

Completed investigation

On 10 May 2018, the FRC adopted the investigation report on the audit of the consolidated financial statements of a listed entity for the year ended 31 December 2015.

The FRC found that the auditor and the engagement partner failed or neglected to observe, maintain or otherwise apply certain professional standards in respect of the classification of a financial asset.

In particular, it was found that the auditor failed to:

- (a) challenge management on the misclassification of the financial asset and perform their audit with professional scepticism, as required by paragraph 15 of HKSA 200 (Clarified) *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Hong Kong Standards on Auditing (HKSA 200)*;
- (b) properly perform an analysis to identify whether rare circumstances existed and obtain sufficient appropriate audit evidence for the relevant audit in relation to the reclassification of the financial asset, in accordance with paragraph 6 of HKSA 500 (Clarified) *Audit Evidence*;
- (c) identify the omission of the required disclosures in accordance with paragraph 13(e) of HKSA 700 (Clarified) *Forming an Opinion and Reporting on Financial Statements*; and
- (d) meet the overall objectives of an audit as stated in paragraph 11(a) of HKSA 200.

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

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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 by auditors of listed entities and to enquire into possible non-compliance with accounting requirements by listed entities. The FRC has 11 members with a variety of professional backgrounds the majority of whom, including the Chairman, are lay persons. For more information, please visit www.frc.org.hk.

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