

**Press Release**

**21 September 2016**

**Completed investigation**

On 8 September 2016, the FRC adopted the investigation report on the audit of the consolidated financial statements of a listed entity for the year ended 31 December 2010 (**the Relevant Audit**).

The Audit Investigation Board (**the AIB**) found that the auditor failed or neglected to observe, maintain or otherwise apply a number of professional standards in the Relevant Audit. The AIB also found that the engagement partner and the engagement quality control reviewer (**the EQCR**) failed to maintain professional knowledge and skill at the level required and act diligently in accordance with applicable technical and professional standards in the Relevant Audit.

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 10 July 2014, the FRC directed the AIB to conduct an investigation on the Relevant Audit.

As a result of the investigation, the AIB had the following findings:

- (a) Application of Hong Kong Accounting Standard 36 *Impairment of Assets* (**HKAS 36**) on impairment of assets

The AIB found that the misapplication of HKAS 36 alleged by the complainant was not proved.

- (b) Using the work of an auditor's expert and management's experts

The auditor engaged an independent valuer as an expert (i.e. the Auditor's Expert) to assist in evaluating the work of the management's experts to value the mining right and the mining business. However, the AIB found that the auditor failed to:

- appropriately apply (i) Hong Kong Standard on Auditing (**HKSA**) 500 (Clarified) *Audit Evidence* in evaluating the work of the management's experts; and (ii) HKSA 620 (Clarified) *Using the Work of an Auditor's Expert* in evaluating the work of the Auditor's Expert;
- resolve the issues raised by the Auditor's Expert in accordance with paragraph 6 of HKSA 500;
- evaluate the appropriateness of the work of the management's experts as audit evidence in accordance with paragraphs 8 and A48 of HKSA 500; and
- document the audit procedures performed on the valuations in accordance with paragraph 8 of HKSA 230 (Clarified) *Audit Documentation*.

(c) Engagement quality control review

The EQCR failed to identify the above audit deficiencies during his engagement quality control review in accordance with paragraphs 20 and 21 of HKSA 220 (Clarified) *Quality Control for an Audit of Financial Statements*.

(d) Code of ethics

Based on the above, the engagement partner and the EQCR failed to maintain professional knowledge and skill at the level required and act diligently in assessing impairment of the mining right and the mining business in the Relevant Audit in accordance with applicable technical and professional standards as required by section 130.1 of the Code of Ethics for Professional Accountants.

On 8 September 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.

— End —

## **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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