

**Investigation Policy Statement of the Financial Reporting Council for  
PIE engagements completed before the commencement date of  
the FRC (Amendment) Ordinance 2019 (i.e. before 1 October 2019)**

**What is a “relevant irregularity”?**

The Financial Reporting Council (FRC) may initiate an investigation into a possible relevant irregularity.

Relevant irregularity means an auditing or reporting irregularity. It is defined in [section 4 of the Financial Reporting Council Ordinance \(FRCO\)](#).

An auditing or reporting irregularity exists if an auditor in respect of the audit of the financial statements of a listed entity or a reporting accountant in respect of the preparation of an accountants’ report required for a listing document:

- (a) falsified or caused to be falsified a document;
- (b) made a statement, in respect of a document, that was material and that he knew to be false or did not believe to be true;
- (c) has been negligent in the conduct of his profession;
- (d) has been guilty of professional misconduct;
- (e) did or omitted to do something that would reasonably be regarded as bringing or likely to bring discredit upon the auditor or reporting accountant himself, the Hong Kong Institute of Certified Public Accountants (HKICPA) or the accountancy profession;
- (f) failed to comply with a professional standard i.e. any (i) statement of professional ethics; or (ii) standard of accounting, auditing and assurance practices, as issued or specified by the council of the HKICPA from time to time; or
- (g) refused or neglected to comply with the provisions of any bylaw or rule made or any direction lawfully given by the council of the HKICPA.

Please note the above is not an exhaustive list. For further information, please refer to [section 4 of the FRCO](#).

## Procedures

1. The FRC may initiate an investigation into possible auditing and reporting irregularities committed by auditors and reporting accountants of listed entities, upon receipt of a complaint or otherwise.
2. In order to decide whether or not an investigation should be initiated, the available information and evidence will be reviewed. The auditor, reporting accountant, and/or listed entity concerned may be asked to provide additional information and an explanation on the matters.

### ***Discretion to initiate an investigation***

3. Where the FRC considers that it appears that there are circumstances suggesting or it has reasonable cause to believe that there is or may be an accounting/reporting irregularity, and certifies in writing to this effect, the FRC may initiate an investigation. The FRC needs to determine whether the investigation is initiated on the grounds of “circumstances suggesting” or “reasonable cause to believe” in order to establish the powers of an investigator.
4. The FRC will normally direct the Audit Investigation Board (AIB) to act as the investigator and conduct an investigation but in exceptional circumstances, may decide to conduct the investigation itself.

For further information, please refer to [section 23 of the FRCO](#).

### ***Exercising general powers of investigation***

5. If an investigation is initiated on the grounds of “circumstances suggesting”, the AIB<sup>1</sup> may, in writing, require certain persons such as auditors or reporting accountants, listed entities and their current or past officers or employees, authorised institutions or transaction counterparts:
  - (a) to produce records or documents;

- (b) to explain or make a statement regarding records or documents produced and to verify their explanation or statement by a statutory declaration;
- (c) to state the whereabouts of any missing records or documents and to verify their statement by a statutory declaration;
- (d) to make copies or record the details of records or documents produced; and
- (e) if an explanation or statement is not given or made for the reason that the information concerned is not within their knowledge or possession, to verify that reason and fact by a statutory declaration.

The AIB<sup>1</sup> is required to certify that certain conditions as set out in the FRCO are satisfied; for example, the AIB<sup>1</sup> has reasonable cause to believe that a person is in possession of records or documents that relate to the audit of the accounts or the preparation of the accountants' report of the listed entity; and the relevant records or documents required to be produced is relevant to the relevant irregularity.

For further information, please refer to [sections 25, 26 and 27 of the FRCO](#).

6. If an investigation is initiated on the grounds of “reasonable cause to believe”, the AIB<sup>1</sup> may, in writing, require the auditors, reporting accountants or any other persons whom the AIB<sup>1</sup> has reasonable cause to believe to be in possession of records, documents or information relevant to the relevant irregularity:
  - (a) to produce records or documents;
  - (b) to attend interviews and answer questions;
  - (c) to respond to written questions;
  - (d) to give the AIB<sup>1</sup> all other assistance in connection with the investigation;
  - (e) to explain or give further particulars regarding records or documents produced;

- (f) to verify their answer, response, explanation or particulars given under (a) to (e) by a statutory declaration; and
- (g) if an answer, response, explanation or particulars is not given for the reason that the information concerned is not within their knowledge or possession, to verify that reason and fact by a statutory declaration.
- For further information, please refer to [section 28 of the FRCO](#).
7. Where any person, without reasonable excuse, fails to comply with a requirement imposed on him or provides false or misleading information, he may commit an offence. The AIB<sup>1</sup> may also apply to the Court of First Instance for an inquiry into this failure. Any person convicted may be subject to a fine and/or imprisonment. For further information, please refer to [sections 31 and 32 of the FRCO](#).
8. If there are reasonable grounds to suspect that there is, or is likely to be, on premises any records or documents required to be produced in accordance with the FRCO as set out above, the AIB<sup>1</sup> may apply for a search warrant to enter the premises and seize the records or documents. For further information, please refer to [section 34 of the FRCO](#).

### ***Concluding an investigation***

9. As soon as practicable after the completion of an investigation, the AIB<sup>1</sup> will prepare a written report on its findings.
10. The FRC may adopt an investigation report and may take or order further action as appropriate before the report is adopted. If before the adoption of a report, the FRC is of the opinion that any person named in the report will be adversely affected by its publication or disclosure, that named person will be given a reasonable opportunity of being heard.
11. The FRC may close a case, suspend an investigation or carry out other follow-up action including referral to appropriate regulatory bodies and/or law enforcement agencies as it considers appropriate. The FRC will notify the relevant auditor or reporting accountant once it comes to a decision unless it is satisfied that the notification may prejudice the investigation,

or any other action which the FRC, a regulatory body and/or law enforcement agency intends to take in relation to the investigation. For further information, please refer to [sections 35 and 36 of the FRCO](#).

12. The function of the FRC, in relation to auditing and reporting irregularities, is confined to investigation and reporting the findings of its investigations. The FRC is not empowered to carry out disciplinary action or prosecution.
13. The FRC may refer its investigation reports to the HKICPA for follow-up action. If the irregularities related to the Listing Rules, the reports may be referred to The Stock Exchange of Hong Kong Limited or the Securities and Futures Commission for follow-up action. The reports may also be referred to other regulatory bodies and/or law enforcement agencies for necessary follow-up action as appropriate.
14. The FRC may decide to publish a report or any part of it. In deciding whether or not to publish an investigation report, or any part of it, the FRC shall consider:
  - (a) whether or not the publication may adversely affect any criminal proceedings or any proceedings before the Market Misconduct Tribunal or under the Professional Accountants Ordinance that have been or are likely to be instituted;
  - (b) whether or not the publication may adversely affect any person named in the investigation report; and
  - (c) whether or not the investigation report, or any part of the report, shall be published in the interest of the investing public or in the public interest. For further information, please refer to [section 35 of the FRCO](#).

*Footnote:*

<sup>1</sup>In a case where the FRC decides to conduct the investigation itself, the references to “the AIB” should be replaced with “the FRC”.