

## Press Release

5 July 2024

### **AFRC analyses trading suspensions of listed entities due to delays in preliminary annual results announcements and calls for continued efforts to uphold high-quality audits and financial reporting**

The AFRC today has published a report titled [\*Analysis of Listed Entities Suspended from Trading Due to Delay of Preliminary Annual Results Announcement\*](#). This report presents the AFRC's analysis and observations of trading suspensions among listed entities in Hong Kong caused by delays in the publication of their preliminary annual results (**Suspended Stocks**). Additionally, the report provides clear recommendations for public interest entity (**PIE**) auditors, audit committees, and management of listed entities.

As of 2 April 2024, a total of 66 listed entities with December year-end were suspended from trading due to their failure to publish their preliminary 2023 annual results by 31 March 2024 (**2023 Suspended Stocks**). This represents a 12% increase from 59 listed entities (**2022 Suspended Stocks**) in the previous year.

Among the 2023 Suspended Stocks, the most common reasons were:

- i. "Still in the process of finalising financial statements or collecting necessary information and documents for audit" (42%);
- ii. "Additional time required for audit on specific matters" (30%); and
- iii. "Identification of suspicious transactions that required further investigation" (17%).

Based on our analysis of the Suspended Stocks, there are six major concerns:

1. Ineffective internal control and oversight by PIEs and their audit committees to ensure timely and quality financial reporting of the listed entities. This presents challenges to PIE auditors to conduct a quality audit under immense time pressure.
2. A lack of effective two-way communication between audit committees and PIE auditors to ensure timely identification and resolution of those audit matters.
3. Vulnerability of opinion shopping by listed entities whose management chose to appoint new auditors instead of addressing concerns raised by the outgoing auditors.
4. The Suspended Stocks switched their auditors from relatively larger to smaller firms with poor track records in external inspections.
5. Overuse of disclaimer of opinions as a risk minimisation mechanism by PIE auditors may diminish the level of assurance of the report.
6. Audit planning was not conducted early enough to identify and resolve issues.

Ms Janey Lai, CEO of the AFRC says, “The analysis found the number of listed entities that had delayed their preliminary annual results announcement because they were still finalising the financial statements or were in the process of collecting necessary information and documents for the audit increased from 15 of the 2022 Suspended Stocks to 28 of the 2023 Suspended Stocks. In percentages, this represents an increase from 25% to 42%. In such circumstances, it is apparent that auditors would face significant challenges in completing the audit by the 31 March deadline.”

Furthermore, the AFRC notes that PIE auditors issued disclaimer of opinions solely in relation to going concern for six 2023 Suspended Stocks and nine 2022 Suspended Stocks. While this disclaimer of opinion does not result in the suspension of trading for listed entities, the AFRC reminds all investors and other financial statement users that a disclaimer of opinion indicates the PIE auditor's inability to form an opinion on the listed entity's financial statements as a whole.

The AFRC expects auditors, management of listed entities, and audit committees to continue upholding their critical roles in safeguarding the quality of financial reporting through collaborative efforts. This can be achieved by fostering frequent and direct communication among all parties and implementing early audit planning to facilitate an early detection of any audit issues and their resolution.

Dr Kelvin Wong, Chairman of the AFRC, underscores the pivotal role of PIE auditors as flagbearers for auditing and financial reporting quality, “There is a strong public interest to understand the reasons for the suspension and resumption of trading in order to ensure sound investment decision. Suspensions may indicate the existence of operational issues which necessitates additional time and effort to address. PIE auditors, management and audit committees of the listed entities must continue to effectively fulfil their responsibilities as gatekeepers in the trading resumption process and prioritise audit quality over other considerations. In this way, PIE auditors, management and audit committees of the listed entities can uphold the integrity of the audit process, provide assurance on the reliability of financial statements, and ultimately maintain investor confidence in Hong Kong's capital markets.”

End

## About the Accounting and Financial Reporting Council

The Accounting and Financial Reporting Council is an independent body established under the Accounting and Financial Reporting Council Ordinance. As an independent regulator, AFRC spearheads and leads the accounting profession to constantly raise the level of quality of professional accountants, and thus protects the public interest and promotes the healthy development of the accounting profession.

For more information about the statutory functions of the AFRC, please visit [www.afrc.org.hk](http://www.afrc.org.hk).

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