

## Press Release

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### AFRC issues 2022 Annual Investigation and Compliance Report

The Accounting and Financial Reporting Council (AFRC) today issues its [2022 Annual Investigation and Compliance Report \(Annual I&C Report\)](#), covering the 12 months from 1 April 2021 to 31 March 2022.

Mr Marek Grabowski, CEO of the AFRC remarked, "The Annual I&C Report provides insights on common areas of misconduct in the work of listed entity auditors and financial reporting non-compliance in financial statements of listed entities. We urge auditors to pay attention to these key findings and observations and take actions to address them so as to improve audit quality. The board and management of listed entities and audit committees should seriously consider our findings and recommendations to ensure that high-quality financial reporting is upheld."

#### Highlights of the Annual I&C Report:

The AFRC received 101 pursuable complaints during the 12 months ended 31 March 2022. It also evaluated 62 investigations and enquiries brought forward from 31 March 2021, initiated 46 new cases, and completed 9 cases.

Speaking at the press briefing, Ms Wincey Lam, Head of Investigation and Compliance, said, "During the year, there has been a significant increase of 51% in complaints received about potential misconduct of auditors or potential non-compliance with financial reporting requirements by listed entities, in particular from whistleblowers and other regulators, as compared to the 18-month period ended 31 March 2021. This indicates increased public awareness of the channel of filing complaints and boosted confidence in the AFRC's regulatory mission and follow-up actions."

The AFRC identified the following most common areas of auditing irregularities:

- i) deficient engagement quality control review in respect of significant judgments made and conclusions reached by the engagement team (87%);
- ii) failing to obtain sufficient appropriate audit evidence on which to base the audit opinion (80%);
- iii) lack of professional skepticism and appropriate professional judgment (68%);  
and

- iv) insufficient evaluation of the reasonableness of complex accounting estimates (47%) and the adequacy of work performed by the auditor's expert (23%).

These irregularities might result in undetected material misstatements or fraud in financial statements, leading investors to make misinformed investment decisions.

Areas requiring significant judgments and estimates to be made by the management in relation to financial instruments, impairment of assets and fair value measurement, and going concern assessment and reporting were identified as the most common areas of financial reporting non-compliance.

Concluding the press briefing, Dr Kelvin Wong, Chairman of the AFRC remarked, "Being the independent regulator of the accounting profession, we spearhead and lead the accounting profession to constantly raise the level of quality of professional accountants, and thus protect the public interest. Our regulatory reports, including this Annual I&C Report, focus not just on information sharing but also on education. This is one of the many ways that the AFRC creates positive ripple impacts in upholding the quality of financial reporting and audits, based on which public confidence in the integrity of the financial market is enhanced."

End

## About the Accounting and Financial Reporting Council

The Accounting and Financial Reporting Council (AFRC) 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.

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

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