

Press Release

13 June 2017

Completed investigation

On 7 June 2017, the FRC adopted the investigation report on the audit of the consolidated financial statements of a listed entity for the year ended 31 December 2013 (**the 2013 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 fair value measurement of revenue from a significant sale transaction recognised in the 2013 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 8 September 2016, the FRC directed the AIB to conduct an investigation on the audit of the 2013 Financial Statements relating to a significant sale transaction.

According to the payment terms of the sale transaction, the customer was allowed to pay the sales proceeds by installments over ten years and the account balance was interest-free. The listed entity recognised the revenue and receivable of the sale transaction at invoiced amount without measuring the revenue at the fair value of the consideration received or receivable in accordance with paragraphs 9 and 11 of Hong Kong Accounting Standard 18 *Revenue*.

As a result of the investigation, the AIB found that the auditor failed to challenge management's assessment and to evaluate the fair value measurement of the revenue from the sale transaction to support their unmodified audit opinion on the 2013 Financial Statements in accordance with paragraph 15 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*, paragraph 18 of HKSA 540 (Clarified) *Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures*, and paragraphs 11, 12 and 17 of HKSA 700 (Clarified) *Forming an Opinion and Reporting on Financial Statements*. The AIB also found that the auditor failed to sufficiently communicate with the audit committee on a timely basis in relation to the sale transaction in

accordance with paragraphs 16 and 21 of HKSA 260 (Clarified) *Communication with Those Charged with Governance*.

The AIB found that the engagement quality control reviewer did not fully comply with paragraph 20 of HKSA 220 (Clarified) *Quality Control for an Audit of Financial Statements* in performing the engagement quality control review as she should have identified the above audit deficiency.

Based on the above, the sole practitioner 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 7 June 2017, 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.

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