

## Sixth investigation completed in 2012

(10 May 2012, Hong Kong) The Financial Reporting Council (the "FRC") completed an investigation in relation to the audit of the consolidated financial statements of a listed entity for the year ended 31 December 2008 (the "Relevant Financial Statements").

The FRC directed the Audit Investigation Board (the "AIB") to conduct this investigation on 19 November 2010. The FRC adopted the investigation report prepared by the AIB which summarizes the findings of the investigation on 3 May 2012.

The AIB is of the view that the listed entity should have measured intangible assets acquired in the acquisitions of subsidiaries in the current and previous accounting periods at their acquisition date fair values, and should have determined the fair values of the consideration shares issued for the acquisitions based on the published price of its shares at the dates of exchange.

The AIB considers that the above issues of non-compliance would have a significant impact on the Relevant Financial Statements and the auditor should have modified its report on the Relevant Financial Statements in these respects.

The AIB noted certain audit documentation issues in relation to the audit of the Relevant Financial Statements. The auditor did not properly document in the audit working papers its discussion of significant matters with a valuer. The AIB also found that there was no audit documentation on its evaluation of the technical competence of the management when it planned to rely on the work of management in lieu of that of the valuer.

The FRC would like to remind preparers of financial statements that if an intangible asset acquired in a business combination is separable or arises from contractual or other legal rights, sufficient information should have existed to measure reliably the fair value of the asset. When, for the estimates used to measure an intangible asset's fair value, there is a range of possible outcomes with different probabilities, that uncertainty should have entered into the measurement of the asset's fair value. It should be noted that fair value is a market-based measurement, not an entity-specific measurement.

The FRC would also like to remind auditors that for initial audit engagements, they should obtain sufficient appropriate audit evidence that the opening balances do not contain misstatements that materially affect the current period's financial statements.

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

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).