FRC Financial Reporting Council 財務匯報局

Press Release
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Completed enquiry and investigations

On 3 November 2016, the FRC adopted an enquiry report on the consolidated financial statements of a listed entity for the years ended 31 March 2012 (**the 2012 Financial Statements**) and 31 March 2013 (**the 2013 Financial Statements**) (**collectively the Relevant Financial Statements**). The enquiry concerns possible non-compliance with accounting requirements in respect of the measurement of an intangible asset after initial recognition in the Relevant Financial Statements.

In relation to the above accounting issue, the FRC had also adopted two investigation reports on the respective audits of the Relevant Financial Statements by two auditors on 8 November 2018 and 4 February 2020.

The details of the enquiry and the investigations are set out below:

Background

In December 2011, the listed entity and its subsidiaries (**the Group**) completed an acquisition of a subsidiary (**the Subsidiary**). As a result, the Group recognised a one-year sales contract which was classified as an intangible asset (**the Sales Contract**). The Sales Contract provided that it would be automatically and unconditionally renewed upon expiration unless there is an event of force majeure or termination of contract, which neither occurred as at 31 March 2012.

In the 2012 Financial Statements, the Sales Contract was amortised over the remaining contractual period, i.e. 7 months.

In June 2012, the Sales Contract was renewed for eighteen months up to 31 December 2013, at no cost and with all significant terms of the contract unchanged.

During the year ended 31 March 2013, the Group changed the useful life of the Sales Contract to indefinite because the Group reassessed that it had become probable that the business relationship with the customer would continue indefinitely in the foreseeable future.

Non-compliance with accounting requirements

As a result of the enquiry, it was found that:

- the Sales Contract should not be amortised over the remaining contractual period in the 2012 Financial Statements. The listed entity should have taken into account the renewal terms in determining the useful life of the Sales Contract in accordance with paragraph 94 of Hong Kong Accounting Standard (**HKAS**) 38 *Intangible Assets* (**HKAS 38**).

- given that the listed entity did not take into account the renewal terms in determining the useful life of the Sales Contract in the 2012 Financial Statements, the opening balance of the Sales Contract as at 1 April 2012 contained a misstatement. In respect of the determination of the useful life of the Sales Contract as indefinite in the 2013 Financial Statements, there was no apparent non-compliance with HKAS 38.

Since the Sales Contract was disposed of as a result of the disposal of the Subsidiary in December 2015, there would be no future financial impact arising from the above issues. The FRC resolved not to require the listed entity to retrospectively correct the non-compliance identified above.

Auditing irregularities

As a result of the investigations, in relation to the above issues, it was found that:

- the auditor of the 2012 Financial Statements was in breach 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**);
  HKSA 230 (Clarified) *Audit Documentation* (**HKSA 230**);
  HKSA 500 (Clarified) *Audit Evidence* (**HKSA 500**);
  HKSA 540 (Clarified) *Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures* (**HKSA 540**); and
  HKSA 560 (Clarified) *Subsequent Events*.

- the auditor and the engagement partner of the 2013 Financial Statements were in breach of:

  HKSA 200;
  HKSA 230;
  HKSA 260 (Clarified) *Communication with Those Charged with Governance;*
  HKSA 450 (Clarified) *Evaluation of Misstatements Identified during the Audit;*
  HKSA 500;
  HKSA 510 (Clarified) *Initial Audit Engagements – Opening Balances;* and

HKSA 540.

- the engagement quality control reviewer of the 2013 Financial Statements was in breach of HKSA 220 (Clarified) *Quality Control for an Audit of Financial Statements* to carry out an objective engagement quality control review.

The investigation reports have been referred to the Hong Kong Institute of Certified Public Accountants to determine if any disciplinary actions are warranted. Names of the relevant parties are withheld because of the potential disciplinary proceedings.

— End —

Note to editors

About the FRC

The FRC is the full-fledged independent listed entity auditor regulator for Hong Kong committed to achieving its mission of upholding the quality of financial reporting of listed entities of Hong Kong so as to enhance protection for investors and deepen investor confidence in corporate reporting. For more information about the statutory functions of the FRC, please visit www.frc.org.hk.

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