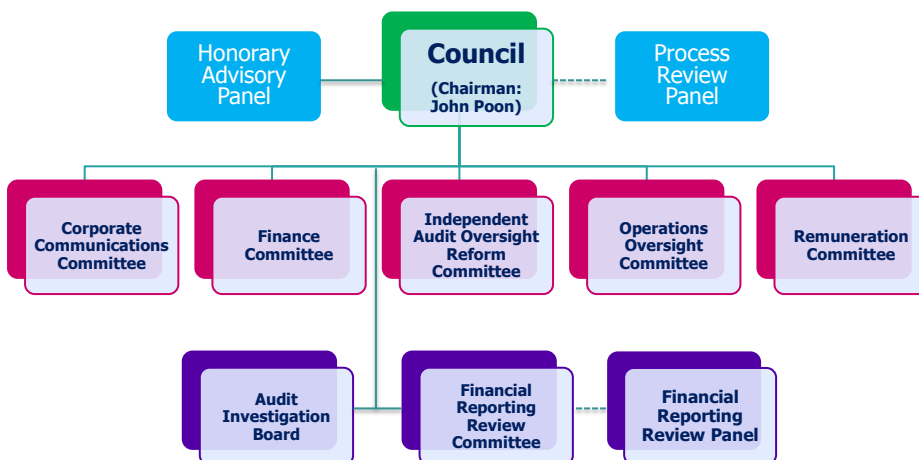




Impartiality, transparency and simplicity



Operations review



New initiatives to enhance operations

- Modified our risk-based financial statements review programme
- Enriched the contents of our website to attract visitors

Achievements

- Process Review Panel concluded that the FRC had handled all cases in accordance with internal procedures (PRP 2013 report)
- Multi-level collaboration
 - Regular meetings with other regulators
 - Participated in local and global conferences
 - Co-organized the 3rd Joint Financial Reporting Forum
- Keeping the public informed
 - Issued eNews and other periodic publications
 - Created a new “FRC Decisions” section on FRC website
 - Placed ebanner advertisements on finance websites

Financial review

	2013	2012
	HK\$m	HK\$m
Income	19.4	18.2
Expenditure		
Staff cost	15.7	13.9
Legal and professional fees	0.6	0.8
Corporate Communications Expenses	1.0	0.8
Audit oversight research and related expenses	2.4	-
Depreciation charge	0.1	0.1
Other operating expenses	0.8	0.6
	20.6	16.2
(Deficit)/surplus	(1.2)	2.0

Work sources



- Complaints / referrals
- Media reports
- Modified auditors' reports
- Risk-based financial statements review programme

Key operations statistics

	2009	2010	2011	2012	2013
Pursuable complaints received	13	9	7	19	20
Modified auditors' report screened	129	142	131	138	168
Financial statements selected for review	-	-	70	75	75
Investigations completed	1	1	5	9	5
Enquiries completed	3	1	2	1	2

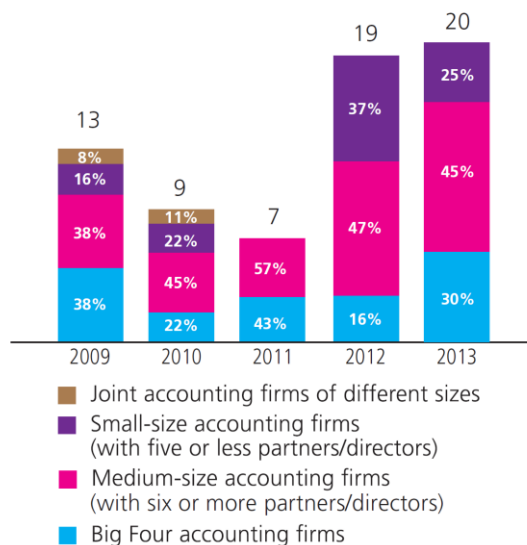
Review of complaints

	1/1/2014 – 31/3/2014	2013	2012
Brought forward	22	5	1
Pursuable complaints received	24	20	19
Suspended complaints	-	(1)	-
Recommended complaints	-	3	-
Completed with no follow-up action	(6)	(1)	(4)
Referred to other regulators	-	-	(2)
Initiated investigation/enquiry	(5)	(4)	(9)
In progress at end of period	35	22	5

Source of pursuable complaints

	2013	2012
Complaints from the public	3	1
Complaints from HKEx	13	4
Complaints from HKICPA	1	12
Complaints from SFC	2	1
Complaints from both SFC and the public	1	-
Complaints from HKMA	-	1
	20	19

