP questioned whether there were any existing guidelines on the procedures to follow in respect of the sharing of information between CCB and FRC, and whether such sharing of information might jeopardise the investigation conducted by either party. FRC clarified that CCB had subsequently passed the audit working papers to the complainant, and therefore there was no need for FRC to obtain them from CCB. Nonetheless, the complainant had been informed of FRC's earlier request to CCB for the audit working papers.

3.6 PRP noted that FRC had sent the first requirement to the auditor requesting for information only after more than two months from the receipt of complaint, and asked if there were any reason causing the delay. FRC explained that time was used to ascertain the scope and legal basis of the investigation as the case involved accounts which were audited prior to the establishment of FRC in 2006. PRP also noted that FRC had arranged telephone conversation with the complainant for the purpose of obtaining more background information on the complaint and his allegation, and opined that in future FRC might consider obtaining such information in writing where appropriate to protect the interests of both parties.

3.7 In response to PRP's question on the standard practice for consultation on a draft investigation report, FRC said that it would normally send a draft investigation report to all relevant parties named in the report for comments. FRC would also circulate the draft for comments by an honorary adviser, its in-house legal counsel and, for complex/contentious cases, an external legal adviser engaged by FRC. In response to PRP's question on what information would be passed by FRC to HKICPA for follow-up action, FRC said that all supporting information relating to the findings identified in the investigation would be passed to HKICPA for its consideration on whether to initiate disciplinary actions.

Conclusion

3.8 Having reviewed FRC's handling of the case and taking into account the above clarifications, PRP took the view that, in view of the complexity of the case and the multiple issues involved, it was reasonable for FRC to have taken more than two years to complete the case and concluded that FRC had handled the case appropriately and in accordance with its internal procedures.

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

Case facts

3.9 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 2008. It was alleged that the auditor had not obtained sufficient appropriate audit evidence and had not prepared audit documentation sufficiently. The case was selected by PRP for review because HKICPA had identified the relevant irregularity during its practice review programme and informed FRC of the same while the Disciplinary Committee of the HKICPA had at the same time initiated proceedings against the auditor concerned notwithstanding that FRC had not yet completed its investigation.

FRC actions

3.10 The Council had examined the case and directed AIB to investigate the alleged auditing irregularity. Based on its findings, AIB was of the view that the auditor had not obtained sufficient appropriate audit evidence and had not prepared sufficient and appropriate audit documentation in relation to the audit procedures performed. Besides, AIB opined that both the auditor and the engagement director of the audit had not fully complied with the Code of Ethics for Professional Accountants. The Council adopted the investigation report by AIB and referred it to HKICPA to determine if any disciplinary actions were warranted.

PRP's areas of review

3.11 Based on the case facts outlined above, PRP reviewed the

following steps taken by FRC in handling the case –

- (a) initial screening;
- (b) liaising with the listed entity and the audit firm to review the allegations;
- (c) preparing and submitting a complaint assessment report to the Council;
- (d) initiating a formal investigation;
- (e) directing AIB to conduct the investigation;
- (f) preparing and issuing the investigation report by AIB;
- (g) adoption of the investigation report by the Council; and
- (h) referring to another regulatory body for follow-up.

3.12 PRP noted that HKICPA had made the decision of referring the case to its Disciplinary Committee on the basis of the findings of its practice review programme pursuant to section 32D(5) of the Professional Accountants Ordinance (Cap. 50), without waiting for the completion of FRC's investigation. PRP also noted that to avoid the same situation from happening again, FRC and HKICPA had subsequently reached an agreement in 2012 under which HKICPA would refrain from referring any relevant irregularity identified during its practice review to its Disciplinary Committee for disciplinary action before FRC had completed its investigation into the irregularity.

3.13 In response to PRP's question on the reason for the one-month gap between the receipt of legal advice by FRC and the Council's approval for the initiation of investigation, FRC replied that it was solely due to the time gap before the next Council meeting was scheduled to be held. While it was possible to seek Council's decision to initiate the investigation by circulation of papers, FRC considered it appropriate for the case to be discussed by the Council at a meeting in view of its unique nature.

