

**Press Release**

15 May 2017

**Completed investigation**

On 11 May 2017, the FRC adopted the investigation report on the audit (**the Relevant Audit**) of the consolidated financial statements of a listed entity for the year ended 31 March 2009 (**the Relevant Financial Statements**).

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 Audit in relation to the recognition of impairment loss of the available-for-sale financial assets. The AIB also found that the engagement partner and the engagement quality control reviewer (**the EQCR**) failed to act diligently in accordance with applicable technical and professional standards in the Relevant Audit.

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 8 September 2016, the FRC directed the AIB to conduct an investigation into the Relevant Audit.

The AIB considered that a significant decline in the fair value of the investments in the listed equity securities below their costs provided objective evidence of impairment and was sufficient to require the recognition of an impairment loss. Accordingly, the cumulative decline in the fair value of the listed entity's available-for-sale financial assets should have been removed from equity and recognised in profit or loss in the Relevant Financial Statements. The AIB considered that the effect of the misstatement as a result of the non-compliance with the accounting requirement was significant to the Relevant Financial Statements.

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

- (a) sufficiently evaluate the listed entity's impairment assessment on the available-for-sale financial assets in forming their unmodified auditor's opinion on the Relevant Financial Statements in accordance with paragraph 11 of Hong Kong Standard on Auditing (**HKSA**) 700 *The Independent Auditor's Report on a Complete Set of General Purpose Financial Statements*.

- (b) properly document in the audit working papers their evaluation and basis of their conclusion relating to the listed entity's impairment assessment on the available-for-sale financial assets in accordance with paragraph 9 of HKSA 230 *Audit Documentation*.

The AIB found that the engagement quality control reviewer (**the EQCR**) did not fully comply with paragraph 38 of HKSA 220 *Quality Control for Audits of Historical Financial Information* in performing the engagement quality control review.

The AIB also found that the engagement partner and the EQCR did not fully comply with section 130.1 of the Code of Ethics for Professional Accountants as they failed to act diligently in accordance with applicable technical and professional standards when providing professional services.

On 11 May 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.

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 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).

### **For media enquiries**

Esther LAI

Corporate Communications Manager

Financial Reporting Council

Tel: (852) 2236 6025

Fax: (852) 2810 6320

Email: [esther.lai@frc.org.hk](mailto:esther.lai@frc.org.hk)