Firms involved in pursuable complaints

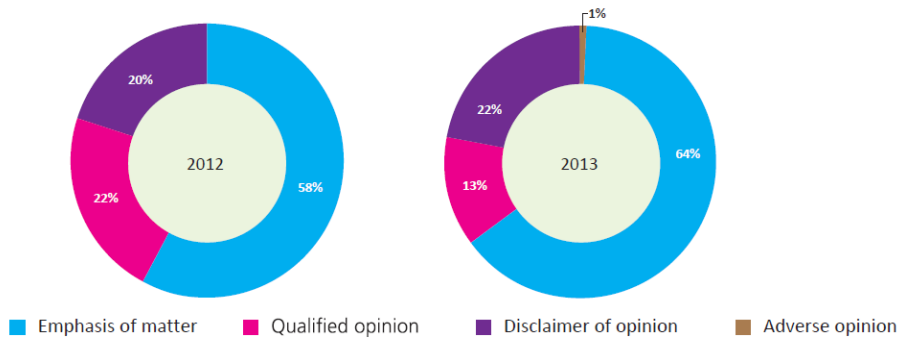


Review of modified auditors' reports

	1/1/2014 – 31/ 3/2014	2013	2012
Screened during the period	30	168	138
Brought forward	13	3	1
Initiated in the period	8	68	63
Completed without follow-up action	(10)	(57)	(60)
Required review of full set of financial statements	-	(1)	(1)
Required follow-up action	(3)	-	-
In progress at end of period	8	13	3

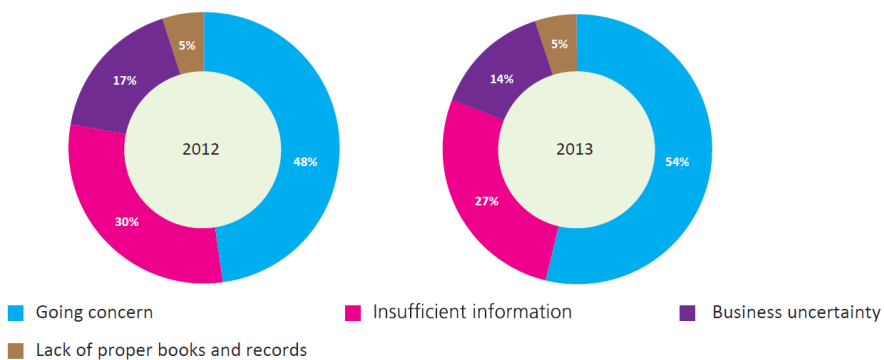
Review of modified auditors' reports

Analysis by modification



Review of modified auditors' reports

Analysis by issues

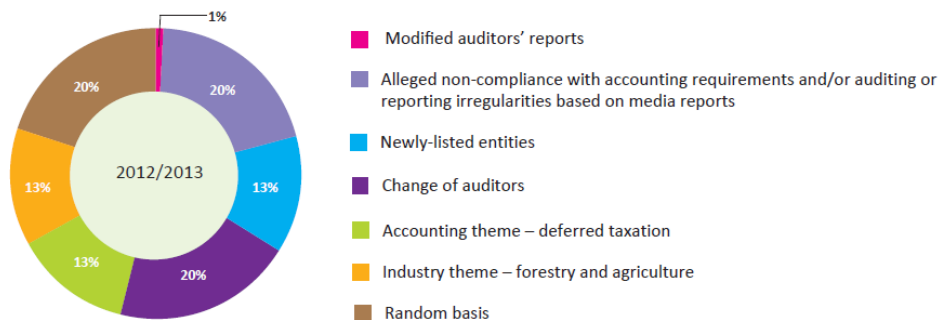


Risk-based financial statements review programme

	1/1/2014 – 31/3/2014	2013	2012
Brought forward	42	62	56
Initiated based on review of modified auditors' reports	-	1	1
Initiated based on other selection criteria	2	32	74
Completed with no follow-up action	(9)	(24)	(41)
Issued letters of advice	(3)	(9)	(14)
Required follow-up review	(3)	(20)	(14)
In progress at end of period	29	42	62

Risk-based financial statements review programme

Breakdown by selection criteria



Risk-based financial statements review programme

Breakdown by selection criteria



Investigations

	1/1/2014 – 31/3/2014	2013	2012
Brought forward	10	8	8
Initiated in the period	5	7	9
Completed	(1)	(5)	(9)
In progress at end of period	14	10	8

Enquiries

	1/1/2014 – 31/3/2014	2013	2012
Brought forward	1	3	1
Initiated in the period	-	-	3
Completed	(1)	(2)	(1)
In progress at end of period	-	1	3

Key issues and findings

- Non-compliance relating to
 - business combinations
 - impairment of assets
 - deferred tax
 - disclosure deficiencies
- Audit / reporting irregularities relating to
 - professional scepticism
 - sufficiency and appropriateness of audit evidence
 - audit documentation
 - engagement quality control

Preparation for audit regulatory reform in Hong Kong

- Assisted the Government to develop proposals for reform
- Publicized our report on independent audit oversight on 10 October 2013

Looking forward

- Continue to promote confidence in the integrity of financial reporting
- Maintain multi-level collaboration with other regulators in an open and cooperative manner
- Continue to support the independent audit oversight reform in Hong Kong



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