3.14 PRP noted that the auditor had failed to provide its comments on the draft investigation report within the deadline as required by FRC, and asked if the auditor had applied for an extension of deadline. FRC replied that the auditor had provided its comments within one week after the deadline, and since it was heavily engaged in auditing financial statements during the relevant period, FRC considered that the delay was acceptable.

Conclusion

3.15 Having reviewed FRC's handling of the case and taking into account the above clarifications, PRP took the view that FRC had handled the case appropriately and in accordance with its internal procedures.

(3) Review of a completed case arising from the review of complaints which involved both an enquiry and an investigation

Case facts

3.16 PRP reviewed a complaint case leading to both a formal enquiry into possible non-compliances with accounting requirements and a formal investigation into suspected auditing irregularities in relation to the consolidated financial statements of a listed entity for the year ended 31 December 2008 as well as its audits for the years ended 31 December 2008 and 31 December 2009 respectively.

FRC actions

3.17 Having examined the case, the Council appointed a FRRC to conduct an enquiry. FRRC considered that there were non-compliances with accounting requirements in the relevant financial statements. Based on the results of the enquiry, the Council adopted the report of FRRC. To follow-up on the non-compliances, FRC issued a notice under section 49 of the FRC Ordinance to the listed entity requiring the removal of the relevant non-compliances.

3.18 In respect of the investigation, FRC examined the case and directed AIB to investigate the alleged auditing irregularity. Based on its findings, AIB was of the view that the auditor had failed to plan and perform the audits with an attitude of professional skepticism, and had not obtained sufficient appropriate audit evidence to draw reasonable conclusions on which his audit opinions were based. The Council adopted the investigation report by AIB and referred it to HKICPA to determine if any disciplinary actions were warranted.

PRP's areas of review

3.19 Based on the case facts outlined above, PRP reviewed the following steps taken by FRC in handling the case –

- (a) initial screening;
- (b) liaising with the listed entity and the audit firm to review the allegations;
- (c) preparing and submitting a complaint assessment report to the Council;
- (d) initiating a formal enquiry and a formal investigation;
- (e) appointing and working with FRRC to conduct the enquiry and directing AIB to conduct the investigation;
- (f) preparing and issuing the enquiry report by FRRC and investigation report by AIB;
- (g) adoption of the enquiry and investigation reports by the Council; and
- (h) referring to another regulatory body for follow-up.

3.20 PRP asked whether FRC had any objective guidelines on the relevant parties to be consulted on a draft investigation report. FRC replied that it would normally send a draft investigation report to all relevant parties named in the report for comments. FRC would also circulate the draft for comment by an honorary adviser, its in-house legal counsel and, for complex/contentious case, an external legal adviser engaged by FRC. In case FRC had any queries on the interpretation of accounting standards, it would also seek comments from HKICPA pursuant to a Memorandum of Understanding signed between the two parties. PRP recommended setting out the arrangements between HKICPA and FRC on the interpretation of professional standards in the operations manual for the sake of clarity.

3.21 PRP further noted that a revised draft investigation report had been prepared and circulated for comment in this case. It queried why the auditor, who had been given the opportunity to comment on the draft report previously, was granted a time extension of one month for commenting on the revised draft report. FRC explained that the revised draft investigation report involved substantive changes, e.g. it included a more serious auditing irregularity which was not identified in the earlier draft. Therefore, FRC considered it reasonable to allow more time for the auditor to prepare its response to FRC's findings.

Conclusion

3.22 Having reviewed FRC's handling of the case and taking into account the above clarifications, PRP took the view that FRC had handled the case appropriately and in accordance with its internal procedures.

(4) Review of a completed case which was referred to another regulatory body for follow-up

Case facts

3.23 PRP reviewed a complaint case received by FRC which alleged that there was non-compliance with accounting requirements. Besides, it was alleged that the auditor of the listed entity had failed to obtain sufficient appropriate audit evidence and prepare sufficient and appropriate audit documentation.

