

Press Release
26 March 2015

Completed investigation

On 12 March 2015, the FRC adopted the investigation report on the audit of the consolidated financial statements of a listed entity for the year ended 31 March 2010 (**the 2010 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 acquisition of a subsidiary in the 2010 Financial Statements (**the Acquisition**). The AIB was not provided with any evidence to support that the engagement director had appointed an engagement quality control reviewer. The AIB also found that the engagement director failed to maintain professional knowledge and skill at the level required and act diligently in the audit of the 2010 Financial Statements (**the 2010 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 7 March 2013, the FRC directed the Audit Investigation Board (**the AIB**) to conduct an investigation on the audit of the 2010 Financial Statements (**the Investigation**) based on the findings of an enquiry (**the 2009 Enquiry**) and an investigation (**the 2009 Investigation**) on the consolidated financial statements of the listed entity for the year ended 31 March 2009 (**the 2009 Financial Statements**) relating to the Acquisition.

2009 Enquiry

The 2009 Enquiry found that:

- (a) the listed entity did not recognize and measure the exploration and evaluation assets acquired and the goodwill arising from the Acquisition in accordance with paragraphs 36, 51 and 52 of Hong Kong Financial Reporting Standard 3 *Business Combinations* at the date of the Acquisition;

- (b) the listed entity separately recognized and disclosed the gross carrying amount and the accumulated amortization of the exploration and evaluation assets acquired from the Acquisition, which were not in compliance with paragraphs 33, 118(c) and 118(e)(i) of Hong Kong Accounting Standard (**HKAS**) 38 *Intangible Assets*; and
- (c) the listed entity inappropriately included the amount of the consideration transferred in the Acquisition, which did not require the use of cash and cash equivalents, in the consolidated cash flow statement for the year ended 31 March 2009, which were not in compliance with paragraphs 1 and 43 of HKAS 7 *Cash Flow Statements*.

2009 Investigation

The 2009 Investigation found that, among other things, the engagement quality control reviewer failed to properly perform the engagement quality control review because he did not identify the above non-compliances with accounting requirements. The engagement quality control reviewer, however, claimed that he had provided certain comments to the engagement team.

Investigation

The engagement quality control reviewer for the 2009 Audit became the engagement director for the 2010 Audit. The non-compliances with the accounting requirements identified in the 2009 Enquiry remained significant but uncorrected in the 2010 Financial Statements. The auditor should be aware of the possible misstatements in the comparative information and the corresponding figures in the 2010 Financial Statements.

As a result of the Investigation, the AIB found that, during the 2010 Audit, the auditor did not:

- (a) perform sufficient and appropriate audit procedures on the comparative information and the corresponding figures in the 2010 Financial Statements in accordance with paragraphs 9, 14 and 15 of Hong Kong Standard on Auditing (**HKSA**) 710 *Comparatives*; and
- (b) obtain sufficient appropriate audit evidence to support the unmodified audit opinion expressed on the 2010 Financial Statements in accordance with paragraph 2 of HKSA 500 *Audit Evidence* and paragraphs 11 and 13 of HKSA 700 *The Independent Auditor's Report on a Complete Set of General Purpose Financial Statements*.

The AIB was not provided with any evidence to support that the engagement director had appointed an engagement quality control reviewer for the 2010 Audit in accordance with paragraph 36 of HKSA 220 *Quality Control for Audits of Historical Financial Information*.

The AIB also found that the engagement director failed to maintain professional knowledge and skill at the level required and act diligently in accordance with section 130.1 of the COE.

On 12 March 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.

— End —

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.