

Press Release

13 March 2017

Completed investigation

On 9 March 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 2010 (**the 2010 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 2010 Financial Statements concerning (i) fair values of the intangible assets and the resulting goodwill arising in a business combination as at the acquisition date; and (ii) the impairment assessments on goodwill and intangible assets as at 31 December 2010. The AIB also found that the engagement partner and the engagement quality control reviewer (**the EQCR**) failed to act diligently in accordance with applicable technical and professional standards in the audit of the 2010 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 11 September 2014, the FRC directed the AIB to conduct an investigation into the audit of the 2010 Financial Statements.

As a result of the investigation, the AIB found that the auditor did not obtain sufficient and appropriate audit evidence in assessing and evaluating the source data, assumptions and methods used in the cashflow forecasts that support (i) the fair values of the intangible assets and the resulting goodwill arising in a business combination as at the acquisition date; and (ii) the impairment assessments on goodwill and intangible assets as at 31 December 2010. The auditor failed to comply with paragraphs 6, 8 and A48 of Hong Kong Standard on Auditing (**HKSA**) 500 *Audit Evidence* and paragraph 13 of HKSA 540 *Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures*.

The AIB is of the view that the auditor should have modified their audit opinion on the 2010 Financial Statements. Therefore, the auditor failed to express an appropriate audit opinion on the 2010 Financial Statements in accordance with paragraphs 10 and 11 of HKSA 700 *Forming an opinion and reporting on financial statements*.

Based on the above, the AIB found that the EQCR did not fully comply with paragraph 20 of HKSA 220 *Quality Control for Audits of Historical Financial Information* in performing the engagement quality control review on the audit.

The AIB also found that the engagement partner and the EQCR did not fully comply with section 130.1 of the Code of Ethics for Professional Accountants as they failed to act diligently in accordance with applicable technical and professional standards when providing professional services.

On 9 March 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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