

The Financial Reporting Council publishes its 2010 Annual Report

(March 31, 2011, Hong Kong) The Financial Reporting Council (FRC) publishes its [annual report](#) for the year ended 31 December 2010 today.

Operational review

	2010	2009
Number of complaints received	9	13
Number of modified auditors' reports screened	142	129
Number of enquiries initiated	2	2
Number of investigations initiated	4	4

Commenting on the overall operation of the FRC in 2010, Ms. Sophia Kao, Chairman of the FRC, said: "2010 was another busy year for the FRC in both a reactive and proactive sense. Although the number of complaints lodged with the FRC dropped, there was a rise in the number of modified auditors' reports issued on the financial statements of listed companies. Also, the number of investigation cases which we were handling doubled in number as a result of large scale cases that were carried over from 2009 and new cases taken on in 2010. The investigation cases initiated at the end of 2009 involved complex accounting and auditing issues over multiple years and would take a longer time to complete. Nevertheless, we expect all of them to be completed in 2011."

In relation to the modified auditors' report issued and reviewed in 2010, Dr. P.M. Kam, Chief Executive Officer of the FRC, commented, "Approximately 28% of all modified auditors' reports issued involved insufficient information and 10% related to the lack of proper books and records. We are of the view that some of the qualifications can be eliminated through early communication and discussion involving the auditors, the audit committees and company management to enable a better understanding of the accounting issues. Sufficient time must also be allowed so that the required information can be gathered."

The FRC completed an enquiry and published its report in March 2010. The enquiry resulted in the rectification of the non-compliance by the listed company in its financial statements for the subsequent year.

As for investigations, the FRC published two reports in August 2010 and March 2011. Both investigation reports were referred to the Hong Kong Institute of Certified Public Accountants for follow-up action.

Looking Forward

To enhance the effectiveness and the coverage of our proactive review, a new risk-based financial statements review programme was introduced in January 2011. This extends our original scope of work to include the review of financial statements with unqualified auditors' reports.

Dr. Kam said, "While most of the cases will be selected as part of the specific themes that we may be focusing on at the time, some of the cases will be selected on a random basis. Under this review programme, any listed company can be selected for review. For 2011, we expect to review financial statements of approximately 5% of the listed companies."

"With the introduction of a scheme in December 2010 that allows Mainland incorporated companies listed in Hong Kong to prepare their financial statements using Mainland accounting standards and to engage the services of approved Mainland audit firms, the financial statements of listed companies which opted for Mainland accounting standards will also be reviewed as part of our new programme." Ms. Kao added.

Ms. Kao concluded, "The FRC will continue to work with other regulators in both Hong Kong and the PRC to uphold the quality of financial reporting in Hong Kong, enhance protection for investors and increase investors' confidence."