

**Press Release**

## **Completed enquiry and investigation**

On 12 September 2013, the Financial Reporting Council (**the FRC**) completed an enquiry on the non-compliance with accounting requirements of the consolidated financial statements of a listed entity for the year ended 30 September 2010 (**the Relevant Financial Statements**). The listed entity had retrospectively restated the comparative amounts in its interim report for the six months ended 31 March 2012 and its consolidated financial statements for the year ended 30 September 2012.

On 13 March 2014, the FRC completed the investigation on the audit of the Relevant 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 6 September 2012, the FRC appointed a Financial Reporting Review Committee (**the FRRC**) to conduct an enquiry on certain potential non-compliances with accounting requirements and directed the Audit Investigation Board (**the AIB**) to conduct an investigation on the audit of the Relevant Financial Statements following the receipt of a complaint.

### ***Non-compliance with accounting requirements***

According to the enquiry, the FRRC concluded that, in two business combinations, the listed entity did not

- (i) measure the purchase considerations at their respective acquisition-date fair values according to paragraph 37 of Hong Kong Financial Reporting Standard 3 (Revised) *Business Combinations*.
- (ii) recognize the deferred tax liabilities on the taxable temporary differences arising from the fair value adjustments on the intangible assets acquired according to paragraphs 19 and 66 of Hong Kong Accounting Standard 12 *Income Taxes*.

It was noted that the listed entity had removed the above non-compliances by retrospectively restating the comparative amounts in its interim report for the six months ended 31 March 2012 and its consolidated financial statements for the year ended 30 September 2012. On 12 September 2013, the FRC adopted the enquiry report.

### ***Auditing irregularities***

As a result of the investigation, the AIB found that, the auditor, in their audit of the Relevant Financial Statements, did not

- (i) develop and document a proper audit plan in relation to the business combinations, including the nature, timing and extent of audit procedures to be performed, with an attitude of professional skepticism recognizing that circumstances might exist that would cause the Relevant Financial Statements to be materially misstated.
- (ii) obtain sufficient appropriate audit evidence to identify, or to address appropriately, the non-compliances with accounting requirements.
- (iii) perform sufficient audit procedures to evaluate the valuer's work as audit evidence, prepare audit documentation that provided a sufficient and appropriate record of the basis for the auditor's report and evidence that the audit was performed according to auditing standards and applicable legal and regulatory requirements.

Based on the above, the auditor did not obtain sufficient appropriate audit evidence to support their unmodified audit opinion.

The AIB found that the engagement quality control reviewer did not properly perform an engagement quality control review. The AIB also found that both the engagement partner and the engagement quality control reviewer failed to act diligently according to the applicable technical and professional standards when providing professional services in the audit.

On 13 March 2014, 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 FRRC comprised five members, including Mr FUNG Ying-wai, Wilson as the Chairman, Mr CHAN Shu-kin, Albert, Mrs CHENG TANG Ho-kuen, Lina, Mr LEUNG Kwok-ki, Alden and Prof. LIN Zhijun as members.

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).