

**Press Release**

**19 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 31 March 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 concerning the waiver of a shareholder loan that was recognised as income (**the Waiver**) in the 2012 Financial Statements.

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 17 July 2015, the FRC directed the AIB to conduct an investigation on the audit of the 2012 Financial Statements relating to the Waiver.

As a result of the investigation, the AIB found that the Waiver should have been recognised directly in equity and the auditor failed to (a) consider correctly the substance of the Waiver; (b) evaluate the financial impact of the Waiver to the listed entity; (c) evaluate the appropriateness of the accounting treatment of the Waiver in forming their opinion; and (d) identify the non-compliance with accounting requirement in the auditor's report on the 2012 Financial Statements in accordance with paragraph 17 of Hong Kong Standard on Auditing (**HKSA**) 705 *Modifications to the Opinion in the Independent Auditor's Report*.

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 deficiency.

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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