

Press Release

Completed investigation and enquiry

On 28 May 2013, the Financial Reporting Council (**the FRC**) completed an investigation on the audit of the consolidated financial statements of a listed entity for the year ended 31 March 2010 (**the Relevant 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.

On 16 January 2014, the FRC closed the enquiry on the non-compliance with accounting requirements of the listed entity in relation to the Relevant Financial Statements following the retrospective restatements of the identified non-compliance in the consolidated financial statements of the listed entity for the year ended 31 March 2013.

On 3 May 2012, the FRC directed the Audit Investigation Board (**the AIB**) to conduct the investigation on the audit of the Relevant Financial Statements and appointed a Financial Reporting Review Committee (**the FRRC**) to conduct an enquiry on certain potential non-compliance with accounting requirements following the receipt of a complaint.

Auditing irregularities

As a result of the investigation, the AIB found that, the auditor, in their audit of the Relevant Financial Statements:

- (i) did not plan the audit, in relation to a business combination, with professional scepticism, recognizing that circumstances might exist that caused the financial statements to be materially misstated, and did not develop an audit plan which included the nature, timing and extent of audit procedures to be performed in order to reduce audit risk to an acceptably low level; and
- (ii) did not perform, or perform sufficiently, certain necessary audit procedures and document the same, including the failure to:
 - obtain sufficient appropriate audit evidence to identify, or to address appropriately, the non-compliance with accounting requirements;

- evaluate the professional competence and the objectivity of the valuers and the appropriateness of the valuers' work as audit evidence for the purpose of the audit;
- obtain written representations from the management of the listed entity regarding the reasonableness of significant assumptions used by management in determining the fair values of certain assets and liabilities; and
- 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 in accordance with auditing standards and applicable legal and regulatory requirements.

The AIB also noted that the engagement quality control reviewer did not properly evaluate the significant judgements made by the engagement team and the conclusions reached in formulating the auditor's report. Had the engagement quality control reviewer properly performed the review, the non-compliance with accounting and auditing requirements should have been identified and addressed accordingly.

On 28 May 2013, 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 Hong Kong Institute of Certified Public Accountants to determine if any disciplinary actions are warranted. Names of the relevant parties are withheld pending the conclusion of such disciplinary proceedings, if any.

Non-compliance with accounting requirements

According to the enquiry, the FRRC noted that the listed entity:

- (a) did not, in a business combination, recognize separately the identifiable assets and liabilities acquired according to paragraphs 36 and 37 of Hong Kong Financial Reporting Standard 3 (Revised) *Business Combinations*;
- (b) did not, in a business combination, recognize deferred tax liabilities on the taxable temporary differences arising from the fair value adjustments on intangible assets acquired according to paragraphs 19 and 66 of Hong Kong Accounting Standard 12 *Income Taxes*;
- (c) did not properly allocate the fair value of the convertible bonds issued for the business combination to the liability component, the conversion option and the early redemption option according to paragraphs 31 and 32 of HKAS 32 *Financial Instruments: Disclosure and Presentation*;
- (d) did not appropriately allocate the goodwill acquired in the business combination to a cash-generating unit which should not be larger than an

operating segment according to paragraph 80 of HKAS 36 *Impairment of Assets* (**HKAS 36**); and

- (e) did not properly disclose the estimates used to measure the recoverable amount of the cash-generating unit or the group of cash-generating units containing goodwill acquired in the business combination according to paragraph 134 of HKAS 36.

Following the receipt of the FRRC's draft enquiry report, the listed entity had retrospectively corrected the above non-compliance with accounting requirements in its consolidated financial statements for the year ended 31 March 2013. On 16 January 2014, the FRC resolved to close the enquiry.

The AIB is chaired by the Chief Executive Officer and its members are full-time staff of the FRC.

The FRRC comprised five members, including Mr WONG Tak-wai, Alvin as the Chairman, Prof CHEN Chien-wen, Kevin, Mr FUNG Pui-cheung, Eugene, Mr Kenneth LAM and Ms LO Dak-wai, Alexandra as members.

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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.