

**Press Release**  
**13 March 2017**

### **Completed investigation**

On 9 March 2017, the FRC adopted the investigation report on the audits of the consolidated financial statements of a listed entity for the years ended 31 December 2010, 31 December 2011, 31 December 2012 and 31 December 2013 (**collectively 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 in the Relevant Audits in relation to the valuation of the convertible notes issued for the acquisition of a subsidiary.

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 21 January 2016, the FRC directed the AIB to conduct an investigation into the Relevant Audits.

As a result of the investigation, the AIB found that the auditor, during the Relevant Audits, failed to:

- (a) sufficiently evaluate whether the valuations of the convertible notes should take into account a specific term in the relevant agreements in accordance with paragraph 18 of Hong Kong Standard on Auditing (HKSA) 540 (Clarified) *Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures*;
- (b) sufficiently evaluate whether the findings and conclusions of the management's expert's work and the auditor's expert's work on such valuations were consistent with the terms of the agreements in accordance with paragraphs 8 and A48 of HKSA 500 (Clarified) *Audit Evidence* and paragraphs 12 and A33 of HKSA 620 (Clarified) *Using the Work of an Auditor's Expert*.
- (c) properly evaluate the effect of uncorrected misstatements relating to the convertible notes, both in relation to particular classes of transactions or account balances and the financial statements as a whole, in accordance with

paragraph 11 of HKSA 450 (Clarified) *Evaluation of Misstatements Identified during the Audit* (HKSA 450 (Clarified)).

- (d) include the uncorrected misstatements relating to the convertible notes in the request for written representation from management in accordance with paragraph 14 of HKSA 450 (Clarified).

On 9 March 2017, 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.

— 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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