

Press Release
2 December 2014

Completed investigation

On 6 November 2014, the FRC adopted the investigation report on the audit of the consolidated financial statements of a listed entity for the year ended 31 March 2012 (**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 audit of the available-for-sale financial assets in the Relevant Financial Statements. The AIB also found that the engagement quality control reviewer did not properly perform the engagement quality control review, and both the engagement partner and the engagement quality control reviewer did not maintain professional knowledge and skill at the level required and act diligently in the audit of the Relevant Financial Statements. 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 16 January 2014, the FRC directed the AIB to conduct an investigation on the audit of the Relevant Financial Statements following the receipt of a complaint. The matter arose from the retrospective restatements on the available-for-sale financial assets in the subsequent year financial statements.

As a result of the investigation, the AIB found that, the auditor, in the audit of the available-for-sale financial assets in the Relevant Financial Statements, did not

- (a) critically evaluate whether the management of the Company had appropriately applied the requirements of the applicable financial reporting framework and therefore there were non-compliances with paragraph 12 of Hong Kong Standard on Auditing (**HKSA**) 540 *Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures* and paragraphs 12 and 13 of **HKSA700** *Forming an Opinion and Reporting on Financial Statements*;
- (b) perform additional audit procedures to resolve the inconsistencies in the audit evidence obtained from difference sources and therefore there were non-compliances with paragraphs 11 and A57 of **HKSA500** *Audit Evidence*; and

- (c) evaluate or sufficiently evaluate the accuracy of certain source data and the reasonableness of certain significant assumptions used in determining the fair value of the available-for-sale financial assets upon initial recognition and therefore there were non-compliances with paragraphs 8 and A48 of HKSA500 *Audit Evidence*.

The AIB found that the engagement quality control reviewer did not properly perform the engagement quality control review as he failed to identify the above audit deficiencies during his review of the audit working papers according to the requirements under paragraphs 20, 21 and A28 of HKSA 220 *Quality Control for an Audit of Financial Statements*. The AIB also found that both the engagement partner and the engagement quality control reviewer did not maintain professional knowledge and skill at the level required and act diligently in the audit of the Relevant Financial Statements and therefore did not comply with section 130.1 of Code Of Ethics for Professional Accountants *Professional Competence and Due Care*.

On 6 November 2014, the FRC adopted the investigation report prepared by the AIB, which summarized 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.