

Press Release  
3 June 2015

### Completed investigation

On 14 May 2015, the FRC adopted the investigation report relating to the quality control system of an auditor in relation to the audits of the consolidated financial statements of three listed entities (**the Relevant Audits**).

The Audit Investigation Board (**the AIB**) found that the auditor failed or neglected to observe, maintain or otherwise apply certain professional standards relating to its system of quality control for engagement documentation at the time of the Relevant Audits. The AIB also found that the director responsible for the listed entities' audits in the firm failed to act diligently in accordance with applicable technical and professional standards.

The investigation report has been referred to the Hong Kong Institute of Certified Public Accountants (**the HKICPA**) to determine if any disciplinary actions are warranted.

On 16 January 2014, the FRC directed the AIB to conduct an investigation relating to the auditor's system of quality control for engagement documentation.

The AIB found that the director responsible for the listed entities' audits was unable to provide a copy of the firm's quality control manual or other substantive evidence to support that a system of quality control relating to engagement documentation was in place at the time of the Relevant Audits.

The engagement documentation for the Relevant Audits was claimed to be stored at the premises of a company, which provided storage service to the auditor (**the Storage Company**). The AIB was told that certain documents were lost in transit during the delivery from the Storage Company and the director responsible for the listed entities' audits was denied access to the other documents due to a dispute with the Storage Company.

The AIB considered that:

- (a) The auditor failed to maintain the safe custody, accessibility and retrievability of engagement documentation in relation to the listed entities' audits, which were non-compliances with paragraphs 46, A57 and A58 of Hong Kong Standard on Quality Control 1 *Quality Control for Firms that*

*Perform Audits and Reviews of Financial Statements, and Other Assurance and related Service Engagements (HKSQC 1).*

- (b) The director responsible for the listed entities' audits failed to establish policies and procedures to ensure a system of quality control relating to engagement documentation was in place in accordance with paragraph 18 of HKSQC 1 at the time of the Relevant Audits.

It is fundamental to establish and maintain a system of quality control in ensuring the firm and its personnel comply with professional standards and applicable legal and regulatory requirements. The AIB found that the repeated failure to maintain the safe custody and accessibility of engagement documentation evidences that the director responsible for the listed entities' audits failed to act diligently under applicable technical and professional standards when providing professional services in accordance with section 130.1 of the Code of Ethics for Professional Accountants.

On 14 May 2015, the FRC adopted the investigation report prepared by the AIB, which summarized the findings of the investigation. The investigation report has been referred to the HKICPA to determine if any disciplinary actions are warranted. Names of the relevant parties are withheld pending the conclusion of such disciplinary proceedings, if any.

The AIB is chaired by the Chief Executive Officer and its members are full-time staff of the FRC.

— End —

## **Note to editors**

### **About the FRC**

The FRC is a statutory body established in December 2006 under the Financial Reporting Council Ordinance. The FRC is entrusted with the statutory responsibilities to conduct independent investigations into possible auditing or reporting irregularities in relation to listed entities and to enquire into possible non-compliance with accounting requirements on the part of listed entities. The FRC has 11 members with a variety of professional backgrounds and the majority of whom, including the Chairman, are lay persons. For more information, please visit [www.frc.org.hk](http://www.frc.org.hk).