

**Press Release**

**22 July 2016**

**Completed investigation**

On 14 July 2016, the FRC adopted the investigation report on the audit of the consolidated financial statements of a listed entity for the year ended 30 June 2012 (**the 2012 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 2012 Financial Statements concerning the contingent consideration in a business combination.

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 on the audit of the 2012 Financial Statements relating to the contingent consideration.

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

*1. Contingent consideration at 1 July 2011*

The auditor failed to carry out additional procedures on the opening balance and comparative information in relation to the contingent consideration in accordance with paragraph 6 of Hong Kong Standard on Auditing (**HKSA**) 510 *Initial Audit Engagements – Opening Balances* and paragraphs 8 and 12 of HKSA 710 *Comparative Information – Corresponding Figures and Comparative Financial Statements*.

## 2. *Contingent consideration at 30 June 2012*

The auditor failed to identify and address appropriately the non-compliance with (a) Hong Kong Financial Reporting Standard 3 (*Revised Business Combinations*) in relation to the fair value measurement of the contingent consideration; (b) Hong Kong Accounting Standard (**HKAS**) 10 *Events After the Reporting Period* in relation to disclosing the contingent consideration as a non-adjusting event after the reporting period; and (c) HKAS 7 *Statement of Cash Flows* in relation to presenting the contingent consideration, which was a non-cash item, in consolidated statement of cash flows, in accordance with paragraph 6 of HKSA 500 *Audit Evidence*, paragraph 18 of HKSA 540 *Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures*.

The AIB found that the engagement quality control reviewer did not fully comply with paragraph 20 of HKSA 220 *Quality Control for an Audit of Financial Statements* in performing the engagement quality control review as he should have identified the above audit deficiencies.

Based on the above, the engagement partner and the engagement quality control reviewer failed to act diligently according to the applicable technical and professional standards in accordance with section 130.1 of the Code of Ethics for Professional Accountants.

On 14 July 2016, 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](http://www.frc.org.hk).

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