FRC actions

3.24 FRC had examined the complaint and issued informal requests to both the listed entity and the auditor for information in relation to the complaint.

3.25 Based on the information and explanations obtained, FRC considered that there was no evidence suggesting that there was any non-compliance with accounting requirements. Besides, FRC considered that there was no evidence suggesting that the auditor had not obtained sufficient appropriate audit evidence to draw reasonable conclusion in relation to the consolidation of the subsidiary in question. Both allegations were not pursued further.

3.26 However, FRC considered that the auditor had not prepared sufficient and appropriate audit documentation to enable another experienced auditor to understand the results of the audit procedures and the audit evidence obtained. Therefore, after considering the complaint assessment report, the Council agreed to refer the identified irregularity to HKICPA for follow-up action.

PRP's areas of review

3.27 Based on the case facts outlined above, PRP reviewed the following steps taken by FRC in handling the case –

- (a) initial screening;
- (b) liaising with the listed entity to review the potential non-compliances and with the auditor on the potential irregularity;
- (c) preparing and submitting a complaint assessment report to the Council; and
- (d) concluding the review and referring the case to another regulatory body for follow-up.

3.28 PRP noted that the Council did not initiate any formal investigation into the identified audit irregularity concerning insufficient audit documentation, but had decided to refer the irregularity to HKICPA for follow-up actions after considering the complaint assessment report. PRP asked if it was because the irregularity was so apparent that a formal investigation was deemed not necessary. FRC said that the Council had decided that it was not necessary to initiate a formal investigation as it considered that the irregularity was apparent and noting the fact that the Practice Review Committee of HKICPA had already looked into the issue. FRC added that it had informed the auditor of FRC's findings and follow-up actions upon completing the case.

3.29 In response to PRP's query on whether FRC might be challenged for not having gone through the statutory due process to initiate an investigation to look into the potential irregularities before referring them to HKICPA, FRC said that under section 9 of the FRC Ordinance, it was empowered to refer cases which it had considered to HKICPA with or without initiating an investigation, while section 51 of the Ordinance allowed FRC to share its findings with HKICPA.

Conclusion

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

(5) Joint review of two completed investigation cases arising from the proactive review of financial statements concerning the same listed entity but different auditors

Case facts

3.31 PRP conducted a joint review on two investigation cases arising from FRC's proactive review of financial statements. The investigation cases related to the financial statements of a listed entity for the years ended 31 December 2007 and 31 December 2008 respectively which were audited by two different auditors. It was alleged that there were possible non-compliances with accounting requirements in the preparation of financial statements, and that the non-compliances were so material that the two auditors might not have formed an appropriate auditor's opinion on the financial statements.

FRC actions

3.32 The Council had examined the cases and directed AIB to investigate the alleged auditing irregularities. AIB was of the view that the issues of non-compliance would have a significant impact on the relevant financial statements and both auditors should have modified their reports on the relevant financial statements in these respects. AIB also identified certain audit documentation issues committed by both auditors in relation to the audits of the relevant financial statements. The Council adopted the two investigation reports by AIB and referred them to HKICPA for follow-up action.

PRP's areas of review

3.33 With the above background, PRP reviewed the following steps taken by FRC in handling the case –

- (a) initial screening;
- (b) liaising with the listed entity and the audit firms to review the allegations;
- (c) preparing and submitting a review assessment report to the Council;
- (d) initiating formal investigations;
- (e) directing AIB to conduct the investigations;
- (f) preparing and issuing the investigation reports by AIB;
- (g) adoption of the investigation reports by the Council; and

- (h) referring to another regulatory body for follow-up.

