

**Press Release**

**22 July 2016**

**Completed investigation**

On 14 July 2016, the FRC adopted the investigation report on the audit of the consolidated financial statements of a former listed entity for the year ended 31 May 2006 (**the 2006 Financial Statements**). The former listed entity was subject to investigation by specified enforcement agency.

The Audit Investigation Board (**the AIB**) found that the auditor failed or neglected to observe, maintain or otherwise apply a number of professional standards in the audit relating to impairment assessment of assets and sales and purchase transactions of the former listed entity's trading operations.

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 13 March 2014, the FRC directed the AIB to conduct an investigation on the audit of the 2006 Financial Statements.

As a result of the investigation, the AIB found the following auditing irregularities:

(a) Impairment assessment of intangible assets

The auditor failed to perform or sufficiently perform audit procedures to (i) evaluate the appropriateness of the valuer's work as audit evidence; and (ii) assess the reasonableness and appropriateness of discount rate and other assumptions used in the cash flows projection and the allocation of goodwill to cash-generating unit in accordance with paragraph 12 of Hong Kong

Standard on Auditing (**HKSA**) 620 *Using the Work of an Expert* and paragraphs 2, 8, 10 and 19 of HKSA 540 *Audit of Accounting Estimates*.

(b) Impairment assessment of available-for-sale financial assets

The auditor failed to perform procedures to obtain sufficient appropriate audit evidence to ensure that the available-for sale financial assets were carried at their fair values and not impaired as at 31 May 2006 in accordance with paragraph 2 of HKSA 500 *Audit Evidence* (**HKSA 500**) and paragraph 3 of HKSA 545 *Auditing Fair Value Measurements and Disclosures*.

(c) Impairment assessment of other receivables

The auditor failed to perform procedures to obtain sufficient appropriate audit evidence to ascertain the status and recoverability of the proposed investment in accordance with paragraph 2 of HKSA 500.

(d) Impairment assessment of promissory notes

The auditor failed to perform sufficient and appropriate audit procedures on the promissory notes held by the former listed entity as at 31 May 2006 in accordance with paragraph 24 of HKSA 240 *The Auditor's Responsibilities to Consider Fraud in an Audit of Financial Statements* (**HKSA 240**), paragraph 2 of HKSA 500 and paragraph 2 of HKSA 550 *Related Parties*.

(e) Sales and purchase transactions of the former listed entity's trading operations

The auditor failed to exercise sufficient professional skepticism when testing the indent sales transactions, and did not perform sufficient procedures to challenge the appropriateness of accounting treatment of certain transactions and the validity of the supporting evidence and the relevant transactions in accordance with paragraph 6 of HKSA 200 *Objectives and General Principles Governing an Audit of Financial Statements*, paragraph 24 of HKSA 240 and paragraph 2 of HKSA 500.

The AIB found that one of the audit partners with significant involvement in the audit failed to act diligently according to the applicable technical and professional standards under the requirements of section 130.1 of the Code of Ethics for Professional Accountants *Professional Competence and Due Care* in the above respects.

The engagement quality control reviewer (as identified by the auditor) signed off the audit report of the 2006 Financial Statements. Given the auditing irregularities identified in the investigation, the AIB found that the engagement quality control reviewer failed to discharge his responsibility when signing off the audit report. In addition, the AIB was unable to contact the engagement quality control reviewer.

On 14 July 2016, the FRC adopted the investigation report prepared by the AIB, which summarised 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 Deputy Chief Executive Officer as the Acting 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).

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