

Press Release

Ninth investigation completed in 2012

(6 December 2012, Hong Kong) The Financial Reporting Council (the “FRC”) completed an investigation in relation to the audits of the consolidated financial statements of a listed entity for the years ended 31 December 2008 and 2009 (the “Relevant Financial Statements”).

On 9 March 2011, the FRC directed the Audit Investigation Board (the “AIB”) to conduct the investigation. On 29 November 2012, the FRC adopted the investigation report prepared by the AIB summarizing the findings of the investigation.

The AIB found that the listed entity did not identify and separately recognize the preemptive right in renewing the exploration right to a mine at its fair value at the date of acquisition of a subsidiary in accordance with the relevant financial reporting standards. The AIB was of the view that the listed entity should have measured the exploration right to another mine at its fair value upon the completion of the initial accounting for the acquisition when the fair value of the exploration right was finalized. The AIB also found that, in the absence of an active market for the exploration rights, the listed entity had used the revaluation model instead of the cost model in the subsequent measurement of those rights.

The AIB considered that the above issues of non-compliance were material to the Relevant Financial Statements and the auditor should have modified its reports in these respects.

Given the significant increase in the value of the exploration right to the second mine within two months after the date of the acquisition, the AIB considered that the auditor should have performed modified, extended or additional audit procedures as appropriate in the circumstances during the audit, and given the further substantial increase in the values of the exploration rights to both mines during the year ended 31 December 2009, the auditor should have alerted that the exploration right to the first mine should have been identified and separately recognized at its fair value at the date of the acquisition by way of a retrospective restatement in the financial statements.

The AIB considered that the auditor had failed to plan and perform the audits with an attitude of professional skepticism, and it did not obtain sufficient appropriate audit evidence to draw reasonable conclusions on which to base the audit opinions on the Relevant Financial Statements. The AIB also considered that the auditor did not properly assess whether the revaluation model was appropriate for the listed entity's business and consistent with the industry practice.

The FRC would like to remind auditors that they should plan and perform an audit with an attitude of professional skepticism recognizing that circumstances may exist which cause the financial statements to be materially misstated. They should make a critical assessment, with a questioning mind, of the validity of audit evidence obtained, and should be alert to audit evidence that contradicts or brings into question the reliability of documents and responses to inquiries and other information obtained from management and those charged with governance. They should obtain an understanding of the entity's selection and application of accounting policies and consider whether they are appropriate for its business and consistent with the applicable financial reporting framework and accounting policies used in the relevant industry.

The investigation report has been referred to the Hong Kong Institute of Certified Public Accountants to determine if any disciplinary actions are warranted.

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.