3.34 FRC advised that since the listed entity involved had changed its auditor, two separate investigations were initiated into the previous and subsequent auditors. PRP enquired about the previous auditor's request for consent from FRC for disclosure of information to the listed entity. FRC explained that the auditor had considered itself duty-bound to inform the listed entity that information pertaining to the audit engagement would be disclosed to FRC, and it had accordingly requested FRC's consent for making such disclosure pursuant to section 51 of the FRC Ordinance, which imposes a statutory requirement of preservation of secrecy except, among others, with FRC's consent.

3.35 On PRP's question about the reason for granting a number of time extensions to the two auditors, FRC explained that most of the accounting issues involved were judgmental and complicated, and it was reasonable to allow more time to the auditors to furnish the information requested by FRC.

Conclusion

3.36 Having reviewed FRC's handling of the cases and taking into account the above clarifications, PRP concluded that FRC had handled the cases in accordance with its internal procedures.

(6) Review of a completed case arising from the proactive review of financial statements which involved both an enquiry and an investigation

Case facts

3.37 PRP reviewed a completed case leading to both a formal enquiry into possible non-compliance with accounting requirements and a formal investigation into a suspected auditing irregularity, which arose from FRC's proactive review of a listed entity's financial statements for the year ended 31 March 2010. Since the enquiry was completed in 2011 and had been reviewed by PRP in the last review cycle, PRP had focused its review on the completed investigation concerning the audits of the consolidated financial statements of the listed entity for the years ended 31 March 2008 and 31 March 2009 respectively in the present review.

FRC actions

3.38 FRC had examined the case and the Council had directed AIB to investigate the alleged auditing irregularity. Based on its findings, AIB was of the view that there was non-compliance with accounting requirements which was material to the relevant financial statements. Therefore, the auditor's reports on the relevant financial statements should have been modified in this respect. Besides, AIB considered that the auditors had not prepared sufficiently detailed audit documentation. The Council adopted the investigation report by AIB and referred it to HKICPA to determine if any disciplinary actions were warranted.

PRP's areas of review

3.39 Based on the case facts outlined above, PRP reviewed the following steps taken by FRC in handling the case –

- (a) initial screening;
- (b) liaising with the listed entity and the audit firm to review the allegations;
- (c) preparing and submitting a review assessment report to the Council;
- (d) initiating a formal investigation;
- (e) directing AIB to conduct the investigation;
- (f) preparing and issuing the investigation report by AIB;
- (g) adoption of the investigation report by the Council; and
- (h) referring to another regulatory body for follow-up.

3.40 After FRC's brief presentation of the case, PRP noted FRC's handling of this case and had raised no question.

Conclusion

3.41 Having reviewed FRC's handling of the case, PRP took the view that FRC had handled the case appropriately and in accordance with its internal procedures.

(7) Review of an unsubstantiated case arising from the proactive review of financial statements

Case facts

3.42 Among the 11 completed cases whereby the allegations were unsubstantiated, PRP selected one case for review to consider if the case had been handled in accordance with FRC's internal procedures. The chosen case involved –

- (a) possible non-compliance in the fair value measurement of the convertible notes; and
- (b) possible auditing irregularity in the audit of fair value measurement and disclosures, and the use of the work of an expert and the audit opinion.

FRC actions

3.43 FRC had sought clarification from the listed entity and the auditor regarding the accounting treatment used in the financial statements and the audit procedures performed. Taking into account their observations, FRC considered that there was no apparent non-compliance with accounting requirements in the financial statements. FRC also considered that there was no apparent auditing irregularity. The Council decided not to pursue the case further.

PRP's areas of review

3.44 With the above background, PRP reviewed the following steps taken by FRC in handling the case –

- (a) initial screening;
- (b) liaising with the listed entity and the auditor to review the allegations;
- (c) preparing and submitting a review assessment report to the Council; and
- (d) closing the case.

3.45 FRC highlighted that a time extension was granted to the listed entity for preparing information requested by it because the director of the listed entity concerned had been out of town when the request was issued. PRP enquired about the reason for FRC to spend almost two months to prepare the review assessment report. FRC advised that

under its standard procedures, a draft report would be considered by Operations Oversight Committee (OOC) before it was submitted to the Council for consideration. In this particular case, FRC had taken some time to revise the report having regard to OOC members' comments before submission to the Council.

