

## Second investigation completed in 2012

(12 January 2012, Hong Kong) The Financial Reporting Council (the "FRC") completed an investigation in relation to the audit of the consolidated financial statements of a listed entity for the year ended 31 December 2008 (the "Relevant Financial Statements").

The FRC directed the Audit Investigation Board (the "AIB") to conduct this investigation on 15 July 2011 following the receipt of a complaint. The FRC adopted the investigation report prepared by the AIB which summarizes the findings of the investigation on 5 January 2012.

The AIB is of the view that the auditor did not obtain sufficient appropriate audit evidence in relation to the valuation of the accounts receivable and the relevant disclosure; and the auditor did not prepare audit documentation sufficiently detailed to enable an experienced auditor to understand its conclusion on the recoverability of the accounts receivable.

The AIB found that an exchange gain arising from the translation of a property, from its functional currency to a different presentation currency at a closing rate, which differs from the previous closing rate, was recognized in profit or loss instead of as a separate component of equity in the financial statements. The AIB considers that the auditor's report on the financial statements should have been modified in this respect since the consolidated loss of the listed entity was materially understated as a result of this misstatement.

Furthermore, the AIB considers that there were multiple material uncertainties which might affect the entity's ability to operate as a going concern and these uncertainties were significant to the Relevant Financial Statements, and a disclaimer of opinion should have been expressed on the Relevant Financial Statements.

Based on the above, the AIB is of the view that both the auditor and the engagement director of the audit did not fully comply with the Code of Ethics for Professional Accountants as they did not act diligently in accordance with the applicable technical and professional standards when providing professional services in respect of the audit of the financial statements.

The FRC would like to remind auditors that they should obtain sufficient appropriate audit evidence to support their audit opinion. They should also prepare sufficient and appropriate audit documentation so as to enable an experienced auditor, having no previous connection with the audit, to understand the nature, timing, and extent of the audit procedures performed. Moreover, they should issue an appropriate auditor's report based on facts and circumstances and always act diligently when providing professional services in respect of their audits of financial statements.

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

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

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### **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 and 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).