

Press Release

10 November 2016

## Completed investigation

On 3 November 2016, 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 Audit**).

The Audit Investigation Board (**the AIB**) found that the auditor failed or neglected to observe, maintain or otherwise apply certain professional standards in the Relevant Audit relating to (i) the convertible bonds issued in a business combination; (ii) the recognition and measurement of certain identifiable assets acquired and liabilities assumed and the related goodwill at the date of the acquisition; and (iii) the impairment assessment of the goodwill at the end of the reporting period. The AIB also found that the engagement partner and the engagement quality control reviewer (**the EQCR**) failed to act diligently in accordance with applicable technical and professional standards in the Relevant Audit.

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 6 November 2014, the FRC directed the AIB to conduct an investigation into the Relevant Audit.

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

(i) *The convertible bonds issued in a business combination*

The auditor failed to exercise sufficient professional skepticism in accordance with paragraph 15 of Hong Kong Standard on Auditing (**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**) and did not perform or adequately perform procedures to obtain sufficient appropriate audit evidence in accordance with paragraphs 6 and 8 of HKSA 500 (Clarified) *Audit Evidence* (**HKSA 500**) and paragraphs 17 and 18 of

HKSA 540 (Clarified) *Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures* (HKSA 540) to support the conclusion reached in relation to the acquisition-date fair value measurement of the convertible bonds; and the classification and subsequent measurement of the convertible bonds that were contingent consideration in accordance with Hong Kong Financial Reporting Standard 3 *Business Combinations* (HKFRS 3).

(ii) *Recognition and measurement of identifiable assets acquired and liabilities assumed and the related goodwill at the date of the acquisition*

The auditor failed to exercise sufficient professional skepticism in accordance with paragraph 15 of HKSA 200; and did not adequately perform audit procedures to obtain sufficient appropriate audit evidence in accordance with paragraph 6 of HKSA 500 and paragraphs 17 and 18 of HKSA 540 to support the recognition and measurement of all the identifiable assets acquired and liabilities assumed, and the related goodwill at the date of the acquisition in accordance with HKFRS 3.

(iii) *Impairment assessment of goodwill*

The auditor failed to exercise sufficient professional skepticism in accordance with paragraph 15 of HKSA 200 and did not perform necessary audit procedures to obtain sufficient appropriate audit evidence in accordance with paragraph 6 of HKSA 500 and paragraphs 17 and 18 of HKSA 540 to support the impairment assessment of goodwill as at 31 March 2012 in accordance with Hong Kong Accounting Standard 36 *Impairment of Assets*.

The AIB found that the EQCR did not fully comply with paragraphs 20 and 21 of HKSA 220 *Quality Control for Audits of Historical Financial Information* in performing the engagement quality control review on the Relevant Audit because of the failure to identify the above audit deficiencies during his review.

The AIB also found that the engagement partner and the EQCR 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 3 November 2016, 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.

## **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).

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