

Press Release

### **Third investigation completed in 2013**

(26 September 2013, Hong Kong) The Financial Reporting Council (**the FRC**) completed an investigation relating to the audit of the consolidated financial statements of a listed entity for the year ended 31 December 2009 (**Relevant Financial Statements**).

On 6 September 2012, the FRC directed the Audit Investigation Board (**the AIB**) to conduct the investigation following the receipt of a complaint. On 12 September 2013, the FRC adopted the investigation report prepared by the AIB which summarized the findings of the investigation.

The AIB noted that the listed entity did not (i) depreciate its revalued plant and machinery and failed to disclose their carrying amounts had they been carried under the cost model, (ii) measure the shares issued for the acquisitions of a subsidiary and an equity investment at their acquisition-date fair values, and (iii) correctly calculate the weighted average number of ordinary shares outstanding for the purpose of presenting the loss per share for the year ended 31 December 2009.

The listed entity had retrospectively restated the above non-compliance with accounting requirements in its consolidated financial statements for the year ended 31 December 2010.

The AIB found that, the auditor / engagement partner in their audit of the Relevant Financial Statements did not

- obtain sufficient appropriate audit evidence to identify, or to address appropriately, the above non-compliances with accounting requirements.
- obtain sufficient appropriate audit evidence relating to fair value measurement and using the work of the valuer as audit evidence for the revalued plant and machinery.
- prepare audit documentation that provided a sufficient and appropriate record of the basis for the auditor's report and evidenced that the audit was performed according to the auditing standards and applicable legal and regulatory requirements.

- act diligently in accordance with the applicable technical and professional standard when providing professional services.

The AIB also found that the engagement quality control reviewer did not properly review the fair value measurement of the purchase consideration for the acquisition of the subsidiary and act diligently in accordance with the applicable technical and professional standard when providing professional services in the audit.

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 Acting 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](http://www.frc.org.hk).