Conclusion

3.46 Having reviewed FRC's handling of the case and taking into account the above clarification, PRP concluded that FRC had handled the case in accordance with its internal procedures.

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

Case facts

3.47 The case arose from a proactive review of financial statements by FRC. It involved a potential non-compliance with accounting requirements in the financial statements of a listed entity concerning an acquisition made by the entity.

FRC actions

3.48 FRC had sought clarification from the listed entity and considered that there was no apparent non-compliance with accounting requirements and the issue was not pursued further. FRC also noted that there was a minor non-compliance issue which had been restated in the subsequent financial statements. Accordingly, the issue was not pursued further.

3.49 In respect of a disclosure deficiency in the financial statements, FRC had reminded the listed entity that it should have provided further information in its financial statements.

PRP's areas of review

3.50 PRP noted the issues involved in the selected case and reviewed the following steps taken by FRC in handling the case –

- (a) initial screening;
- (b) liaising with the listed entity to review the potential

- non-compliance with accounting requirements;
- (c) preparing and submitting a review assessment report to the Council; and
- (d) following up directly with the listed entity with advice.

3.51 PRP asked whether it was appropriate to only draw the attention of the listed entity to the disclosure deficiency instead of taking formal follow-up actions. FRC explained that since the identified non-compliance only represented a deficiency in disclosure and had no impact on the financial information presented in the financial statements, FRC had decided that it was not necessary to initiate an enquiry case. In response to PRP's query on the reason for FRC to spend almost two months to submit the review assessment report to the Council for consideration, FRC advised that the time was required for preparation of the report and for seeking OOC's endorsement in accordance with its standard procedures.

Conclusion

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

Chapter 4 : Recommendations and way forward

4.1 During the review, PRP performed its functions through reviewing reports from FRC on nine completed cases during the review cycle. PRP concluded that FRC had handled the cases in accordance with its internal procedures, but recommended FRC to consider setting out in its operations manual the procedural arrangements between HKICPA and FRC on the interpretation of professional standards in case FRC had any queries.

4.2 FRC accepted PRP's recommendation above and will take appropriate follow-up actions. While the procedural arrangements between HKICPA and FRC have been set out in the Memorandum of Understanding between the two parties, FRC agreed to set out these arrangements in its operations manual.

4.3 PRP will continue its work on the review of completed cases to ensure that FRC adheres to its internal procedures consistently. For 2014, PRP will select cases that FRC has completed during the period between January and December 2013 for review.

4.4 Comments on the work of PRP can be referred to the Secretariat of PRP for FRC by post (Address: Secretariat of PRP for FRC, 15th Floor, Queensway Government Offices, 66 Queensway, Hong Kong) or by email (email address: frcprp@fstb.gov.hk)¹.

¹ For enquiries or complaints not relating to the review work of FRC, they should be made to FRC directly –
By post : 29th 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

Chapter 5 : Acknowledgement

5.1 PRP would like to express its gratitude to FRC for its assistance in facilitating the review work, and its co-operation in responding to PRP's enquiries and recommendations in the past year.

**Secretariat of the Process Review Panel
for the Financial Reporting Council
April 2014**

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

2013 Membership

Chairman

Mr. Edmund K H LEUNG, SBS, JP (梁廣灝)

Members

Ms. Angelina Agnes KWAN (關蕙)

Ms. Elizabeth LAW, MH, JP (羅君美)

Mr. Peter LO Chi-lik (羅志力) (until 31 October 2013)

Mr. Joseph PANG Yuk-wing, JP (彭玉榮) (until 31 October 2013)

Mr. Vincent KWAN (關永盛) (from 1 November 2013)

Mr. Anthony CHOW, SBS, JP (周永健) (from 1 November 2013)

Mr. John POON, JP (潘祖明), ex-officio member

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