

Fourth investigation completed in 2012

(8 March 2012, Hong Kong) The Financial Reporting Council (the "FRC") completed an investigation in relation to the audit of the consolidated financial statements of a listed entity for the year ended 31 March 2009 (the "Relevant Financial Statements").

The FRC directed the Audit Investigation Board (the "AIB") to conduct this investigation on 15 July 2011 following the receipt of a complaint. The FRC adopted the investigation report prepared by the AIB which summarizes the findings of the investigation on 1 March 2012.

The AIB is of the view that the auditor did not obtain sufficient appropriate audit evidence on the recognition and measurements of assets acquired and liabilities assumed in relation to the acquisition of a subsidiary by the listed entity. In addition, the consolidated cash flow statement was materially misstated by including transactions that did not require the use of cash and cash equivalents. The AIB considers that the auditor should have modified its opinion on the Relevant Financial Statements in this respect.

Furthermore, the auditor did not maintain sufficient documentation of its audit work performed in relation to its evaluation of the going concern assessment of the listed entity.

The AIB also found that the engagement quality control reviewer of the audit, who was contracted to undertake the review, did not identify the above issues of non-compliance. Hence, the reviewer did not properly comply with the relevant auditing and assurance requirements in the review of the audit.

The FRC would like to emphasize that competent professional service requires the exercise of sound judgment in applying professional knowledge and skill in the performance of such service. The FRC would also like to remind auditors that in order to draw reasonable conclusions on which an audit opinion is based, an auditor is required to obtain sufficient appropriate audit evidence. It is also essential to prepare a sufficient and appropriate record of the basis for the auditor's report and evidence that the audit was performed in accordance with auditing standards and applicable legal and regulatory requirements.

Moreover, an engagement quality control reviewer should evaluate significant judgments made and the conclusions reached by the engagement team of the audit, review the related audit documentation, and consider the appropriateness of the auditor's report on the financial statements.

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.