

Press Release
15 May 2017

Completed investigation

On 11 May 2017, the FRC adopted the investigation report on the audit of the consolidated financial statements of a listed entity for the year ended 31 May 2011 (**the 2011 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 audit of the 2011 Financial Statements concerning (a) the recognition, disclosures and impairment assessment of an unquoted equity investment classified as available-for-sale investment, and (b) the recognition of revenue from certain sale transactions.

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 May 2014, the FRC directed the AIB to conduct an investigation on the audit of the 2011 Financial Statements. On 5 November 2015, the FRC resolved to extend the scope of the investigation following a further complaint.

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

(a) *Unquoted equity investment*

An overseas investment authority declined the listed entity's application for the purchase of an unquoted equity investment and the investee's acquisition of certain assets. The auditor failed to (i) consider the relevant laws and regulations, perform additional audit procedures to resolve inconsistencies in evidence obtained, (ii) assess possible impact of the overseas investment authority's decision, and (iii) evaluate the lack of disclosures in the 2011 Financial Statements and the appropriateness of the audit opinion in accordance with paragraphs 18, 19, 20 and 27 of Hong Kong Standard on Auditing (**HKSA**) 250 (Clarified) *Consideration of Laws and Regulations in an Audit of Financial Statements* and paragraph 11 of HKSA 500 (Clarified) *Audit Evidence* (**HKSA 500**).

The auditor failed to perform or adequately perform audit procedures to obtain sufficient appropriate audit evidence in relation to the valuations of the equity investment for the purpose of the impairment assessment, and consider the appropriateness of the audit opinion in accordance with 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*, paragraphs 6, 8, 11 and A48 of HKSA 500, paragraph 18 of HKSA 540 (Clarified) *Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures*, paragraphs 12 and A35 of HKSA 620 (Clarified) *Using the Work of an Auditor's Expert*, and paragraphs 12 and 13 of HKSA 700 (Clarified) *Forming an Opinion and Reporting on Financial Statements*. The auditor also failed to prepare sufficient audit documentation in accordance with paragraph 8 of HKSA 230 (Clarified) *Audit Documentation*.

(b) *Revenue recognition*

The auditor failed to consider and evaluate the terms in the sales agreement in relation to a right to exchange of goods sold in the audit of revenue recognised from certain sale transactions in accordance with paragraph 6 of HKSA 500.

Based on the above, the AIB found that the engagement quality control reviewer did not fully comply with paragraphs 20, 21 and 25 of HKSA 220 (Clarified) *Quality Control for Audits of Historical Financial Information* in performing the engagement quality control review on the audit.

The AIB also found that the engagement partner and the engagement quality control reviewer 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.

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