

Press release
LCQ13: Regulation of accounting firms
Wednesday, February 27, 2013

Following is a question by the Hon Kenneth Leung and a written reply by the Secretary for Financial Services and the Treasury, Professor K C Chan, in the Legislative Council today (February 27):

Question:

One of the functions of the Financial Reporting Council (FRC), established in 2006, is to conduct independent investigations into possible auditing and reporting irregularities in relation to listed entities. Any irregularities identified by FRC will be referred to the Hong Kong Institute of Certified Public Accountants (HKICPA) for follow-up action. The corresponding supervision over the audit work performed on unlisted entities is undertaken by HKICPA. Some practising accountants have relayed to me that they are facing a cut-throat business environment, and many accounting firms which perform audit work on both listed and unlisted audit clients are facing a dual regulatory regime (i.e. regulation by FRC and HKICPA), which has sharply escalated the time and administrative costs of these firms in this respect. In this connection, will the Government inform this Council what measures it has taken or will take to rationalise the dual regulatory regime in order to alleviate the burden on accounting firms?

Reply:

President,

To enhance Hong Kong's status as an international financial centre, it is important that Hong Kong maintains an effective regulatory regime for the accounting profession on par with international standards and practices. This helps enhance market confidence in our financial reporting and corporate governance. To this end, the Financial Reporting Council (FRC) was established in 2006 under the Financial Reporting Council Ordinance (Cap. 588), following public consultations and thorough discussions among the Government, the Hong Kong Institute of Certified Public Accountants (HKICPA), the Securities and Futures Commission and the Hong Kong Exchanges and Clearing Limited. This is in line with the international trend towards making the oversight of auditors and financial reporting of listed entities more independent from the accounting profession.

Under the present statutory regulatory regime, FRC is responsible for investigating possible auditing and reporting irregularities in relation to listed entities and enquiring possible non-compliance with accounting requirements of listed entities, whilst HKICPA is responsible for all other regulatory functions with regard to the accounting sector, including inter alia the supervision of accounting firms providing services for listed and non-listed entities. FRC would conduct investigation on auditing and reporting irregularities in relation to listed entities. HKICPA would conduct investigation on auditing and reporting irregularities in relation to non-listed entities. There is no duplication between the statutory roles of FRC and HKICPA with regard to the regulation of accounting professionals.

To ensure co-ordinated efforts in overseeing the auditors and financial reporting of listed entities, FRC and HKICPA hold regular meetings to discuss matters of common interests. Specifically, FRC maintains regular dialogues with HKICPA to ensure that there will not be any overlap of efforts in reviewing financial reports of listed entities under their respective financial report review programmes.

Having regard to the international trend of enhancing the independence of regulatory regimes for the accounting profession, the Government would join hands with FRC and HKICPA to formulate proposals to further enhance the independence of the auditor oversight regime for listed companies. We will take into account the need to enhance effective enforcement and minimise compliance burden in mapping out the reform proposals with FRC and HKICPA for public consultation.

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