

Press Release

3 June 2015

Completed investigation

On 14 May 2015, the FRC adopted the investigation report on the audit of the consolidated financial statements of a listed entity for the year ended 31 March 2012 (**the 2012 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 of the opening balances and comparative information of the 2012 Financial Statements, mainly relating to the acquisition of a subsidiary (**the Acquisition**), and the preparation of sufficient and appropriate audit documentation. The AIB found that the engagement director failed to maintain professional knowledge and skill at the level required and act diligently in the audit of the 2012 Financial Statements (**the 2012 Audit**) in these respects.

The auditor, as a corporate practice, did not identify the engagement director in the engagement letter and did not state the name of the engagement director and his practicing certificate number in the auditor's report of the 2012 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 10 July 2014, the FRC directed the AIB to conduct an investigation on the 2012 Audit. The matters arose from the retrospective restatements made by the listed entity in its consolidated financial statements for the year ended 31 March 2013, principally relating to the Acquisition completed during the year ended 31 March 2010. The financial statements prior to the 2012 Financial Statements were audited by another auditor. The report on the investigation relating to the audit conducted by the predecessor auditor was adopted by the Council on 28 May 2013.

The AIB considered that the auditor should be able to identify the following accounting errors through a diligent review of the preceding year's financial statements during the 2012 Audit.

- (a) The identifiable assets and liabilities acquired in the Acquisition were not recognized separately from goodwill.

- (b) Deferred tax liability on the taxable temporary differences arising from the fair value adjustments on intangible assets acquired in the Acquisition was not measured at the appropriate tax rate.
- (c) “Capital reserve” was not an identifiable liability assumed in the Acquisition.
- (d) The goodwill arising from the Acquisition was not properly allocated to the cash-generating unit for the purpose of impairment assessment.
- (e) The convertible bonds issued for the consideration transferred in the Acquisition were not properly accounted for.

As a result of the Investigation, the AIB found that, during the 2012 Audit, the auditor failed to:

- (a) maintain sufficient professional skepticism in accordance with paragraph 15 of HKSA 200 *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Hong Kong Standards on Auditing* recognizing that opening balances and comparative information might contain uncorrected misstatements that would affect the 2012 Financial Statements.
- (b) obtain sufficient appropriate audit evidence on whether the opening balances and the comparative information contain misstatements that had materially affected the 2012 Financial Statements in accordance with paragraphs 5, 6 and 7 of Hong Kong Standard on Auditing (HKSA) 510 *Initial Audit Engagements – Opening Balances* and paragraph 8 HKSA 710 *Comparative Information - Corresponding Figures and Comparative Financial Statements* (HKSA 710).
- (c) express a modified auditor’s opinion on the 2012 Financial Statements in accordance with paragraph 12 of HKSA 710.
- (d) record the result, findings and conclusion of the specific work performed, who performed the audit work and the date such work was completed and who reviewed the audit work and the date and extent of such review in accordance with paragraph 9 of HKSA 230 *Audit Documentation*.
- (e) identify the engagement director in the engagement letter and state the name of the engagement director and his practicing certificate number in the auditor’s report of the 2012 Financial Statements in accordance with paragraphs 8 and 9 of the Corporate Practices (Registration) Rules.

The AIB also found that the engagement director failed to maintain professional knowledge and skill at the level required and failed to act diligently in accordance with section 130.1 of the COE.

On 14 May 2015, 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 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.