

## Completed investigation

On 5 November 2015, the FRC adopted the investigation report on the audit of the consolidated financial statements of a listed entity for the period from 1 April 2009 to 31 May 2010 (**the 2010 Financial Statements**).

The Audit Investigation Board (**the AIB**) found that the auditor failed to (i) perform or sufficiently perform procedures to obtain sufficient appropriate audit evidence on the initial measurement of financial assets acquired, deposit payment made and convertible notes issued for settlement of these transactions, and (ii) disclose the non-compliance with accounting requirement in the auditor's report.

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 2010 Financial Statements following the receipt of a complaint.

The listed entity issued convertible notes to acquire an equity investment and to pay a deposit for acquiring further equity interest in the equity investment. Both the equity investment and the deposit payment were initially measured at the principal amounts of the convertible notes. The listed entity restated the amounts of the equity investment, the deposit payment and the convertible notes in the subsequent year's financial statements.

As a result of the investigation, the AIB found that, the auditor, in the audit of the 2010 Financial Statements, did not perform or sufficiently perform procedures to obtain sufficient appropriate audit evidence on the initial measurement of the financial assets acquired, the deposit payment made and the convertible notes issued in accordance with paragraph 2 of HKSA 500 *Audit Evidence* and paragraphs 3 and 63 of HKSA 545 *Auditing Fair Value Measurements and Disclosures*.

Although the auditor expressed a disclaimer of opinion on the 2010 Financial Statements, the auditor's report should have disclosed the non-compliance with accounting requirement of HKAS 39 *Financial Instruments: Recognition and*

*Measurement* in accordance with paragraph 21 of HKSA 705 *Modifications to the Opinion in the Independent Auditor's Report*.

The AIB found that the engagement quality control reviewer did not fully comply with paragraphs 38 and 39 of HKSA 220 *Quality Control for Audits of Historical Financial Information* in performing the engagement quality control review because he should have identified the above audit deficiencies during his review of the audit working papers

On 5 November 2015, 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](http://www.frc.org.hk).